80th Congress
2d Session

COMMITTEE PRINT

ADMINISTRATION OF UNITED STATES AID FOR A EUROPEAN RECOVERY PROGRAM

REPORT

TO THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

ON

ADMINISTRATION OF UNITED STATES AID FOR A EUROPEAN RECOVERY PROGRAM

Submitted at the request of the Chairman of the Committee

by

THE BROOKINGS INSTITUTION

January 22, 1948

Printed for the use of the Committee on Foreign Relations

UNITED STATES
GOVERNMENT PRINTING OFFICE
70652 WASHINGTON : 1948

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INTRODUCTORY NOTE

Even before the Committee on Foreign Relations began its study of the European recovery program it was apparent that the major problems involved in the administration of such a program deserved very careful consideration. Accordingly, on December 30, 1947, the chairman of the committee requested the Brookings Institution to prepare a brief analysis of the main administrative proposals that have been put forward, taking into account the experience of our Government with respect to similar programs during recent years. It was believed that as a result of such a study certain basic principles might emerge which would be of assistance to the committee in its attempt to find the type of administrative organization that would help insure an effective ERP.

The report of the Brookings Institution is printed herewith for the use of the Senate and the Committee on Foreign Relations. The conclusions of the Brookings Institution will be found on pages 15 to 20.

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REPORT ON ADMINISTRATION OF UNITED STATES AID FOR A EUROPEAN RECOVERY PROGRAM

INTRODUCTION

This report on the administration of United States aid for a European recovery program has been prepared at the request of the chairman of the Committee on Foreign Relations of the United States Senate. In his request, the chairman asked the Brookings Institution to undertake a rapid review and analysis of the principal proposals that have been made for the administration of the program, taking into account the experience with the administration of similar programs during the past few years. Upon the basis of this study, an independent appraisal was requested of the requirements for an administrative organization that would insure maximum business efficiency in proper coordination with other aspects of our foreign policy and the conduct of foreign relations.

In this undertaking, a review has been made of the three major proposals emanating from within the Government, namely the report by the President's Committee on Foreign Aid (known as the Harriman committee); the reports of the House Select Committee on Foreign Aid (known as the Herter committee) and the bill, H. R. 4579 (the Herter bill), that embodies the recommendations of the committee; and the special message from the President to the Congress on December 19, 1947, together with the draft bill (subsequently introduced as H. R. 4840) and the supporting report submitted by the Department of State. Extensive consultations were held with many persons who participated in the preparation of the foregoing proposals and consideration was given to the bases upon which their conclusions were drawn.

Account has also been taken of the proposals for administration of the program that have been put forward by private organizations, such as the Chamber of Commerce of the United States, the National Association of Manufacturers, the National Foreign Trade Council, the Congress of Industrial Organizations, and the National Planning Association—to name only a few—and of proposals and suggestions of a more informal nature made by private individuals both inside and outside the Government. Finally, recent American programs for overseas relief, economic development, and aid were reviewed by members of our staff who have had extensive experience in this general field.

The results of this study and the conclusions reached are presented in the three parts of this report. Part 1 outlines briefly the nature of the administrative problems involved in the proposed European re-

covery program. The outstanding issues that the Congress faces in determining the character of the administrative arrangements for the program are set forth in part 2, together with a summary of the main arguments that have been advanced with respect to each issue. Part 3 states the conclusions reached.

Part 1. The Nature of the Problem

The administration of United States aid for a European recovery program, in its manifold policy and operating aspects, must be considered in relation to the basic objectives of the program. The central purpose is to help the participating countries, individually and as a group, to help themselves in achieving economic stability and in strengthening free institutions. The attainment of this purpose requires the operation of a gigantic foreign economic program, which, in some of its phases, partakes of the character of business enterprise. But the administration of the program is not merely a business matter. In the nature of the case, the program involves relations among sovereign nations and is, therefore, inextricably bound up with a wide range of United States foreign policies at the highest level of government.

Once Congress approves the program, bilateral agreements must be negotiated by the United States Government with each participating European country, under which the latter will be required to accept certain obligations, varying according to circumstances, as a condition of receiving aid. Simultaneously, some arrangements will have to be worked out with the over-all continuing organization that it is expected will be created in Europe by multilateral agreement among the participating countries. From time to time there will be need for subsequent negotiations involving possible modifications of these basic agreements. The program thus calls for the initial establishment and possible later revision of a new set of relationships among a large number of governments. It also calls for special liaison with a number of existing and contemplated international organizations, both European and general, in addition to the special organization set up by the participating countries.

