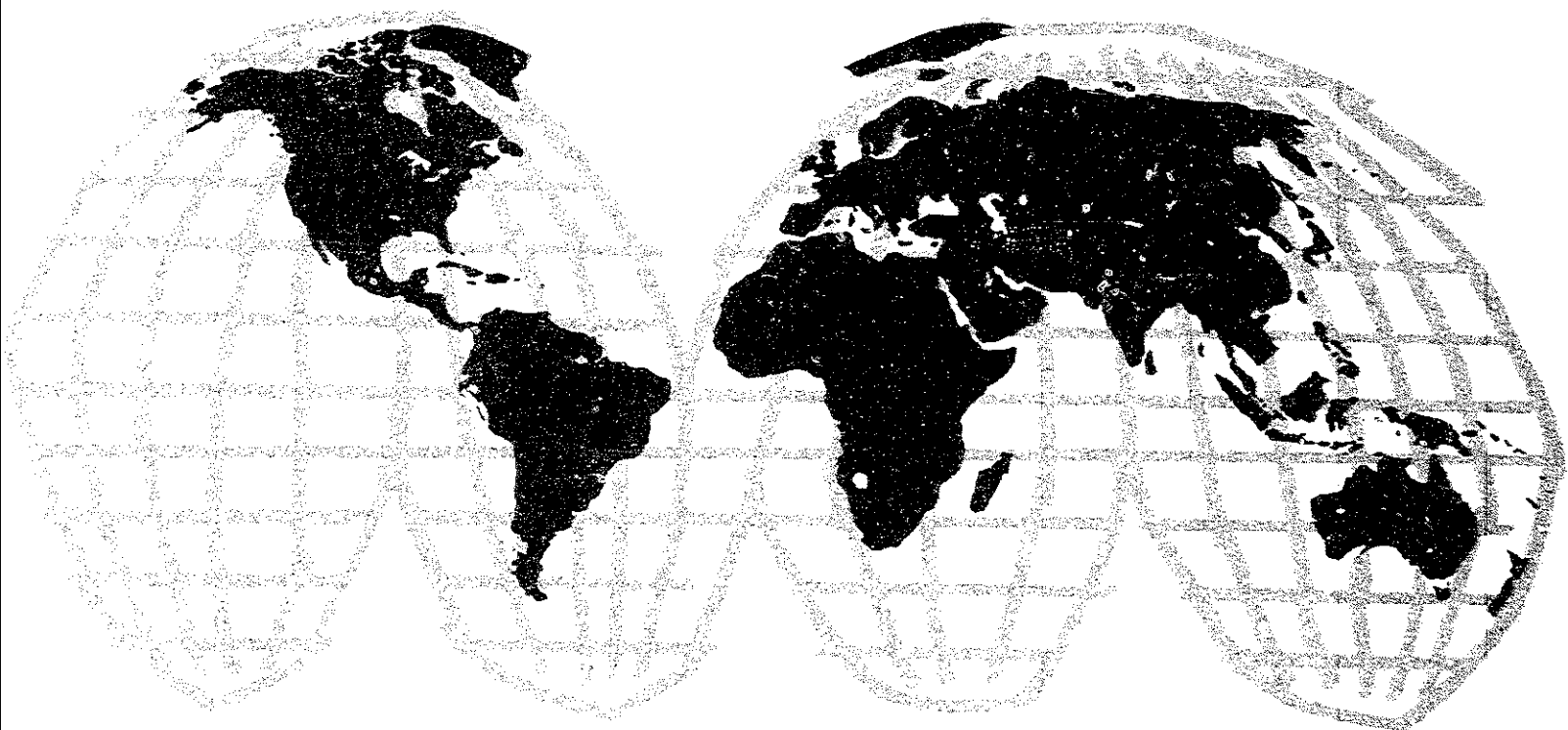


U.S. Foreign Assistance in The 1970s: A New Approach

**Report To The President
From The Task Force On International Development**

March 4, 1970

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PREFACE

In his first message to the Congress on foreign assistance, the President announced that he would establish a task force of private citizens to provide him with comprehensive recommendations concerning the role of the United States in assistance to less developed countries in the 1970's.

The Presidential Task Force on International Development was appointed on September 24, 1969.

In preparing its report, the Task Force met with the Cabinet members most concerned with these problems, with the Administrator of the Agency for International Development, and with the heads of other government agencies. It benefited from extensive discussions with their advisers and from excellent papers prepared by their staffs. It had meetings with Members of Congress, business groups, university experts, journalists, and representatives of civic organizations, voluntary agencies, and foundations, around the country. It asked for, and received, carefully considered statements from labor and business and professional committees. It examined in detail the comprehensive report on this subject by the Commission of distinguished international experts headed by former Canadian Prime Minister Lester Pearson. It also studied reports by Governor Nelson Rockefeller, the Perkins Committee, the Committee for Economic Development, the National Planning Association, and other groups. And it commissioned studies on specific subjects from experts in the field.

The Task Force gratefully acknowledges this help.

The members of the Task Force are:

RUDOLPH A. PETERSON (*Chairman*), *president*, Bank of America

EARL L. BUTZ, *vice president*, Purdue Research Foundation

WILLIAM J. CASEY, *senior partner*, Hall, Casey, Dickler & Howley

TERENCE CARDINAL COOKE, *Archbishop* of New York

JOHN E. COUNTRYMAN, *chairman*, Del Monte Corporation

THOMAS B. CURTIS, *vice president*, Encyclopaedia Britannica

R. BURT GOOKIN, *president*, H. J. Heinz Company

WILLIAM T. GOSSETT, *last retiring president*, American Bar Association

WALTER A. HAAS, JR., *president*, Levi Strauss & Co.

GOTTFRIED HABERLER, *Galen L. Stone Professor of International Trade*, Harvard University

WILLIAM A. HEWITT, *chairman*, Deere & Company

SAMUEL P. HUNTINGTON, *professor of government*, Harvard University

EDWARD S. MASON, *professor emeritus*, Harvard University

DAVID ROCKEFELLER, *chairman*, Chase Manhattan Bank

ROBERT V. ROOSA, *partner*, Brown Brothers, Harriman & Company

GENERAL ROBERT J. WOOD, USA (Ret.), Research Analysis Corporation

Task Force Staff

EDWARD R. FRIED, *Executive Director*

DONALD S. GREEN, *Deputy Executive Director*

REUBEN STERNFELD

WILLIAM H. LEWIS

CHARLES J. SIEGMAN

THOMAS J. RAVESON

Assistants to Task Force Members

ROLAND PIEROTTI

Ambassador LELAND BARROWS

WILLIAM BUTLER

JOSEPH DAIN, JR.

RICHARD FISCHER

Msgr. WILLIAM J. McCORMACK

DONALD C. McVAY

AL H. NATHE

MICHAEL P. ROUDNEV

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March 4, 1970.

THE PRESIDENT OF THE UNITED STATES

Dear Mr. President:

You asked us to examine U.S. foreign economic and military assistance programs, our trade and investment relations with the developing countries, and the fundamental problems that the United States faces in this area of foreign policy. You instructed us to look carefully into the underlying rationale for these programs, to take nothing for granted, and to recommend policies that will serve the best interests of our Nation through the decade ahead.

Many with whom we consulted are deeply troubled by particular aspects of U.S. foreign assistance programs and by the apathy and misunderstanding that seem to surround the issues. Nevertheless, virtually all believe that the United States has a large stake and serious responsibilities in international development.

This feeling of commitment is natural in view of the distinguished role the United States has played for 25 years in this field. It has been a bipartisan endeavor. Many outstanding Americans have contributed direction, insight, and imagination to these programs in the past—and continue to do so today.

A Time for Change. We believe that the U.S. role in international development will be as important in the future as it has ever been in the past; and prospects for success, if looked at in the perspective of experience, are very favorable.

For the first time in history, it appears feasible to approach this world problem on a worldwide basis. International development can become a truly cooperative venture—with the countries that receive help eventually achieving the ability themselves to help others. The Marshall Plan countries and Japan, which join us today in providing assistance, were yesterday the recipients of assistance. And some of the developing countries of a decade ago, no longer needing assistance themselves, are beginning to help others.

This kind of cooperation in international development is not only possible but essential. Only a genuinely cooperative program can gain the necessary long-term public support in donor countries—the United States, as well as others. Only by being cooperative, furthermore, can international development succeed abroad.

What the United States does now through its policies and through its determination to persevere for the long haul will influence what others do—

the developing countries, the international organizations, and other industrial countries.

This, therefore, is a time for change, a time for reappraising our programs and designing them for the decade ahead. It is also a time to stake out in the most positive terms America's involvement in the way mankind manages its common problems. In time, U.S. international development policies may well prove to be the most important—and the most rewarding—determinant of America's role in the world.

Conclusions. With these considerations in mind we have reached the following conclusions:

1. The United States has a profound national interest in cooperating with developing countries in their efforts to improve conditions of life in their societies.

2. All peoples, rich and poor alike, have common interests in peace, in the eradication of poverty and disease, in a healthful environment, and in higher living standards. It should be a cardinal aim of U.S. foreign policy to help build an equitable political and economic order in which the world's people, their governments, and other institutions can effectively share resources and knowledge.

This country should not look for gratitude or votes, or any specific short-term foreign policy gains from our participation in international development. Nor should it expect to influence others to adopt U.S. cultural values or institutions. Neither can it assume that development will necessarily bring political stability. Development implies change—political and social, as well as economic—and such change, for a time, may be disruptive.

What the United States should expect from participation in international development is steady progress toward its long-term goals: the building of self-reliant and healthy societies in developing countries, an expanding world economy from which all will benefit, and improved prospects for world peace.

3. The United States should keep to a steady course in foreign assistance, providing its fair share of resources to encourage those countries that show a determination to advance. Foreign assistance is a difficult but not an endless undertaking. Some countries already have become self-reliant and are beginning to help others; U.S. policies should aim at hastening this process.