The day-to-day administrative operations of the program will take place within the framework provided by this complex of agreements. The supplying of the goods and services under these agreements cannot be handled simply by turning an experienced purchasing agent loose with the requisite funds. A program must first be planned—in relation to the specific needs of each of the participating countries and with due regard to available supplies in the United States, as well as to the possibility of obtaining some portion of the materials from other countries. There is thus required a wide knowledge of economic conditions in Europe, the capacity of the domestic economy, possibilities in international trade, and negotiations with foreign governments, as well as skill in routine business operations.

Since one of the objectives of the program is to promote rather than retard the resumption of commercial operations between countries, much of the procurement is expected to be carried out through normal business channels. Such purchases will, however, have to

be guided by the administration to insure conformity with the program. Export controls, priorities, and powers of allocation will doubtless be required in some cases to lessen the adverse effect on the domestic economy. Provision will have to be made for the efficient use of transport facilities within the United States and in overseas shipments. The employment of overseas transportation raises such questions of policy as the distribution of cargoes between United States and foreign-flag vessels, those concerning the sale or charter of United States Government-owned ships, the interests of the United States merchant marine and the national defense, and problems of coordination in procurement and operation of shipping. Important decisions will also need to be made on a wide range of financial problems, relating both to the expenditure of Government funds and to the stimulation of private financing.

Many of these activities will have a direct bearing on the capacity, health, and strength of the American economy and, from this standpoint, they are obviously not exclusively the concern of the administration of the European recovery program. In some cases the direct assistance of many departments of the Government will be necessary. The decisions to be made affect the policies not only of the Department of State, but also in some instances the Departments of the Treasury, Commerce, and Agriculture, the Military Establishment, the Maritime Commission, and other agencies of the Government.

At the European end, the administrative problems are of the most diverse character. The administration will be concerned, in every participating country, with such problems as the following: The adequacy of recovery programs; methods of allocating, distributing, and using American supplies; trends in export and import trade, including trade with nonparticipating European countries; currency reform and exchange stabilization; fiscal policies; the use and control of local currencies deposited in earmarked or special accounts; and facilitating the sale of special materials to the United States for stock piling and other purposes. In connection with joint undertakings that transcend the efforts of particular countries, the administration will need to collaborate closely with the organization established for that purpose by the participating countries.

To prevent the possibility of dissipating or misusing the aid given, it is vitally important that the administration set up certain tests by which to gauge the general progress of the program as a whole and the degree of compliance on the part of the European countries individually and collectively. Such tests must be worked out with responsible officials of the European governments. Because of constantly changing conditions the administration will need to have discretion within the framework of the commitments made in the governing agreements. It is obvious that such decisions have an important bearing on many aspects of American foreign policy, especially if occasions arise for the termination of aid.

Western Germany will present many special problems, whether American economic operations there are integrated with the program worked out for the 16 European countries or merely coordinated with it. The situation in Germany differs, however, from that in the other

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countries because there is no sovereign German Government with which to deal, and direct operations are therefore involved. These operations are complicated by the fact that they need to be coordinated with the operations of the other two occupying powers, Great Britain and France.

Two things are evident from this brief outline of the nature of the program: First, the administrative task is one of extraordinary magnitude and complexity, requiring an unusual combination of experience, skill, and judgment; and second, it is neither a purely business job nor a purely governmental operation, but a mixture of both. The problem before the Congress is thus to create administrative machinery that will insure an effective carrying out of the business aspects of the program in proper coordination with the requirements of our domestic economy and at the same time promote to the fullest possible extent the attainment of the Nation's foreign-policy objectives.

Part 2. Outstanding Issues

The major issues that the Congress faces in determining the character of the administrative arrangements for the European recovery program arise both from differences in evaluations of tasks to be performed and from varying interpretations of the results of the administrative experience of the Government, especially during and since the war, in administering similar programs.

Despite these differences, current proposals for administering the program seem to be in agreement on the following points:

1. *A new agency.*—Primary responsibility for administering the program should be lodged in a new temporary administrative agency. Success of the program is so important to the national well-being of the United States that the organizational arrangements for the agency should be designed to attract men of outstanding ability to the Government for service in it.

2. *The need for flexibility.*—The unpredictable situations that may have to be faced and the speed that is necessary in carrying out the program if it is to be effective, require that a large degree of financial and administrative flexibility should be inherent in any organization that is established.

3. *Organization abroad.*—The operations required in Europe are of such primary importance that an overseas organization will be essential.

Beyond these areas of agreement, however, lie many issues that must be resolved in prescribing the administrative arrangements for the program. Some of these must be determined by the Congress. Others may be left for later administrative determination, provided that the Congress lays down the guiding principles. The issues outlined in this section do not comprise all of the many issues that must be faced. But they appear to be of key importance in determining the character of the administrative arrangements that should be established.

To clarify the problem and sharpen the discussion the main alternatives that have been proposed for the solution of these outstanding issues are presented below. For purposes of discussion, the issues are grouped into three broad categories:

(1) Those relating to the status in the Government of the new agency, especially its relationship to the Department of State, and the organizational form and structure of the agency;

(2) Those involved in the assignment of administrative responsibilities for the execution of the program; and

(3) Those covering the form and responsibilities of the overseas organization for the program.

Conclusions with respect to these various issues are reserved for part 3 of this report.

I. STATUS AND FORM OF THE NEW AGENCY.

Although there is general agreement that the Congress should establish a single agency that would be primarily responsible for administering United States aid for a European recovery program, there are wide differences of opinion on two points: (1) The status in the Government to be given the new agency; and (2) its organizational form and structure.

1. Status of the new agency

There are varying opinions on the degree of autonomy to be given the new agency, and these are reflected in current proposals. At the core of this issue is the perplexing and important question of the relation between the new agency and the Department of State. There appear to be four main alternatives:

(1) A new agency within the Department of State, internally autonomous but directly subject to the authority of the Secretary of State, and the head of it ranking with, but after, the Under Secretary of State;

(2) An agency separate from the Department of State but subject to the direction and control of the Secretary of State in all matters affecting the conduct of foreign policy;

(3) A "separate" agency in the executive branch of the Government, subject only to the direction and control of the President in his role as the Chief Executive; and

(4) An "independent" agency, independent in the sense that it would be largely free from the control of the Chief Executive, as is the case with many of the Government corporations and of the independent agencies and commissions that perform regulatory or quasi-judicial functions.

Creation of an internally autonomous agency within the Department of State and directly subject to the authority of the Secretary of State would, it is argued, clarify once and for all the relation of the head of the new agency to the Secretary of State and in this manner would insure unified action in foreign policy and fix accountability both to the President and to the Congress. Against this it is argued that the proposal would impose on the Secretary of State responsibilities for procurement, allocation, and delivery of goods and services that would inject him into domestic agricultural, industrial, and financial problems extending far beyond the usual responsibilities of the Department of State.

The alternative of separating the agency from the Department of State and subjecting it to the direction and control of the Secretary

of State only in matters affecting the conduct of foreign policy would, it is claimed, concentrate in the new agency all the functions relating to domestic and foreign operations of procurement and delivery that are of a business nature, and leave only the foreign-policy aspects of the program subject to control by the Secretary of State. On the other hand, it is argued that the division of authority under this proposal would inevitably lead to administrative conflicts between the head of the new agency and the Secretary of State, which the President ultimately would have to settle in his role both as the Chief Executive and as the official charged by the Constitution with the conduct of the foreign relations of the United States.

The creation of a separate agency in the executive branch of the Government subject only to the direction and control of the President would have the great advantages, it is claimed, both of insuring centralization of responsibility and unity of administration and of giving ultimate authority to the President in his constitutional role of responsibility for the conduct of United States foreign relations. Against this it is argued that this proposal would lead to greater administrative conflicts than in the previous alternative, since the legislative division of responsibility would be greater with the consequent risk of impairing the prestige and authority of the Secretary of State as the usual spokesman for the United States in foreign-policy matters. One current proposal seeks to meet this argument by making the Secretary of State a member of the advisory board to the head of the new agency, the board having the power "to establish and adjust general policies" for the agency.