4. U.S. international development programs should be independent of U.S. military and economic programs that provide assistance for security purposes. Both types of programs are essential, but each serves a different purpose. Confusing them in concept and connecting them in administration detract from the effectiveness of both.

5. All types of security assistance—military assistance grants, use of surplus military stocks, military credits, economic assistance in support of

military and public safety programs, budget support for political purposes, and the Contingency Fund—should be covered in one legislative act. The State Department should exercise firm policy guidance over these programs.

6. Military and related economic assistance programs will strengthen military security only to the degree that they help move countries toward greater self-reliance. These U.S. programs should be geared to the resources that the receiving countries ultimately will be able to provide for their own security. In some cases, reduction of U.S. military forces overseas will require temporary offsetting increases in such assistance. The ultimate goal should be to phase out these grant programs.

7. The United States should help make development a truly international effort. A new environment exists: other industrial countries are now doing more, international organizations can take on greater responsibilities, trade and private investment are more active elements in development, and, most important, the developing countries have gained experience and competence. Recognizing these conditions, the United States should redesign its policies so that:

- the developing countries stand at the center of the international development effort, establishing their own priorities and receiving assistance in relation to the efforts they are making on their own behalf;

- the international lending institutions become the major channel for development assistance; and

- U.S. bilateral assistance is provided largely within a framework set by the international organizations.

8. U.S. international development policies should seek to widen the use of private initiative, private skills, and private resources in the developing countries. The experience of industrial countries and of the currently developing nations demonstrates that rapid growth is usually associated with a dynamic private sector.

Development is more than economic growth. Popular participation and the dispersion of the benefits of development among all groups in society are essential to the building of dynamic and healthy nations. U.S. development policies should contribute to this end.

9. While the Task Force shares the aspirations of many who have endorsed high targets for development assistance, we have deliberately decided against recommending any specific annual level of U.S. assistance or any formula for determining how much it should be. We do not believe that it is possible to forecast with any assurance what volume of external resources will be needed 5 to 10 years hence. No single formula can encompass all that must be done—in trade, in investment, and in the quality as well as the amount of assistance. Our recommendation is to establish a framework of principles, procedures, and institutions that will assure the effective use of assistance funds and the achievement of U.S. national interests.

10. The downward trend in U.S. development assistance appropriations should be reversed. Additional resources, primarily in support of international lending institutions, are needed now for a new approach to international development. We believe this, having fully in mind the current financial stringency and urgent domestic priorities in the United States, as well as this country's balance-of-payments position. Over the long term, U.S. assistance for development abroad will be small in relation to expenditures for development at home. Moreover, the two programs can prove to be mutually reinforcing.

11. The United States must be able to respond flexibly and effectively to changing requirements in the developing world, and, in association with other industrial countries, help make possible the progress that individual developing countries show themselves determined to achieve. As the United States cuts back its involvement in Vietnam, reduces its forces abroad, and seeks to scale down the arms race, it can more easily carry such a policy as far and as fast as the resolve and the purpose of the developing countries can take it.

12. To carry out these policies, the Task Force recommends a new focus for U.S. programs, a new emphasis on multilateral organizations, and a new institutional framework consisting of:

—A **U.S. International Development Bank**, responsible for making capital and related technical assistance loans in selected countries and for selected programs of special interest to the United States. Whenever it is feasible, U.S. lending should support cooperative programs worked out by developing countries and the international agencies. The Bank would have assured sources of financing, including authority to borrow in the public market, and a range of lending terms appropriate to the development requirements of each borrowing country. It would be run by a full-time chairman and a mixed public-private board of directors.

—A **U.S. International Development Institute** to seek new breakthroughs in the application of science and technology to resources and processes critical to the developing nations. The Institute would concentrate on research, training, population problems, and social and civic development. It would work largely through private organizations and would rely on highly skilled scientific and professional personnel. It would seek to multiply this corps of U.S. talent and experience by supporting local training and research institutions. The Institute would be managed by a full-time director and a mixed public-private board of trustees.

—The **Overseas Private Investment Corporation (OPIC)**, as recently authorized by the Congress, to mobilize and facilitate the participation of U.S. private capital and business skills in international development.

—A **U.S. International Development Council** to assure that international development receives greater emphasis in U.S. trade, investment, financial, agricultural, and export-promotion policies. It also would be responsible for making sure that U.S. assistance policies are effectively directed toward long-term development purposes and are coordinated with the work of international organizations. The Chairman of the Council would be a full-time appointee of the President, responsible for coordinating all development activities under the broad foreign policy guidance of the Secretary of State, and would be located in the White House.

With this new institutional framework, the U.S. Government would need fewer advisers and other personnel abroad. It could assume a supporting rather than a directing role in international development.

In the sections that follow we discuss the considerations underlying these general conclusions and offer specific recommendations for reshaping U.S. policies, programs, and organization.

* * *

Foreign Assistance and National Purposes

At present, there is not one U.S. foreign assistance program but several. They serve different purposes and should be weighed on their individual merits.

They fall into three categories:

- security assistance,
- welfare and emergency relief, and
- international development assistance.

To clarify the present aims of U.S. foreign assistance, we analyzed the programs in terms of the functions they serve. As is shown in the table below, security programs accounted for 52 percent of U.S. foreign assistance in 1969; welfare and emergency relief programs, 6 percent; and international development programs, 42 percent. Of the appropriations for economic programs under the Foreign Assistance Act, 26 percent was actually for security purposes.

How is each program related to U.S. national interests?

U.S. Foreign Assistance, by Purpose, Fiscal Year 1969

<i>Security</i>	<i>Millions of dollars</i>	<i>Percent of total</i>
For Vietnam:		
Military equipment and supplies.....	2, 129	
Supporting assistance in Southeast Asia.....	394	
Military assistance grants.....	450	
Military equipment loans.....	281	
Grant surplus military stocks.....	92	
Budget support and other political programs.....	50	
Total.....	3, 396	52
<i>Welfare and emergency relief</i> (not including private assistance)		
Child and maternal feeding.....	240	
Emergency relief.....	88	
Refugees.....	40	
Total.....	368	6
<i>International Development</i> (not including private investment)		
Bilateral:		
Development loans.....	729	
Technical assistance grants.....	340	
Peace Corps.....	101	
Agricultural commodity credit sales.....	870	
Food for work grants.....	62	
Multilateral:		
For lending institutions.....	516	
For technical assistance.....	88	
Total.....	2, 706	42

Security assistance is an essential tool of U.S. foreign policy. Its goals are: to improve the military defenses of our allies and move them toward greater military self-reliance, to serve as a substitute for the deployment of U.S. forces abroad, to pay for U.S. base rights, and to deal with crisis situations. The size and specific objectives of these programs are subject to reassessment at any time. Their relation to national interests, however, is straightforward; they use resources for purposes essential to U.S. security.

Welfare and emergency relief activities reflect humanitarian values and international community interests. These programs are administered in large measure by private, nonprofit organizations, both national and international, and the U.S. Government funds expended on this kind of assistance are in addition to substantial resources that these organizations themselves provide. These programs follow a long-standing national tradition.

International development assistance serves long-term U.S. national interests. These interests should be redefined and brought into sharper focus.

In the past, the line of demarcation between security and development interests was blurred. The United States faced a divided world, in which foreign assistance was justified in terms of the conflict between East and West. Today all countries have a common interest in building and maintaining a global environment in which each can prosper.

Two reasons for an active U.S. role in international development are paramount.

First, the United States has an abiding interest in bringing nations together to serve common needs. It has consistently taken a position of leadership in creating institutions like the United Nations, the International Monetary Fund, and the World Bank, and in promoting cooperation in trade, investment, and arms control. The size and power of the United States gives us a special responsibility; if this country chooses not to play a major role, it necessarily endangers the success of such ventures.

Second, the developing countries contain two-thirds of the world's population. Their future success or failure will influence profoundly the kind of world we live in. The nations of the world are growing more interdependent—in trade, in finance, in technology, and in the critical area of political change. U.S. decisionmaking in such important areas as military expenditures will be influenced by the amounts of turbulence in the developing countries of the world, and U.S. prosperity will be influenced by their economic progress.

The United States shares with other nations concerns that call for common action. Problems related to population pressure, poverty, public health, nutrition, child development, literacy, natural resource exhaustion, rural backwardness, environmental pollution, and urban congestion exist in the United States as well as in the developing countries. Participation in both international development and domestic development can result in an exchange of useful experience. This has been demonstrated by government programs and by the work abroad of private organizations, such as universities, foundations, and voluntary agencies.

Participation in international development can promote progress toward the kind of world in which each country can enjoy the rewards of its own culture and the fruits of its own production in its own way, without impinging on the right of any other country to the same freedom for national fulfillment.

Finally, development can help make political and social change more orderly. There is at least a good prospect that more rapid development could facilitate more constructive social experiments, more open political procedures, and less disruptive international behavior.

Therefore, the United States has basic interests in intensifying its cooperation with other nations in a worldwide effort to accelerate international development. U.S. interests call for differing priorities among nations and

programs. Insofar as U.S. contributions to international organizations are concerned, the uses of resources are determined on a multinational basis. In its bilateral programs, the uses of U.S. resources should depend on U.S. interests in particular countries or particular areas, on where other industrial countries are providing resources, and on where the international institutions are concentrating their efforts.

The Changing International Environment

The changes in international conditions that call for a new approach to U.S. foreign policy in general call for a new approach to foreign assistance as well.

The circumstances that shape U.S. security assistance programs today and are likely to shape them for the next decade differ markedly from those of the past. Most allies of the United States in Western Europe have been able for a long time to do without military assistance from the United States, although this country continues to share with them the costs of mutual defense. A growing number of developing countries now show a determination to assume greater responsibility for their own defense and to mobilize more resources for this purpose.