Another argument made against the proposal for a separate agency subject to Presidential control is that such an agency would be more susceptible to "politics" in its administrative operations. Establishment of an "independent" agency would, it is claimed, overcome this difficulty by placing the agency in the position of being able to perform its functions in a nonpartisan fashion and thus to eliminate any suspicion of "politics" in its operations. The counterargument, however, is that it might in effect remove from Presidential control an important part of his constitutional responsibility for the conduct of the foreign relations of the United States. A current proposal for an "independent" agency would meet this objection by requiring the "establishment" by the President of the "programs of United States aid to foreign countries, and policies in connection therewith" that the agency would have to follow.

2. Organizational form and structure

The issue of what form and structure to give the new agency has two principal aspects:

(1) The choice between a corporate or a noncorporate form of organization; and

(2) The choice between direction by a single administrator or by a board or commission.

The two questions are dealt with here independently of each other, because there appears to be nothing inherent in the corporate form of organization to require a board instead of a single administrator to head the new agency. In fact, one current proposal is for a corpora-

tion headed by an administrator. Similarly there appears to be nothing inherent in the noncorporate form to require a single administrator instead of a board.

The principal advantages claimed for the corporate form of organization are twofold: First, that it would have great financial and administrative flexibility because it would be free from the normal Government regulations relating to procurement, personnel, and auditing; and second, that it would be more "business-like" because it could enter into contracts, sue and be sued, settle claims in its own name, and in general use ordinary business financial controls and practices in a program that is essentially of a business character. Against this it is argued that the administrative and financial flexibility of a corporate form may be obtained in the noncorporate form by giving the new agency the necessary exemption from the provisions of law normally governing procurement, personnel, and auditing. It is argued further that the business analogy should not be pushed too far because that would be placing undue emphasis on the business features at the expense of the foreign policy and other governmental features of the program.

Regardless of whether the new agency was of the corporate or noncorporate form, it is claimed that with a single administrator at the head of it the centralization of control and responsibility for operations under the European recovery program would be assured and the rapid administrative decisions that will be required could be made. But against this it is argued that too much power would be concentrated in one individual for the large financial outlays and for the basic policy decisions that will be required under the program.

To deal with this latter point, it has been proposed that the Congress should create an advisory board to the administrator with power to establish and adjust general policies, but with the clear understanding that the operating decisions should be made by the head of the new agency. Two separate arguments, however, are made against this proposal. First, it is claimed that Congress should not establish such a body by law but that if experience indicates that the administrator would benefit from the advice of a consultative body it could be established at any time by Executive order. Second, it is argued that an advisory board is not enough and that the control of the operations should be vested in a bipartisan or nonpartisan board of private persons, possessing the necessary business experience, judgment, and managerial capacity to achieve the maximum benefits of which the program is capable. This would assure, it is claimed, broad representation in the determination of the policies and operations of the new agency and thus would assist in maintaining public confidence that the program was being carried out in the best interests of the country as a whole. Against this second type of argument, it is claimed experience has shown that the board type of organization is unwieldy, which militates against rapid operating decisions and flexibility in administration. Public confidence in the operations of the new agency could be instilled, it is argued, by the creation of an advisory group consisting of representatives of the public, business, agriculture, and labor, on lines similar to the group in the Office of War Mobilization and Reconversion.

II. RESPONSIBILITY FOR THE EXECUTION OF THE PROGRAM

The issues arising out of the assignment of general responsibilities for the execution of the program center around seven principal points. First there is the question of the administrative determination of broad programs and general operating policies, all within the framework of the over-all limitations on European aid prescribed by the Congress. Closely related to this are two other issues: The negotiation of agreements with foreign governments; and the control of the funds that are made available for the program. Next are four issues directly connected with facilitating the procurement and delivery of United States aid; determination of the methods of financing; the manner in which the services and facilities of existing Federal agencies are to be utilized; the administration of export controls; and what responsibilities, if any, the new agency is to have in relation to other foreign-aid programs undertaken with United States funds.

All these issues must be viewed in the light of the generally agreed opinion that financial and administrative flexibility must prevail in the execution of the program.

1. Broad programs and general policies

Important problems arise because requirements for United States aid under the European recovery program must be fitted in with United States exports to other parts of the world. Existing agencies of the Government, especially the Departments of the Treasury, Commerce, Agriculture, Interior, Labor, the National Military Establishment, and the Maritime Commission are concerned with the impact on the American economy of foreign requirements for United States exports. Some of these departments, in addition to the Department of State, also have an interest in the foreign aspects of the problems, and the over-all decisions of national policy that concern several departments may ultimately require Presidential decision.

This issue has three principal features: (*a*) The agency that should, in the first instance, be responsible for initiating and sponsoring programs and operating policies for European aid; (*b*) the extent of the participation of other Federal agencies in the formulating process; and (*c*) the mechanism needed to insure cordination of European aid with other domestic and foreign policies of the United States before final approval is given.

There are two main proposals for the agency that is to initiate and sponsor the program and policies: The new agency that would be established to administer the program; or another agency, often suggested as being one that would be a part of the office of the President. Proponents of the plan for using the new agency for this purpose argue that unless the agency principally responsible for administering the aid is also responsible for initiating programs and policies for it, administrative confusion is sure to result. Those who favor using a small, central planning agency claim that the problem is larger than developing programs and policies for European aid, and that an over-all agency would maintain the impartiality that is required.

It is implicit in all the major proposals that while primary responsibility for initiating and sponsoring programs and policies should rest

with one agency, the latter would have to establish relations at the working level with other agencies concerned. The advantages of establishing these interconnections are obvious. Any counterargument would have to rest on the assumption that the single agency could take sole responsibility for all economic activity in the foreign and domestic fields, including even the determination of the availability of commodities for consumption in the United States. None of the current proposals has gone as far as this. The crux of the administrative problem, however, is to determine the mechanism for giving weight to the views of the different agencies, and for resolving conflicts between them, in establishing the programs and policies for European aid. On the one hand it is argued that the authorizing legislation should prescribe this mechanism in detail and clearly fix responsibilities and procedures. Against this it is argued that to do so would reduce administrative flexibility, especially since most of the current proposals assume that the President as Chief Executive would be responsible in the final analysis for resolving conflicts among the agencies. Therefore, he should, it is claimed, be given the freedom to establish such new procedures as he may deem necessary, or to continue those now in existence.

2. Negotiation of agreements with foreign countries

This issue depends largely on the relation that is to prevail between the new agency and the Department of State. It arises principally with respect to the basic and subsidiary agreements with participating European governments, but to some extent it also affects negotiations that may be required with non-European governments concerning the procurement and financing of "offshore" assistance. There appear to be three possible solutions. Primary responsibility for negotiating the agreements might be lodged by legislation in (*a*) the new agency, (*b*) the Department of State, or (*c*) the President.

No proposal so far made lodges complete responsibility in the new agency, and the arguments deal with the degree in which the President or other agencies should participate. The proponents of placing maximum responsibility with the new agency argue that it is necessary to fix responsibility for these negotiations where, from the practical point of view, they belong, namely, in the agency charged with the successful operation of the program. The main counterargument is that this would remove the primary responsibility from the place where it constitutionally belongs, namely, with the President or, by his delegation, with the Secretary of State.

To justify placing responsibility with the Secretary of State the further arguments are added that this is necessary to avoid the risk of having two foreign policies, and that only the basic agreements are to be negotiated by the Department of State in consultation with the new agency, the latter being free to negotiate subsequent subsidiary agreements in consultation with other appropriate agencies.

Finally, the argument is advanced for placing the responsibility with the President on the ground that from the constitutional standpoint that is where it legally belongs. On the other hand, it is pointed out that since the President will in practice delegate this authority to the Secretary of State or some other officer of the Government, this fact should be recognized in framing legislation.

3. Control of the funds

Administrative control of the funds that will be appropriated for European aid is especially important from the standpoint of determining the over-all programs and policies to be followed. The alternatives that have been proposed are to vest control in (*a*) the new agency, and (*b*) the President.

The argument advanced for vesting control of the funds in the new agency, through direct appropriation to it, is that centralization of responsibility and accountability for the operations of the program would thereby be increased. Against this it is argued that the control of the funds should lie with the President through direct appropriation to him because otherwise expenditure might be made in a manner detrimental to United States foreign relations or too late adequately to further them. In the latter possibility, the question would arise whether the new agency, if given exclusive control, would at any time be invading the constitutional prerogatives of the President.

4. Determination of methods of financing

The fundamental question under this issue refers to the choice between the alternatives of (*a*) strict congressional control through legislative definition of methods to be used, and (*b*) leaving discretion to the new agency in the interest of administrative flexibility.