Threats to the peace will continue to exist. However, the security measures that once were needed in a sharply divided world of direct confrontation are not necessarily those that would be most effective in today's pluralistic world. All countries face the need to reexamine their national priorities in light of this new situation.

As for international development assistance policies and objectives, a number of significant new characteristics have emerged.

When the United States redesigned its international assistance activities in 1961, it dominated the field. Other industrial countries were doing relatively little, and mostly in areas of special interest to them. The World Bank was just beginning to lend to low-income countries on concessional terms, and regional financial institutions either did not yet exist or had not begun to operate. Many of the developing countries were newly independent, they lacked experts, and they were at a rudimentary stage in organizing national economic programs. There was an urgent need to coordinate internal and external investment resources.

Against this background, it seemed appropriate for the United States to assume a broad and active role in the development efforts of individual countries. The Agency for International Development (AID) formulated country programs to coordinate U.S. assistance with investment from other sources. These comprehensive programs were used to guide the developing countries toward more effective self-help and to monitor the use of U.S. funds to avoid waste. At the same time, the United States encouraged other industrial countries to provide more assistance and took the lead in support-

ing the growth of World Bank development activities and the establishment of regional lending institutions.

This ambitious U.S. role required a prominent U.S. presence in some countries; and friction with some governments resulted from attempts to influence sensitive areas of their national policy related to development.

U.S. policies, moreover, were heavily government-oriented and were based on the expectation that the transfer of U.S. resources and technology would bring immediate results as it had under the Marshall Plan.

These expectations proved to be unrealistic. Barriers in developing countries abound: Unresponsive social and political systems, severe deficiencies of technical skills, poorly organized markets impaired in many cases by ill-conceived public policies, and limited local savings in an environment of deep poverty. Modernization is a long-term and much more difficult and complex process than was the reconstruction of war-damaged industrial economies.

Taking these limitations into account, U.S. assistance programs were remarkably successful in a number of countries, most conspicuously where local policies stimulated private savings, investment, and exports; where new technologies were adapted to the local environment and effectively disseminated; and where assistance was sizable. U.S. policies and resources also helped lay the foundation for making international development a worldwide program.

As a result in part of these earlier U.S. efforts, a new environment for development has now come into being. Today's environment calls for a significantly different role for the United States. In this connection, five new elements are of special importance:

—**New capacities in the developing countries.** Many developing countries now have the capacity and the experience needed to establish their own development priorities and a strong and understandable determination to do so. They are mobilizing more investment resources themselves, and they have many more well-trained, competent professionals and technicians. The developing countries themselves, therefore, should be at the center of the international development effort. The policies they pursue will be the most important determinant of their success or failure. What the United States and other industrial countries do will have only a secondary, though essential, influence on the outcome.

—**Assistance efforts of other countries.** Other industrial countries have steadily expanded their development assistance in recent years. Today their combined official development assistance is about as large as that of the United States. This country works with them through consortia or consultative groups to provide assistance in many developing countries, under the auspices of international agencies.

—**The role of international institutions.** The international financial organizations, although they still provide a relatively small part of the total flow of resources to developing countries, now account for more than half

of all development loans and are gaining greater influence in organizing development activities. The World Bank is now able to give development advice on a worldwide scale and to work with the developing countries in establishing guidelines for their national programs. The Bank is today a worldwide source of professional development experience.

—**The impact of new trade potentials.** Policies in international trade, investment, and finance can no longer be formulated without considering their consequences for development. Action to be taken in these areas calls for international cooperation.

In the future, the developing countries will have to export more manufactured goods. Their traditional exports of primary commodities have only limited growth possibilities, but the developing countries are becoming more competitive in manufactured goods. Whether they can capitalize on their new capabilities will depend on whether industrial countries open their markets to this competition; they are likely to do this only in concert.

The prospect of a stronger international monetary system in the 1970's should make it possible to reduce the restrictions that are imposed on the flow of development resources for balance-of-payments reasons.

—**The debt burden.** The debt burden of many developing countries is now an urgent problem. It was foreseen, but not faced, a decade ago. It stems from a combination of causes: excessive export credits on terms that the developing countries cannot meet; insufficient attention to exports; and in some cases, excessive military purchases or financial mismanagement. Whatever the causes, future export earnings of some countries are so heavily mortgaged as to endanger continuing imports, investment, and development. All countries will have to address this problem together.

* * *

PROGRAMS FOR THE 1970's

The United States should adopt a new approach to foreign assistance that takes into account the changes that have taken place in the international environment and the valid criticisms that have been made of its own current programs. In the sections that follow, recommendations are made for carrying out each of the three U.S. foreign assistance programs and for coordinating U.S. policies related to international development. Security assistance is discussed first, then welfare and emergency relief, and finally international development, which is the main focus of this report.

Security Assistance

Security assistance programs have been an integral part of U.S. foreign policy for more than two decades. In addition to military grant and sales activities, they include economic assistance in support of military and public safety programs, and budget support for political purposes.

Security assistance has strengthened the defenses of some 40 nations. It has also helped nations to cope with pressing internal security problems and to deal with crisis situations. In serving these purposes, such assistance has played an important role in helping the United States to pursue the goal of a world order in which each nation, large or small, aligned or unaligned, can develop in its own way.

Military assistance today is going in large measure to Vietnam, Laos, and Thailand in support of the Vietnam war effort. All military equipment and supplies for these countries at present are funded and administered by the Department of Defense.

The remainder of the military assistance program is funded in the Foreign Assistance Act, comes under the policy guidance of the Department of State, and is administered in the Department of Defense. It is provided on a grant basis and is concentrated largely in the Republics of Korea and China, Turkey, and Greece, where the United States has specific treaty obligations. Grants to these countries are designed to help U.S. allies maintain an adequate defense, and they serve as a substitute for the stationing of U.S. forces abroad. Small amounts are provided to 44 other countries

for internal defense and training purposes and to a few countries as payment for U.S. base rights.

Sixteen countries receive credits for military items under the Foreign Military Sales Act.

Economic assistance for Vietnam, Laos, and Thailand is appropriated under the economic section of the Foreign Assistance Act (supporting assistance) and is administered by AID. It is used to contain inflationary pressures and to finance police, pacification, resettlement, and selected reconstruction programs.

Budget support for political purposes is another kind of economic assistance for security purposes administered by AID. It helps other governments in crisis situations—such as those that have occurred in the Dominican Republic and the Congo in recent years. It also has enabled the United States to give temporary help to governments while regular U.S. development assistance programs were being prepared; the assistance given to Indonesia in 1965 is an example.

Public safety programs also are in the category of security assistance administered by AID. Through these programs, the United States helps to train police, advises them in modern methods and organization, and provides modern police equipment and supplies. The purpose of this assistance is to strengthen the prospect of preserving internal order through greater reliance on civilian rather than military authority, and to develop the concept that the police function is to assist the people as much as it is to protect them against violators of the law.

How should the United States shape these security assistance programs over the decade ahead? Several questions are involved: goals, the design and conduct of the programs, and management.

1. **Goals.** A comprehensive analysis of U.S. security requirements in the world of the seventies is beyond the scope of this report, as are assessments of the U.S. worldwide defense systems and security interests in particular countries. The Task Force accepts the fact that the United States has security responsibilities in certain countries that make it necessary to help them maintain a more effective military defense than they could provide from their own resources. The questions then are: how much help should be given, in what way, and for how long?

Each sovereign nation must decide for itself what it is prepared to do—with the means at its disposal—to defend against the threat of external attack and to maintain internal order.

One clear goal of security assistance is to help countries move toward a greater degree of self-reliance in the area of security. To be fully effective, the principle of self-reliance must govern the behavior of both the United States and the developing countries. Decisions on U.S. military assistance should be based on the amount of resources that the receiving countries think proper and ultimately will be able to allocate for security. It is equally

important that these countries themselves—not the United States—make the decisions on how to use their resources for security.

As the United States reduces its forces overseas, increased security assistance may be needed for a time to cushion the effect and to improve local security capabilities. The ultimate goal, however, should be to phase out these grant programs.

2. **Programing.** Military grants should be determined on a cost-benefit basis. The risks involved for the United States and the need for U.S. forces that would arise if funds were not provided should be specified.

The following factors should be considered in determining the amount, kind, and terms of security assistance:

First, assessments of force requirements in forward defense countries should be related to possible changes in the size of U.S. General Purpose Forces, to local financial capabilities, and to the availability of U.S. funds. Moreover, these assessments should be approved by the Secretaries of State and Defense, since they serve as the principal basis for estimating funding requirements for U.S. grants, as well as for evaluating the effectiveness of existing programs.

Second, the amount of military assistance allocated among countries should be related to a realistic assessment of needs, not to historical assistance levels. Furthermore, U.S. programs should assist receiving nations in adapting their military force structure, the risks permitting, to what ultimately will be within their own capacity to maintain.

Three-fourths of the grant assistance that the United States is giving (outside Southeast Asia) is used to finance the costs of operating and maintaining equipment and weapons already provided. In these circumstances, it does not seem possible that the receiving nation can both become self-reliant and modernize its forces. Unless these problems receive careful attention, the United States faces the prospect of continuing the programs indefinitely, without any assurance of improvement in local force capabilities.

This procedure could be pennywise and poundfoolish. It may make more sense in some countries, for example, to eliminate units that are only marginally effective and to provide modern equipment to the ones that are retained. The initial costs may be higher, but the long-term results could be more effective at a lower recurring cost.

Third, military assistance and related supporting assistance should be considered together in planning security programs. In a few countries, supporting assistance under the economic program is being terminated while military assistance grants continue. It is possible that U.S. interests might be served better in some cases by continuing supporting assistance while scaling down military assistance. This could be particularly useful as a transitional device to help countries assume the operating and maintenance costs now financed with military grant aid.

These three factors highlight the need to plan and coordinate the use

of all available security assistance instruments. Special studies addressing these problems are underway within the National Security Council system, but firm policy guidance is needed. These issues probably will take on added importance in the adjustment from war to peace in Southeast Asia.

3. **Encouraging self-reliance.** The United States now makes the basic determination of the amount and kind of military equipment the receiving countries need, and U.S. military missions do most of the detailed logistical planning and costing for them. These decisions necessarily affect the size of their defense budgets. More should be done to enable these receiving countries to estimate their own requirements, to relate them to their budgetary priorities, and to make their military decisions in the light of available resources.

Service training programs in the United States can play an important role in strengthening planning skills and capabilities in the developing countries. Greater emphasis in training should be placed on force structure and logistics planning, and on fiscal and budget programing.

Moving military assistance from a grant to a credit basis also will serve this purpose. Unlike military grants, military credits are subject to the budgetary discipline of the receiving country. The current legislative ceiling on military credits is inconsistent with such a policy. As grants decline, more credits should be made available. Military credits, however, should be used only to finance the purchase of weapons that the developing countries need for their defense and that are within their financial capacity to maintain and operate.

To avoid both an unnecessary arms escalation and a waste of resources needed for development, it is U.S. policy to discourage developing countries from obtaining sophisticated military equipment. Legislative restrictions on the use of U.S. military and economic assistance designed to avoid these problems, however, have not proven effective. In many cases, as the Rockefeller Report points out, the military equipment is purchased elsewhere, while the restrictions leave a residue of ill-feeling toward the United States. Removing them would put the United States in a better position to work out with these countries, on a mature partnership basis, military equipment expenditure policies that are consistent with their means.

Finally, the Task Force believes that large military assistance advisory groups and missions are no longer necessary in many developing countries. In the past, these countries needed the close involvement of U.S. military advisers to ensure the effective integration of U.S. arms and equipment into their forces. By now, however, military officials in most of these countries have achieved adequate levels of professional competence and facility with modern arms. The United States now can reduce its supervision and advice to a minimum, thus encouraging progress toward self-reliance. U.S. military missions and advisory groups should be consolidated with other elements in our overseas missions as soon as possible.

4. **Organization and management.** Changes in the organization and management of U.S. security programs would contribute to their effectiveness, clarify their relationship to U.S. foreign policy, and make our objectives and rationale more understandable to the Congress and the American public.

The Task Force recommends:

—That security assistance programs be combined in one piece of legislation—an International Security Cooperation Act—separate from international development assistance. This act should cover foreign military sales and grants, surplus military stocks, supporting assistance, public safety programs, and the Contingency Fund;

—That responsibility be assigned to the Department of State for setting policy and for directing and coordinating security assistance programs. In carrying out this responsibility, the State Department should relate security programs to U.S. foreign policy, to global strategies, to changing military technologies, and to the financial capabilities of receiving countries. Administration of military grant and credit sales programs should remain with the Department of Defense; supporting assistance, public safety programs, and the Contingency Fund should be administered by the Department of State.

Welfare and Emergency Relief

The U.S. Government provided some \$360 million in 1969, mostly in agricultural commodities, for programs to relieve human suffering and improve nutrition in over one hundred countries. The largest part of this assistance was for maternal and child feeding and school food programs, aimed at raising nutritional levels. Most of these programs are initiated and administered by U.S. voluntary agencies, and the widespread local facilities of these agencies are used as essential distribution centers.

Important potentialities exist in this area. Recent biological research indicates that protein deficiencies in the early years of life have a depressing effect on future physical and mental development. Continued research on food supplements should be actively supported, and new programs should be considered where research results reveal promising opportunities.

Disaster and emergency relief and refugee assistance comprise the second major category under this type of assistance. These programs have helped in emergency situations resulting from civil war and natural disasters, such as drought, floods, and earthquakes. They also have helped in resettling and feeding refugees. They will be a continuing part of U.S. foreign assistance as the United States participates with other nations in meeting emergency situations.

These welfare and emergency relief programs now are administered by AID and the Department of State in conjunction with the Department of

Agriculture. Most of the food programs are conducted by U.S. affiliates of international voluntary agencies under arrangements made with AID. The disaster relief and emergency programs are also the responsibility of AID. The refugee program is administered by the Department of State, largely through international organizations.

The Task Force recommends that administration of these programs be brought together under one office in the Department of State. This office could work effectively with the Advisory Committee on Voluntary Foreign Aid, which serves as a link between private organizations in this field and the U.S. government.

International Development

U.S. policies relating to international development go beyond foreign assistance programs. Factors relating to trade, investment, the private sector, international finance, and population growth intimately affect the prospects of developing countries. Furthermore, the way in which the United States organizes and carries out its programs and the way these programs relate to those of other industrial countries and the international organizations will profoundly influence the results. In the sections below, we deal with this wider range of policies and programs influencing international development.*

The Special Problem of Population

"No other phenomenon," the Pearson Commission said, "casts a darker shadow over the prospects for international development than the staggering growth of population." There is little dispute among experts as to the need to deal with this problem on an international basis. Countries cannot cope with the consequences for economic development, or social welfare, or political change of a doubling of the population every 15 or 20 years. Population change at that pace threatens to dissipate the benefit of much that can be contributed from outside a developing country and indeed to offset some of the gains from the country's entire development effort.

Family planning assistance is an integral and necessary part of total development assistance and not a substitute for other development assistance. More rapid development itself can create a favorable environment for constructive action in the area of population. The developing countries that

*We do not cover the work of: the Export-Import Bank, whose operations are designed to promote U.S. exports and only incidentally contribute to international development; the Peace Corps; and private, nonprofit organizations, which make a significant but largely nonquantifiable contribution to development. In making our recommendations, however, we have taken into account the possibilities for wider use of the private organizations.

have made the most rapid economic advance and are approaching self-sustaining development—for example, the Republics of China and Korea—also have successful family planning programs.

More nations than is generally realized have faced up to the population problem and are undertaking programs to encourage responsible parenthood and to provide the means to ensure successful family planning.

The initiative and primary responsibility for action in the population area clearly lie with each country. Programs need to be adapted to the traditions and mores of each society and carried on with respect for the dignity and conscience of the individual. This is a sensitive area, and much needs to be learned about it. Nevertheless, there is a great deal of accumulated knowledge, and there are wide opportunities for providing help, through both U.S. programs and international efforts.

The U.S. Government has allocated \$75 million in 1970 for assistance to population programs and plans on \$100 million next year. These funds are mainly to support the work of private organizations and international agencies. The Task Force believes that support for the development and implementation of acceptable programs addressing the population problem should have a high priority in the use of development resources.* The United States should be prepared to give more help abroad for this purpose when it is needed and requested, just as it is expanding similar programs at home.

The Task Force has received a number of careful studies, prepared by leading experts in this field, which outline new programs that the United States could support and which indicate a need for increased financial assistance. They recommend additional support for research on human reproduction and family attitudes, for training specialized personnel, for organizing and administering family planning programs, for mass communication facilities, and for related maternal and child health care.

There are no objective standards against which to measure the developing world's total requirements for assistance in the population field. This is an area in international development that could benefit greatly from strong international leadership. A worldwide study, prepared on a priority basis, could give the United States as well as other countries—industrial and developing nations alike—a professional and politically acceptable base for

*Terence Cardinal Cooke makes the following comment: "I am firmly convinced that the highest priority in our foreign assistance policy should be placed on those positive programs of economic and social development which are designed to improve the quality of life of those people presently living in conditions of extreme deprivation. I recognize that an accelerated population increase adds its own difficulties to the problem of human development. However, in this scientific age there seems little need to settle easily for a solely negative solution to this demographic problem. Major efforts in this area should be directed to research and the development of a sufficiently certain and morally acceptable solution to the problem. True economic and social progress can only be effected in an atmosphere that strengthens family life and preserves the dignity and freedom of man."

examining the resources needed and the ways in which each country could best contribute to this pressing world problem. The Task Force recommends that the United States propose that the U.N. Fund for Population Activities, in conjunction with the World Bank and other interested international agencies, prepare a careful and detailed study of world needs and potentialities in this area and of ways in which all elements of the international community can help.

Private Incentives and Market Forces

Rapid economic progress usually has taken place within a favorable environment for private initiative, such as that which existed in the Republics of Korea and China, Mexico, and the Ivory Coast in the 1960's. Checking the pace of inflation and introducing more realistic exchange rates helped achieve an economic turnaround in Brazil and Argentina, and an increased reliance on market incentives was essential to the success of the "Green Revolution" in India and Pakistan and to the diversification of Colombia's exports. Even Communist countries have, in their own way, been moving in the direction of allowing market forces more scope in allocating resources.

Both in the United States and abroad, there is misunderstanding about the contributions of the private sector, the role of profits, and the benefits of the price mechanism. In some developing countries, private foreign investment has been under attack, partly because of an anachronistic view of how foreign companies operate abroad. There are now encouraging signs of a change in attitudes, as exemplified by a recent report prepared for the United Nations Conference on Trade and Development (UNCTAD) on the role of private enterprise in development.

Each nation must fashion its own policies and institutions to meet its own needs. If the goal is economic development, the issue is one of efficiency, not ideology.

In the most successful countries, the value of encouraging private initiative has been amply demonstrated. It has made possible more employment opportunities, an upgrading of labor and management skills, a rise in living standards, and wider participation in the benefits of development. Furthermore, a dynamic private sector has resulted in greater internal savings, more effective use of domestic and foreign investment resources, and rapid economic growth, in which export industries have played an important role.

Trade. Expansion of trade enhances the scope of the private sector and stimulates private initiative and investment. Developing countries cannot be expected to reach the point of financing their own development unless they are given the opportunity to earn the means for doing so through an increase in their exports.

However, if a policy of promoting exports is prescribed for developing economies, accepting imports is one of the responsibilities of industrial coun-

tries. Providing better access for the products of developing countries offers both advantages and difficulties for industrial countries.