It is argued that there should be a clear delimitation of functions between the new agency and the Export-Import Bank, and that the responsibilities of each under the European-aid program should be fixed by legislation. Current proposals would give to the new agency the primary function of administering only that part of the aid program, consisting principally of food, fuels, and fertilizer, that must be, for the most part, provided in the form of grants, and would assign to the Export-Import Bank the responsibility for all loans covering commodities to be processed and certain types of specialized equipment. This would be done on the assumption that the International Bank would provide the necessary loans for capital expansion. It is claimed that in this way confusion would be avoided that might result from granting in the form of loans advances that are in reality grants, and that a careful and rigid distinction between the two would encourage the flow of private investment by eliminating from the obligations of the recipient countries debts that had not been incurred with any genuine expectation of repayment.

On the other hand, the main argument advanced for leaving discretion to the agency in this important matter is that the program as it develops will change considerably the needs for financing particular commodities to particular destinations. An attempt to define beforehand methods of financing by types of assistance would prevent the new administration from varying the methods in accordance with the changing circumstances in the recipient countries affecting their ability to make payment. It is also argued that, within the loan category of assistance, there is need of considerable flexibility with a view to taking advantage of all opportunities to enlist private capital, including the financing of raw materials and equipment necessary to expand the operation of existing European productive facilities. Furthermore, it is pointed out that in the absence of legislative definition of methods

of financing, the Congress would still retain a general control over developing the program because of the necessity of making annual appropriations. Finally, it is claimed that discretion and flexibility in the administration of the aid could be combined with legislative direction to consult with the National Advisory Council and to make use of existing agencies, for the purpose of integrating the financial operations of the program with the established mechanisms for determining the over-all international monetary and investment policy of the United States.

5. Utilization of existing Federal agencies

Existing agencies are already performing important functions of the type involved in the procurement and delivery of aid to Europe, especially the Departments of the Treasury, Agriculture, Interior, Commerce, Army, the Office of Defense Transportation, and the Interstate Commerce Commission. The alternatives are (*a*) to make the most of these existing agencies, or (*b*) to combine all the necessary functions in the new agency.

The argument advanced for using, to the greatest extent practicable, existing machinery as it stands is that to transfer staffs and functions from existing agencies to the new agency would not only require drastic changes in the permanent administrative departments for a purpose that is only temporary, but would also seriously affect the efficiency of operations geared, as they currently are, to the framework and coordinated operations of their respective agencies. On the other hand, it is argued that unless these operations were to be utilized by transferring them to the immediate direction and control of the new agency, there would be not only extensive duplication between the staff and operations of the new agency and those of existing agencies to the detriment of the program, but also the risk of too great a diffusion of operating decisions. To meet this latter point, it is claimed that machinery could be created for the centralization and coordination of decisions. And the further claim is made that in respect to some functions, especially the direction of overseas shipping, such machinery will have to be created regardless of whether the functions are allowed to remain in existing agencies or are transferred to the new agency.

6. Administration of export controls

Special importance attaches to this issue because of the world-wide range of United States exports. The alternatives proposed are: (*a*) To retain the present arrangements; and (*b*) to transfer the administration of the controls to the new agency.

The argument advanced for retaining the operation of export controls in the Department of Commerce, in consultation with the new agency and other agencies concerned, is that a balance must be struck between the total needs of European countries, which the new agency will present, and the needs of the United States and the rest of the world, which other agencies will present. In the event of a dispute between the new agency and the Department of Commerce or other agencies, the settlement of it would, as in other cases, require appeal to the President as Chief Executive. It is pointed out that it would be a disadvantage if, by centralizing powers over export controls in the new agency, the latter was compelled to act as both advocate and judge in passing on European claims.

Those who favor placing in the new agency all responsibility for administering export controls base their argument primarily on the claim that administration of these controls on an over-all basis by a second agency would handicap the rapid and efficient administration of the European recovery program by the new agency, since the greatest need for the use of export controls would arise from the requirements of the aid program.

7. Administration of other aid programs

It is generally assumed that the interim-aid program now being administered by the Department of State will be transferred to the new agency. Two other major problems remain, however: The responsibility of the new agency for administering economic rehabilitation and reconstruction of western Germany in the European recovery program, and for all other foreign-aid programs, including such programs as Greek-Turkish aid and possible future programs of greater aid to such areas as China and Latin America. The alternatives are (*a*) to concentrate operations similar to or connected with those to be performed in the European program in the new agency or (*b*) to disperse the operations among other agencies.

Germany presents an issue of immediate and critical importance because of its central position in the European economic system. At present the Department of the Army is the responsible operating agency, although it has been suggested that a civil administration may soon supersede the Army in some of its functions. Whatever step is taken in this direction, the Army will still be responsible in some respects as the occupation authority, and the need will arise for coordination of activities.

The argument advanced for centering the relevant economic functions for Germany in the new agency is that it would be best equipped to deal, as a part of the over-all program, with the complicated economic problems of German reconstruction. Against adopting this course it is argued that the political and military aspects of the German problem are so intertwined with the economic that it would be disadvantageous to make the new agency mainly responsible for the economic functions. It is claimed, however, that provided there was proper consultation with the Departments of State and Army, the new agency might well make requests to the Congress for aid to Germany as part of its over-all program.

It is pointed out that the advantage of consolidating the administration of all other programs of foreign aid, regardless of type, in the new agency is that it would avoid the difficulties experienced during and after the war from the dispersal of programs among agencies. On the other hand, programs such as the current aid to Greece and Turkey have certain military features which, it is argued, make it impossible to administer them on the more businesslike basis contemplated for the European-aid program. In the case of possible future aid to Latin America, for example, it is argued that these military features might not be present so strongly, and that great advantages from the point of view of general programing and policy as well as operations would be derived from combining such future aid with the European program in a single agency.

III. FORM AND RESPONSIBILITIES OF THE OVERSEAS ORGANIZATION

Although there is general agreement that an overseas organization will be required in connection with the European recovery program, two major points are at issue: (1) The form of the organization in individual countries; and (2) the status and responsibilities of the chief representative for the program in Europe. Both of these, in turn, reflect the basic issue on the status of the new agency in the United States, especially its relation to the Department of State.

1. Form of the organization in individual countries

There is agreement that special representatives with appropriate staff will be required to administer the operations in each European country participating in the program. If the decision is made at the one extreme, however, that the new agency in the United States should be separate in status from the Department of State, the question of whether there should be a separate overseas organization will be raised in its most acute form. On the other hand, if the decision is made at the other extreme, that the new agency should be wholly within the framework of the Department of State, the question may not appear so pressing. On the assumption that the new agency in the United States is separate in status from the Department of State, the form of the overseas organization would in large measure be determined by five decisions on subsidiary issues: (1) Procedures to be used for recruiting and appointing overseas personnel and the pay and allowances to be given them; (2) the line of responsibility between the new agency and the representatives overseas for the program; (3) whether the representatives overseas for the program should constitute a separate mission or be consolidated with existing United States diplomatic missions; (4) control over communications between the new agency and the overseas representatives for the program; and (5) the control, if any, to be exerted by the United States ambassadors over the negotiations undertaken between the overseas representatives for the program and the governments of foreign countries.

In order to attract qualified personnel from the business world for the overseas operations, it is claimed that the head of the new agency should be free to engage a staff with the necessary qualifications without being unduly restricted by regulations governing appointments and pay of Foreign Service reserve officers. On the other side it is argued that to use such recruitment and appointment procedures without regard to those used by the Department of State and to provide greater pay and privileges for the special personnel than the Foreign Service officers are now receiving would be disruptive of, and demoralizing to, the existing staffs of American missions abroad.

Special representatives for the program in the individual countries could report either directly to the head of the new agency or to him through the ambassador or the Department of State. Unity of authority and administration demands, it is argued, that the special representatives should report to the head of the new agency. On the other hand, it is argued that unless these representatives reported through the ambassador, there would be bound to be lack of coordination and

even conflicts between the ambassador and the special representatives, to the detriment of United States interests and objectives.

The argument in favor of maintaining a special mission for the program in each country is that the organization must preserve its own identity for efficiency in fitting its work in individual countries into the network of operations under the program. But it is also pointed out on the other side that if this mission were consolidated with the embassies, certain advantages would be obtained from closer relations between the staffs and from the joint use of services and facilities. A middle ground between the two has been suggested in providing that the head of the new agency organization in each individual country, even if the organization is a separate mission, should have direct access to the ambassador as an essential requirement in duplicating in the field the safeguards that would be established in the United States to protect foreign-policy objectives. The ambassador on his part should be informed of all activities of the mission.