Unlike grants and loans, opening the markets of industrial economies to the products of developing countries does not lead to debt-servicing problems for developing nations or financial burdens for industrial countries. On the contrary, cheaper imports and a larger volume of trade would add to the real incomes of all participating countries and help to contain inflationary pressures. Of course, they also might result in adjustment problems. But, difficult as such adjustment problems sometimes are, they are temporary. They occur continually in our dynamic society as an essential element of a competitive economy. They highlight the need for effective adjustment assistance measures as a foundation for constructive U.S. trade policies. The adjustment assistance provisions of the trade bill now before the Congress would help to meet this need.

Enlightened trade policies toward developing countries are an essential element in achieving international development. The Task Force urges continued U.S. leadership in working for the reduction of tariffs and other obstacles to trade and in avoiding the imposition of new restrictions.

In addition:

—The Task Force strongly supports your proposal for an international agreement extending temporary tariff preferences to developing countries on a nondiscriminatory basis, with no quantitative limits and a minimum of exceptions. If the United States cannot reach agreement with other industrial countries on this nondiscriminatory approach, it should unilaterally extend such tariff preferences to all developing countries except those that choose to remain in existing preferential trade arrangements with industrial countries.

—The Task Force favors larger quotas for products important to developing countries and imported under mandatory or voluntary restrictive arrangements. Sugar, textiles, and meat are notable examples. These quantitative restrictions should be removed as soon as it is feasible.

—The Task Force favors continued U.S. support for the formation of regional markets among developing countries. Regional arrangements will increase competition, provide more opportunities for economies of scale, and promote a more efficient allocation of domestic resources among developing economies.

At present, most developing countries rely too heavily and for too long on protective import restrictions and subsidies for their industries. The result is high-cost production, which is a burden on the rest of the economy and retards development. Trade liberalization among developing countries through regional arrangements can be a desirable first step toward a general liberalization of import policies, which, over time, will be to the benefit of all countries.

Assistance to the Private Sector. Apart from trade, development of the private sector in developing countries can be encouraged by appropriate

domestic policies, by foreign investment, and by an adequate infrastructure and public services. U.S. programs in the past have tended to concentrate too much either on public services or on stimulating foreign investment. Yet domestic industry and locally financed investment are the predominant elements in economic progress. The developing countries finance 85 percent of their investment from their own savings. Foreign private investment can stimulate and complement domestic investment, but its contribution must necessarily be secondary to that of local investment.

Some basic data provide useful perspective. Four-fifths of total production in developing countries comes from the private sector. Total self-financed private investment in these countries amounts to perhaps \$30 billion a year. Net private foreign direct investment from all sources has recently averaged about \$2.5 billion a year.

Internal policies that stimulate initiative and domestic investment should be a primary objective of international development efforts. They will also provide a favorable climate for the contribution of foreign investment.

The Task Force recommends that more be done to marshal local and private resources for productive use.

—The United States should invest more capital in local development banks. This is a tested way of getting a multiplier effect in the private sector from the use of public funds. These banks provide equity and loan capital for private firms and underwrite their security issues.

—The United States should encourage other governments and more private firms to support regional private investment companies, such as ADELA for Latin America and the Private Investment Corporation for Asia (PICA). Comparable organizations could be useful in the Middle East and Africa. These multinationally financed companies help to underwrite local investment in developing countries, taking up part of the equity with the expectation of future resale to local investors.

—The United States should contribute more actively to the evolution of capital and credit markets in developing countries. It is ironic that some countries that are sorely in need of investment resources have a capital outflow. Stabilization policies are essential to retain capital at home, but better financial markets are also needed.

—U.S. professional organizations and businesses should do more to exchange experience with their counterparts in developing countries. One form of cooperation is exemplified by the program of the International Executive Service Corps, under which highly qualified U.S. business experts work with individual foreign firms to solve specific problems.

International Organizations and Private Investment. The international organizations can help bridge the gap between attitudes in developing countries and those of private foreign investors, and between divergent views on the proper roles of the private and public sectors. Too much misunderstanding—and at times hostility—exists in this area.

—The Task Force recommends that the United States propose that the paid-in capital of the International Finance Corporation (IFC) be increased from \$100 million to perhaps \$400 million. The U.S. share of such an increase would be \$100 million—paid in over several years. The increase in capital would enable the IFC to encourage joint ventures in developing countries by taking up equity for later sale to local investors.

In general, the IFC can play a leading role in developing the private sector. It brings together local and foreign firms in joint ventures and can serve as a referee of the terms of specific private foreign investment in these countries.

—The Task Force believes that establishing an international investment insurance program against the risks of expropriation would improve the climate for private foreign investment. The World Bank has proposed a program that might encourage more multinational investments and could reduce the degree of bilateral confrontation in disputes over investments. The Task Force recommends that the United States seek early completion of the negotiation of this proposal and obtain authority from the Congress for U.S. participation so that the agreement can go into effect as soon as the minimum required number of countries join.

U.S. Private Foreign Investment Policy. The policies of American firms operating abroad are an important determinant of the investment climate. In the past, the need to give more managerial responsibility to nationals of the host country and to establish good working conditions has been emphasized. Equally important to international development and good relations with the host country are active efforts by subsidiaries of U.S. companies and other foreign firms to export goods from developing countries, to build up local enterprise that can feed into their production, and to encourage widespread local participation in ownership. (However, we question the usefulness of rigid formulas for sharing ownership.) This approach will improve relations between U.S. firms and host countries. In the end it should make little difference to broadly based companies whether shareholders live in Mexico or Minnesota.

The new Overseas Private Investment Corporation (OPIC), recently authorized by the Congress, will be an effective instrument in encouraging U.S. private investment activities in developing countries—both through its guaranty programs and through advising American firms on how to make their investment more acceptable to the host country. The Task Force strongly supports establishment of this corporation.

In addition:

—The Task Force recommends elimination of the current restraints on U.S. direct private investment in developing countries. Although lifting this restriction would have a small short-run adverse effect on our balance of payments, it could remove an element of uncertainty that now discourages such investment.

—The Task Force recommends that OPIC make greater use of U.S. guaranty programs, in combination with those of other countries, to encourage international joint ventures. These multinational projects, open to investors in the host countries, help to reduce nationalist sensitivities to foreign investment.

—The worldwide housing guaranty program, now administered by AID, should be added to the other investment guaranty programs administered by OPIC.

—The Hickenlooper Amendment to the Foreign Assistance Act was introduced to deter foreign governments from expropriating U.S. property without prompt and adequate compensation. If private investment is to contribute to international development, a more effective means of discouraging such expropriations must be found. The United States, other lending countries, and the international institutions should take such acts into consideration in determining whether their development assistance would be used effectively. The Hickenlooper Amendment, however, has outlived its usefulness. It provides no room for flexibility in dealing with this difficult and politically sensitive problem. A more fruitful approach would be to seek positive ways of making foreign investment mutually attractive, such as we have outlined above, and to rely on an international forum when disputes arise.

—The Task Force urges that recommendations for facilitating an increase in the flow of private investment to the developing countries be considered in the examination of business taxation currently underway within the U.S. Government.

Reliance on International Organizations

The Task Force believes that more reliance on international organizations should be built into all U.S. policies relating to international development—whether they concern development assistance, debt rescheduling, tying, trade, investment, or population. This is basic to the new approach to foreign assistance we recommend. A predominantly bilateral U.S. program is no longer politically tenable in our relations with many developing countries, nor is it advisable in view of what other countries are doing in international development.

The issue for the present, however, is not whether U.S. development assistance should be bilateral or multilateral. The United States needs both, since it will be some time before the industrial nations are willing to provide all development assistance through multilateral channels and before the international organizations have the capacity to take on the entire responsibility. Even now, however, long-term development can be made essentially international in character.

Experience shows that an international organization such as the World Bank, with no political or commercial interests of its own, is able to obtain

good results from the investments it makes or encourages. Furthermore, bilateral assistance programs are themselves more effective when carried out under the leadership of these organizations and in a multilateral environment. Moving in this direction holds the promise of building better relations between borrowing and lending countries.

The Task Force recommends three actions on the part of the United States:

—It should rely heavily on international organizations to work out programs and performance standards with developing countries and should provide most of its assistance within that framework. This will mean a fundamental change in the conduct of U.S. bilateral programs.

—It should provide the necessary increase in resources, on a fair-share basis with other member countries, to permit the international development organizations to increase their current lending within the next few years as fast as their capabilities and the tested needs of the borrowing countries permit.

—It should join with other members to strengthen the capabilities of these international organizations and to build more coherence into their operations.

Operation of an International System. The World Bank Group and the regional lending institutions now account for more than half of total official development lending. This lending is only a part of the total resource flow to developing countries, but it is a key element. It gives international organizations a basis for taking primary responsibility for setting the strategy under which all donors provide assistance to developing countries.

Under an international system of development, international agencies would assume primary responsibility for analyzing conditions and policies in developing countries, for establishing close working relations with appropriate officials in these countries, and for determining total capital and technical assistance requirements and the policies necessary for effective use of investment resources. This would set the framework for the bilateral assistance programs of the United States and other industrialized countries.

To do this, the international organizations will have to take a less parochial view of their mission. They will need to have wider representation abroad and more flexible lending policies, without lowering standards. They will have to give increasing attention to the management, social, technical, scientific cooperation, and popular participation aspects of development. Finally, they will have to be diplomatic, flexible, sympathetic, and persuasive—but prepared to say no and to withstand political pressure from both the creditor and the borrowing countries.

The World Bank and the International Monetary Fund (IMF) are well along on this course. In Latin America, the Inter-American Development Bank and the OAS Inter-American Committee for the Alliance for Progress have begun to move in these directions. The other regional institutions too are beginning to gain some experience. The United Nations Development Program (UNDP) has been very active in preinvestment surveys and in a

variety of technical assistance programs. It has missions on a worldwide scale and has recently reexamined its role and performance. With necessary reorganization, the UNDP would have the potential for exercising greater responsibility for technical assistance in an international system.

Furthermore, as these organizations expand their operations, they will have to prepare for a parallel buildup in their control procedures so as to assure continued high operating standards. Also member governments will have to become more fully involved in the work of these international agencies.

It will take time and sustained support from the member countries for the international organizations to assume the leadership role. It is not necessary that the same international organization assume primary responsibility in every country. The World Bank group can now exercise such leadership in the major developing countries, as well as in many others. Eventually, the regional organizations and the UNDP could assume this role in individual countries. A clear decision by the United States to rely on international organizations for this purpose, and action to support this decision, would spur the pace of the entire process.

Financing. The international organizations could roughly double their present rate of lending—from \$2.5 billion a year to \$5 billion a year—over the next several years while continuing to follow sound practices and maintain high standards. This judgment takes into account the capabilities of these organizations, the current international investment climate, the increasing availability of sound development projects, better planning and performance in both public and private sectors of the developing countries, and estimates of the level of foreign investment and bilateral assistance.

The actual rate of expansion would depend on demonstrated need and assurances on the effective use of funds.

This increase in lending would require an increase in U.S. funding from the current rate of \$500 million a year to roughly \$1 billion a year, assuming, as we should, no increase in the U.S. share in financing these organizations. In addition, there would be a need for the United States and other member countries to subscribe additional callable capital, enabling these organizations to increase their borrowings in the capital market. This callable capital would require U.S. budgetary outlays only in the event that these international organizations defaulted on their bonds.

An increase in International Development Association (IDA) lending is critical to establishing an international framework for development. In view of the debt-servicing problem in a number of the developing countries, concessional lending on IDA terms is badly needed. Furthermore, IDA lending is the foundation for international participation in some of the major development programs.

The current level of country contributions to IDA is \$400 million annually. The Pearson Commission recommended that these contributions be increased to about \$1 billion a year by 1972 and \$1.5 billion by 1975. The Task Force

recommends that the United States take the lead in supporting these suggested levels of financing. The U.S. share would be 40 percent of the total.

The Inter-American Development Bank (IDB) should be able to expand its rate of lending over the next few years by perhaps 50 percent—or, to indicate rough magnitudes, from \$600 million a year to \$900 million a year. The Task Force recommends that the United States support such an increase in line with the special consideration for Latin American development that is part of U.S. policy. This would involve an appropriate combination of contributions for concessional lending and subscriptions of paid-in and callable capital. In contrast to present practice, the IDB should reserve its concessional lending for its least developed member nations.

The Task Force also believes that the United States should support current initiatives to open membership in the IDB to other industrial nations. At present, the United States is the only industrial country member, and this makes for an awkward relationship. Since the Bank now borrows and obtains funds in Canada, Europe, and Japan, opening up its membership would both give it greater assurance of capital from these areas and make for more healthy relationships within the organization.

The Asian Development Bank is gaining experience and expanding its operations. It will be able to take on very large responsibilities in any post-war development effort in Southeast Asia.

The United States is not now a member of the African Development Bank, nor are other industrial countries. This country should work with other industrial countries to strengthen this Bank and eventually to provide it with financial support.

Four subregional lending institutions now exist: The Central American Bank for Economic Integration, the Caribbean Development Bank, the Andean Development Corporation, and the East African Development Bank. The United States is not now a member of any of these, but its policy, which the Task Force supports, is to assist such organizations through U.S. development loans.

The capabilities of the industrial countries for contributing to international development in general will be facilitated by the increase in international reserves made possible by the creation of Special Drawing Rights.*

*The Task Force discussed the possibility of using these new reserves as a source of international development finance. Some members believed such a move should be explored with other industrial nations once the SDR system has been tested. There was agreement that time should be allowed to establish the new international reserves before proposals relating them to development finance are acted on. All agreed that the amount of SDR's created must be determined solely on the basis of liquidity needs—any tie-in to development would have to be clearly subordinate to the responsible operation of the SDR mechanism.

However, other members believed that it is so important to the future of the world financial structure to establish firmly the SDR's as a new supplement to international reserves, absolutely independent of the balance of payments of any individual nation, or groups of nations, that no recommendation should be offered on the use of SDR's for international development finance.

Coordination. Bringing coherence to the work of international development organizations is essential to the success of the new approach to foreign assistance we recommend. The various international institutions do not now make up a system. A wide area of overlapping and sometimes competing responsibility exists. The same is true for the individual programs of the industrial countries. Furthermore, the work of other organizations, such as the IMF, the General Agreement on Tariffs and Trade (GATT), and the Organization for Economic Cooperation and Development (OECD), could be focused more effectively on international development.

This is a complex problem, involving a number of international agencies and many governments. Several proposals have been advanced to begin the process of creating an effective international system. What is important now, however, is to bring high-level attention to the problem. The Task Force, therefore, recommends that you, Mr. President, raise this issue with heads of selected governments—in both industrial and developing countries—and with heads of the major international organizations. Constructing an effective international system and establishing international development priorities in concert with others would do much to advance what must be a global enterprise.

Bilateral Development Lending: A U.S. International Development Bank

The Task Force sees a new role and a new organization for U.S. bilateral lending. If the international agencies are to carry expanded responsibilities for development, the U.S. program must assume a supporting role and not become involved in the entire range of country development policies and programs.

U.S. lending under such a system would be concentrated in selected countries, in selected programs—particularly in agriculture and education—and in multinational projects where long-term development is of special interest to the United States. This U.S. lending, however, would be made on the basis of development criteria. A bilateral lending program would put the United States in a better position to encourage countries demonstrating the ability to move rapidly toward self-reliance. It also would enable the United States to continue to take up its share, with other nations, of programs in India, Pakistan, Indonesia, and selected African countries and to support Latin American development, which is of special concern to the United States.

Whenever it is feasible, U.S. lending should support cooperative programs worked out by the developing countries and the international agencies. Current U.S. participation in World Bank consortia and consultative groups for India, Ghana, Indonesia, and Colombia are cases in point. The proposal in the Rockefeller Report to have the OAS Inter-American Committee for the Alliance for Progress assume larger responsibility for

formulating programs and coordinating development assistance in Latin America is another example.

Method of Operations. The United States should manage its lending programs as a bank would, although the scope of lending necessarily would include all aspects of development.

Effective assistance for development requires that capital and related technical services be provided together. The U.S. lending agency should be able to finance preinvestment and feasibility studies. It also should finance training and expert advisors to strengthen the managerial and technical competence of the borrowing institutions. For example, a program for efficient water utilization might include funds for the purchase of equipment, for training workers, and for outside experts. A loan to finance fertilizer, seed, and pesticides could well include the provision of advice on agricultural marketing and distribution. In providing technical services related to its lending program, the lending agency would draw on its own staff or arrange for such services from outside sources.

In making loans for development purposes, the United States should recognize that development is more than an economic process. It should take into account not only the extent to which a loan will contribute to economic growth but also the extent to which it will encourage social and civic development and will result in a wide dispersion of benefits.

The U.S. program should emphasize loans in support of the local private sector and promote broad popular participation in development. It could include program loans, loans to development banks and regional private investment companies, and loans for infrastructure and other projects. The United States could also finance training institutes, such as vocational schools and scientific centers.

The United States should be able to provide a range of development lending facilities, with the terms of specific loans adjusted to individual country circumstances. Terms should range from the most concessional interest rates and repayment terms to near-market rates. The latter would be appropriate for countries that no longer need concessional lending but that do not yet have independent access to private capital markets. For these countries, the United States could provide, or join in providing, guaranty facilities that would enable them to borrow on international capital markets.

Financing. Funds for bilateral lending should be available on an assured basis and in ways that permit flexible use, and the characteristics of the sources of funds should correspond to the financing terms appropriate for each borrower. The Task Force recommends the following:

—Appropriations should cover loans requiring the most concessional terms.

—Borrowing from the public should be authorized for loans made on intermediate concessionary terms. The rate at which these funds are loaned would be lower than the rate at which they are borrowed.

—Interest payments and repayments of principal on outstanding loans of AID and predecessor agencies should be available automatically to cover the interest differential on loans made at intermediate terms or for relending on the most concessional terms.

—Guaranty of foreign official borrowing on international capital markets should be authorized as a transitional device to help countries become independent of U.S. concessional lending.

The Bank should have assured sources of financing. The Task Force recommends an initial capitalization of \$2 billion through appropriations and authority to borrow \$2 billion from the public as and when needed. In addition, the Bank should have available payments of interest and principal on existing loans. These payments are estimated at \$200 million for 1970 and at about \$300 million by 1975. As in the case of the Export-Import Bank, resources authorized should be available for the life of the Development Bank. This would relieve the pressure to make loans under fiscal-year limitations and thus encourage sound operations. The Bank should be in a position to go back to the Congress for additional resources when needed.

The level of Bank lending will depend on the rate at which the international institutions expand their programs and on a continuing assessment of the needs and performance of individual countries. In 1969, the U.S. bilateral lending program amounted to about \$700 million.

Organization. The Task Force recommends the creation of a U.S. International Development Bank to carry out the bilateral lending program. The Bank should be an independent government corporation, with a full-time president serving also as chairman of a board of directors, which would be composed of government officials and private members. The Secretaries of State and Treasury should be *ex officio* members of the board.

With independent status and a new mission, the Bank could attract a highly qualified professional staff and operate with a minimum of field representatives.

U.S. bilateral loans should be made under the broad foreign policy guidance of the Secretary of State, but independently of short-term foreign policy considerations.

The recommendation to establish a U.S. International Development Bank is based on an evaluation of the strengths and weaknesses of the existing and predecessor U.S. development agencies. One of the major issues involved is whether it is wise to separate the administration of capital assistance and of technical assistance. This is not an all-or-nothing proposition. Where the two are necessarily related, they would be provided together by a U.S. International Development Bank. There is a wide range of technical assistance activities, however, which require separate professional and managerial attention and which should not be submerged in a capital lending agency.

Research and Technical Cooperation: A U.S. International Development Institute

The Task Force recommends a basic change in the composition, method of operation, and administration of the current technical assistance program. As was noted above, part would be integrated into the lending operations of the U.S. International Development Bank. A new U.S. institute would concentrate on four major areas:

—*Programs to deal with the population problem*, which should be carefully designed and worked out with private groups, national authorities, and international agencies.

—*Research*, both in the United States and abroad with a heavy emphasis on strengthening local institutions in the developing countries. New technologies are urgently needed to provide breakthroughs in a variety of fields essential to broad-based development. They must be adapted to the needs of the developing countries and related to programs and local institutions that can ensure practical applications and evaluation of results. The successful combination of the development of new seeds for rice and wheat, and the programs to apply them, are a model. The United States should strongly support similar long-range efforts in agriculture, health, education, and other fields through national, regional, and international projects.

—*Training*, both in the United States and in the developing countries. Strengthening local institutions for improving vocational, commercial, agricultural, industrial, scientific, and professional skills is of vital importance for modernizing societies.

—*Support of social development*, designed to assure popular participation through organizations such as cooperatives, labor groups, trade associations, and civic associations and through community development programs.

Method of Operation. The United States should seek to operate these programs more as a private foundation would.

The current practice of employing large numbers of technicians and advisory personnel in many fields and in many countries should be changed. It has required high overhead and large field missions. Advisory personnel should be used far more selectively and only where a careful assessment indicates that they would be useful.

It would be more effective for the United States to concentrate on a limited number of specific problems, particularly those having regional or worldwide significance. In each program, it should seek agreement with the participating country or agency on specific goals, a cost-sharing arrangement, and on plans for the country to take over the program at some time in the future.

An increasing proportion of the work should be carried out largely through private channels—universities, scientific organizations, business firms, voluntary agencies, and special-purpose organizations in people-to-people and institution-to-institution programs. The program should rely heavily on

scientific and professional experts from private institutions for specific assignments, rather than on permanent employees. This would permit the United States to draw on a broad range of talent around the country.

The Task Force believes that the United States should change the current practice of terminating technical assistance programs whenever concessional development loans end. Terminating both programs at the same time fails to take account of a possible continuing need for professional collaboration and training and of the mutual benefits of continuing such cooperation. Financing arrangements for technical assistance programs can always be adjusted to a nation's ability to pay.

The United States should continue to use funds for self-help community projects. These funds, in modest amounts, are available in a large number of countries on the approval of the U.S. Ambassador. They provide a useful element of flexibility in U.S. assistance programs.

Organization and Financing. The Task Force recommends creation of a U.S. International Development Institute to carry out the program described above. It should be an independent government agency with a full-time director, who would act as chairman of a board of trustees composed of public officials and private members. The Secretary of State should be an *ex officio* member of the board. The board could use specialized advisory groups to review particular projects, following the practice of the National Science Foundation in making research grants.

The institute, in consultation with the Department of State, should be responsible for providing guidance to U.S. representatives on the Governing Board of the U.N. Development Program.

The Task Force recommends authorization of \$1 billion for the Institute. In 1969, U.S. technical assistance programs, including contributions to international technical assistance programs, amounted to about \$400 million.

As in the case of the Bank, these funds should be available over the life of the Institute, so that it can enter into long-term programs and avoid the pressure to spend funds under fiscal year limitations. The Institute should have greater freedom in the use of funds than is now accorded to AID so that it can support innovative programs as the opportunity arises. It would go back to the Congress for additional funds when they are needed. At that time, the Congress could judge whether the flexibility in these arrangements was justified and should be continued.

The above guidelines would mean greater expenditures than under the present program for research, population programs, training, and support of local institutions and the U.N. Development Program, and considerably lower expenditures for American technicians and overhead services.

The Congress recently authorized an Inter-American Institute for Social Development to carry out various kinds of popular participation programs in Latin America. The Task Force suggests that these proposed functions be performed by the U.S. International Development Institute on a world-wide basis, with a separate division for Latin America.

Agricultural Commodity Development Assistance

Agricultural credit sales, Food-for-Work grants, and commodities provided for humanitarian purposes, all under the Public Law 480 program, are a significant part of U.S. foreign assistance. They also are an important element in our domestic agricultural policies. The cost to the U.S. taxpayer of this assistance is far less than its value to the recipient. More than half the budgetary cost would be required in any event to support farm incomes in the United States.

There is likely to be a continuing need for P.L. 480 development assistance for some time to come. This program now amounts to approximately \$1 billion a year. There are no reliable forecasts of future needs; but the outlook is for a continued increase in agricultural production in the developing countries, combined with an increase in requirements arising out of population and income growth. The P.L. 480 program accounts for only a small fraction of total consumption in these countries. While needs vary from year to year, depending on production policies and on temporary factors, such as the weather, it is assumed that the program will continue at a level of about \$1 billion a year on an average.

The Department of Agriculture now administers the sales programs under the foreign policy guidance of the Department of State and should continue to do so. First priority should be given to encouraging agricultural production in the developing countries and to self-help policies. In administering the sales programs, the United States should recognize the need for developing countries to export agricultural commodities that they can produce efficiently. Competition from this quarter may hurt this country in the short run, but over time, income growth in the developing countries will make them better markets for those agricultural products that the United States can produce most efficiently.

Changes in P.L. 480 have provided for shifting the terms of assistance from local currency sales to dollar repayable loans. The terms for agricultural commodity loans should be consistent with those for development loans in each country. Both should take into account the debt-service burdens of the developing nations.

The Food-for-Work program, in the form of grant commodity assistance, is now administered by AID, partly in conjunction with the voluntary agencies. It is used in part to promote community development. The Task Force believes that this program should be administered by the proposed Institute and effectively coordinated with other social development programs.

Part of the local currency proceeds of credit sales agreements is available to borrowing nations for development purposes. Their use is subject to agreements reached with the U.S. Government. These funds should be made available, as appropriate, to supplement the programs of the U.S. Development Bank and the Institute.

The Quality of Assistance

Over the past decade, most industrial countries have placed limitations on the use of their development assistance and have set terms for such assistance that have greatly reduced its value to developing countries. The most damaging of these practices are: the tying of development loans to procurement in the lending country; the promotion of exports by industrial countries on terms that lead to serious debt servicing problems for developing countries, and the imposition of a wide range of cumbersome and costly administrative restrictions on lending.

If the United States were to act alone in changing many of these practices, it would yield trade and financial advantages to the other industrial countries, thus discouraging domestic political support for development assistance. Other industrial countries are in the same position. However, if all the lending countries acted together, they would minimize the cost to each of restoring more efficient procedures.

Untying Development Lending. Total bilateral development lending that is effectively tied to procurement in the lending countries is estimated at \$2 billion—half from the United States and half from all the other industrial countries combined. This amount does not include agricultural commodity development assistance, or official export credits (which are necessarily tied), or technical assistance, supporting assistance, or budget subsidies. The restrictions in development lending are estimated to reduce the value to developing countries of these loans by about 15 percent—or \$300 million a year.

The Task Force recommends that the United States propose that all industrial countries agree to untie their bilateral development lending—permitting the developing countries to use these loans for procurement from the cheapest source on a competitive-bid basis.

The balance-of-payments cost to the United States of this proposal is estimated to be relatively small. In any event, the full effect would not be felt until some years from now. It would be even smaller if the United States improved its competitive position in world trade. The creation of new international reserves, which improves worldwide liquidity and was designed to help countries remove restrictions on trade and payments, provides further support for actions to untie development lending on a multilateral basis.

Untying development lending would help to create a better international climate for development. It could stimulate investment, production, and trade in all developing countries.

The Task Force recommends two actions that the United States could take alone:

—Permit goods and services financed under U.S. development loans to be purchased in all developing countries as well as in the United States. Latin American countries have recently been authorized to compete in

the sale of goods and services under all U.S. development loans made in Latin America.

--Remove the procurement restriction in the U.S. investment guarantee program. This restriction unfairly impinges on the flexibility of U.S. investors, discouraging such investment without providing significant balance-of-payments benefits to the United States.

Better Debt Rescheduling Arrangements. The current public and publicly guaranteed debt of developing countries is close to \$50 billion--five times the level of a decade ago. The cost of servicing this debt has been increasing at the rate of 17 percent a year, or three times the rate at which the export earnings of these countries have risen. It is clear that these trends cannot continue.

The procedure up to now has been to reschedule the debt of countries about to default, usually as a result of extensive reliance on commercial credits or of financial mismanagement. The relief is short-term in nature and inadequate for dealing with the problem.

The debt situation for a number of developing countries, however, is long-term in nature and partly a consequence of loan terms the countries cannot handle. Keeping these countries on a short leash by emergency debt rescheduling operations does not show the necessary foresight. Countries with serious debt problems, in trying to avoid default, are likely to impose more internal and exchange restrictions and thereby intensify their future difficulties.

The Task Force recommends that the United States propose joint action--by the lending countries, the international lending institutions and the developing countries concerned--to devise a comprehensive strategy for dealing with this problem. This strategy should be put into effect to prevent an emergency--not to deal with one after it has arisen.

Over the decade ahead, joint action probably will be required to deal with the debt problems of perhaps five to ten countries. These countries now account for at least one-third of the outstanding debt. Such action should be initiated soon on a case-by-case basis. It should consist of an interrelated package that includes the following elements:

--The World Bank and the IMF should convene a meeting of representatives of the countries involved. These institutions should prepare debt-rescheduling proposals on the basis of the debtor country's long-term outlook--both for debt service and for export earnings.

--Each debtor country seeking debt renegotiation should demonstrate by its plans and policies that it is pursuing a coherent development program and appropriate fiscal and financial policies.

--Bilateral government and government-guaranteed credits should be rescheduled over a long term. The international lending institutions, however, should not be required to reschedule their outstanding loans. Rescheduling their loans would endanger the ability of international institutions to continue borrowing in capital markets.

—The IMF should be ready to provide standby credits as a part of this package. This would be useful for setting financial standards and for providing a transitional supplement to the countries' international reserves.

—Governments should agree on a ceiling for guaranteed commercial credits to a participating debtor country in any one year. Minimum maturities for these supplier credits should also be set by multilateral agreement.

—If agreement is reached on the above points, all bilateral lenders should agree to provide the most concessional terms on new lending to the participating debtor country. These countries should also be given priority in receiving IDA loans.

In addition to rescheduling the debts of countries that already have reached or exceeded the limits of serviceable indebtedness, the creditor countries should design their assistance policies to keep other developing countries from facing debt difficulties. The best way to do this is for all developed countries to improve the terms of their development assistance.

Administrative Flexibility. A large number of statutory and procedural requirements now make the administration of U.S. foreign assistance excessively cumbersome. An estimate prepared for the Task Force indicates that the equivalent of 700 full-time officials now is required to see that these regulations are followed.

Some of these restrictions reflect an attempt to use development assistance for foreign policy purposes that it never was designed to achieve. Others lead to an excessive multiplication of regulations. Often the complications arising out of these restrictions outweigh any intended benefits. However, some are designed to ensure good accounting practices.

A new approach to foreign assistance will provide an opportunity to make a fresh start. Procedural requirements and political limitations that are necessary for effective programs should be recast in forms that are manageable. Those that unnecessarily encumber the program and reduce its flexibility should not be carried forward.

In sum, the Task Force believes that legislation incorporating the proposals in this report should be based on the principle that administrators are accountable for achieving objectives. Restrictions on operations should be held to a minimum.

Coordination Issues: A U.S. International Development Council

Presidential interests in international development are not adequately served by existing decisionmaking machinery. International development does not receive enough emphasis in the determination of U.S. trade, investment, financial, agricultural, and export-promotion policies. A number of departments and agencies have competing interests and responsibilities in this general area, with the result that too many issues go to the President for

resolution. Furthermore, opportunities to take initiatives in policies toward developing countries are sometimes lost.

The Task Force recommends creation of a U.S. International Development Council to coordinate U.S. international development activities and relate them to U.S. foreign policy. The Chairman of the Council should be a full-time official appointed by the President. He should be located in the White House and be served by a small high-level staff.

The Council should consist of the Secretaries of State, Treasury, and Agriculture, the President's Special Trade Representative, the President of the Export-Import Bank, the Director of the Peace Corps, the President of the U.S. International Development Bank, the Director of the U.S. International Development Institute, and the President of the Overseas Private Investment Corporation.

As a means of keeping the Congress and the American public fully informed, the Council should prepare for the President an annual report on international development activities, which he would submit to the Congress. Establishment of a joint committee of the Congress to review the President's report would contribute to a better understanding of international development goals, policies, and results.

Responsibilities in Washington. The mission of the Council would be to assure consistency among U.S. development programs, the positions taken in international agencies and forums, and the actions taken on trade and financial issues, relating to developing countries.

The President would look to the Chairman and the Council to:

- formulate basic international development strategy;
- relate assistance programs to this strategy;
- review, on a continuing basis, bilateral and multilateral assistance policies and programs;
- focus high-level attention on the consequences for international development of U.S. policy decisions in agriculture, trade, investment, and international finance;
- deal with coordination problems among U.S. Government agencies; and
- assure a consistent presentation of Administration views on international development to Congress and to international forums.

The Chairman of the Council would look to the Secretary of State for overall foreign policy guidance. The Secretary would continue to be responsible for assuring that U.S. programs in specific countries are consistent with U.S. foreign policy, and for conducting negotiations.

The Secretary of the Treasury would continue to have primary responsibility for dealing with international financial institutions. However, the Treasury Department, together with other agencies with responsibilities toward international organizations, would be guided on development aspects of policy by the U.S. International Development Council.

Responsibilities in the Field. The ambassador would continue to have responsibility for all U.S. activities in the country to which he is accredited.

The recommended program for reorganizing foreign assistance calls for much smaller field representation than now exists. The U.S. International Development Bank and the U.S. International Development Institute will need regional representatives and in some cases country representatives, but the principal operating decisions will be made in Washington. In countries where the United States has large bilateral programs or special development interests, foreign service officers trained in development problems should be assigned to the U.S. Embassy. Furthermore, the State Department should look to leading outside experts in the development field to undertake such assignments. These specialists could make a substantial contribution to development planning and be responsible for discussing development problems, development projects, and development assistance with host governments.

Budgetary Implications and the Level of U.S. Foreign Assistance

The appropriate level of U.S. foreign assistance must be examined in the context of national priorities and the means available to meet them. What the United States can afford now—given urgent domestic requirements, the cost of fighting the war, other high national security costs, the balance-of-payments position, and an overriding need to contain inflationary pressures—will differ from what would be appropriate under a more favorable environment.

Moreover, this is only one side of the coin. The other side is a convincing determination that these resources can, and will, be used effectively.

Foreign assistance, like domestic programs, cannot be changed drastically from year to year without either a sacrifice of the goals the United States seeks or damage to the means for achieving them. Foreign assistance involves continuing programs, the actions of many other nations, and a functioning international framework—for all of which the position of the United States is of the greatest importance. This highlights the need for timely approval of the 1971 foreign assistance budget. Disruption of the U.S. program could undermine the entire system of international cooperation in this field.

The downward trend in U.S. development assistance appropriations should be reversed. Additional U.S. resources could be used effectively now for international development. To underwrite a new approach to foreign assistance, additional financing for international lending institutions and assured capitalization for U.S. bilateral lending and technical assistance are needed.

To sum up the budgetary implications, we have recommended:

—an increase of \$500 million in annual U.S. contributions to international financial institutions by 1972. Thereafter U.S. development assistance for international financial institutions should be increased as rapidly as is consistent with its effective use and with the willingness of other industrial countries to increase their contributions to such institutions;

—an increase in U.S. subscriptions to the callable capital of these institutions, as needed;

—multiyear capitalization of \$2 billion for a new U.S. International Development Bank through appropriations, and authority to borrow \$2 billion from the public to be used as and when needed. In addition, the Bank would make use of payments of interest and principal on outstanding loans. These payments are about \$200 million a year now and will be about \$300 million by 1975; and

—multiyear authorization of \$1 billion for a new U.S. International Development Institute.

The amount of development assistance the United States would provide in any one year would depend on a continuing assessment of needs and performance in individual developing countries.

The Task force has deliberately decided against recommending any specific annual level of foreign assistance. Assurance on how funds will be used and the establishment of organizations that can effectively further national interests should come first. We do believe, however, that the currently low level of economic development assistance must be raised substantially.

The Task Force shares the belief of the Pearson Commission that acceleration of international development is important to the well-being of the world and that over time a large increase in development assistance is necessary.

The Task Force has reservations, however, about the usefulness of any formula to determine how much assistance the industrial countries should provide. This approach puts the emphasis on the wrong side of the partnership. Instead, the starting point and the test should be the determination of developing countries to mobilize their own resources and to adopt policies that will ensure the effective use of funds. On evidence of good performance and of demonstrated need by the developing countries, the industrial countries should be prepared to make available the necessary amount of development assistance. In the end, this may mean greater or less assistance than would be called for by any predetermined formula.

These considerations aside, a uniform development assistance yardstick for all industrial countries would make no allowance for the international responsibilities the United States carries. The United States now devotes 7 percent of its GNP for defense expenditures. In part, these security responsibilities make it possible for our allies to spend less themselves on military security. As a group, their defense expenditures as a percentage of GNP are perhaps half those of the United States.

Other factors in burden sharing are worth noting. Despite a 10-year attempt in international forums to arrive at a uniform definition of development assistance, problems still exist. Each of the industrial countries in following its national interest emphasizes various kinds of resource flows. Development lending, however, should be the decisive element for all countries in burden sharing—not such special factors as loans to promote exports or political budget support of one kind or another.

Trade policy should also be taken into account—specifically, the value of preferential arrangements and measures taken to open markets to imports of manufactured and agricultural commodities from developing countries. Although they are difficult to measure, trade benefits have a multiplier effect on development.

In sum, the Task Force believes that the United States should keep to a steady course prepared to help finance development in those countries demonstrating the will to advance. As the world's largest industrial power, the United States should participate fully with all other industrial countries in such an effort.

This country now spends \$6.5 billion on foreign assistance, 40 percent of which is related directly to the war in Vietnam. As the United States moves from war to peace, a change in the mix of these programs from military assistance to international development assistance could give us more leeway to support to the full the resolve and the purpose that developing countries demonstrate.

* * *

With this approach, Mr. President, the Task Force believes that this country can take up the challenge of international development in a way that adds a new dimension to U.S. foreign policy and creates a broad and hopeful vision of the world and its future. Americans, young and old, can then take renewed pride in playing a constructive world role and in meeting the obligations of global citizenship.

The United States in the future can act more in partnership with others—the developing nations and the industrial nations. All are increasingly capable of assuming responsibilities and of providing resources. All have growing stakes in the results. As you said, “forging a new structure of world stability in which the burden as well as the benefits are fairly shared” is a primary aim of U.S. policy.

* * *

The members of your task force have found this assignment to be interesting and important. We hope this report will be useful to you and to the Nation.

Respectfully submitted,

(Signed) RUDOLPH A. PETERSON, *Chairman*
EARL L. BUTZ
WILLIAM J. CASEY
TERENCE CARDINAL COOKE
JOHN E. COUNTRYMAN
THOMAS B. CURTIS
R. BURT GOOKIN
WILLIAM T. GOSSETT
WALTER A. HASS, JR.
GOTTFRIED HABERLER
WILLIAM A. HEWITT
SAMUEL P. HUNTINGTON
EDWARD S. MASON
DAVID ROCKEFELLER
ROBERT V. ROOSA
ROBERT J. WOOD