An acute question is raised, however, regarding the control of communications between the representatives in the field and the new agency in the United States. On the one hand, communications between the two could take place without any provision that the ambassador or the Department of State be informed. On the other hand, all such communications could be subject to the complete control of the ambassador and the Department of State. Again a middle ground that has been suggested would be that of the ambassador having access to all communications between the special representative in Europe and the new agency in the United States. This procedure would not, it is claimed, prevent these representatives from communicating directly with the head of the new agency but the ambassador would have the right to comment and, if necessary, register objections from the standpoint of foreign policy before action was taken.

Negotiations and discussions between the special representatives for the program and the foreign governments is a problem similar to the above. It has been argued that such negotiations should not be subject to the control of the ambassador since operating problems would be for the most part involved. Against this, however, it is claimed that it is difficult to distinguish in such discussions and negotiations between policy and technical matters. A compromise between these two views has been suggested by giving to the representatives of the new agency the authority to conduct negotiations with representatives of a foreign government, while keeping the course of negotiations subject to comment and objection by the ambassador as the chief representative of the United States Government in that country.

2. Status and responsibilities of the chief representative in Europe

There appears to be general agreement that the chief representative should have ambassadorial rank and that he should be accredited to any continuing European organization for administering aid to Europe and possibly be the United States representative on the United Nations Economic Commission for Europe. The questions remain of the functions to be performed and whether the chief representative would be made responsible to the administrator of the new agency, to the President, or to the Secretary of State. The two questions are

interrelated, but it is argued that whatever the line of responsibility, in the interest of flexibility of administration, the functions and responsibilities of the chief representative should not be too closely defined by legislative enactment. On the other side, it is argued that explicit legislative provisions should be made on these points because of the importance of the position and the heavy responsibilities that might be involved.

The principal point at issue in regard to the functions of the chief representative is the extent to which he will have the power to direct the operations of the special representatives for the program in the individual countries. It is argued that he should be given considerable power in this respect in order to provide a focal point of administrative authority in Europe. Against this the argument is made that it might cut across the lines of authority between the head of the new agency and the special representatives in individual countries as well as confuse the relations between the new agency and the Department of State. It is claimed that in view of the inherent difficulty of deciding beforehand the relative merits of these alternatives, the functions of the chief representative should not be closely defined by legislation, but left to be worked out in the light of experience, although the necessity of giving him some coordinating function should be recognized.

Since the functions of the representative would in any event involve him in foreign-policy questions at a high level, an argument has been advanced for making him responsible directly to the President. The counterargument in favor of making him responsible directly and finally to the head of the new agency is based on the belief that this would contribute to maximum unity in the administration of the program, both in the United States and abroad.

Part 3. Conclusions

An examination of the issues involved in the establishment of an effective organization for the administration of the European recovery program, in the light of an appraisal of the complex nature of the problem and of the lessons of recent experience, leads us to the conclusions stated below. These conclusions relate to what in our judgment are the major requirements for such an organization and some of the main principles that should guide its establishment and operation. Attention is given only to those aspects of the problem which bear directly on the administrative arrangements for the European recovery program now under discussion.

1. Creation and status of a new agency

The magnitude and special character of the task to be performed require the creation of a new and separate operating agency. The activities involved in carrying out the program will constitute an important segment of the larger area of the conduct of United States foreign relations, for which the President is responsible under the Constitution. These activities will have a heavy impact on the policies and operations of other departments and agencies that deal with domestic affairs under the direction of the Chief Executive. The new agency could function effectively, therefore, only if it were to be made an integral part of the executive branch of the Government.

To place the new agency in the Department of State would impose upon the Secretary of State responsibility for a wide range of activities in the economic and business field. However, because of the responsibilities lodged in the Department of State with respect to the formulation and execution of foreign policies, it is essential that its position be adequately safeguarded.

Hence, a new and separate agency should be created in the executive branch of the Government to serve as the focal point of the administration of the program. It should function through effective working relations with the Department of State and the other agencies of the Government which are described below.

2. A single administrator of Cabinet status

Experience has demonstrated that in an operation of such magnitude, requiring speed of decision and centralization of responsibility for policy, a single administrator is more satisfactory than a board or a committee.

For an effective performance of his functions, the administrator will need to be given a status that will put him on a footing of equality with the heads of the other agencies and departments of the Government with which it will be necessary for him to develop effective working relationships. No system of interagency coordination has yet been devised that can escape the necessity of final appeals to the President as the superior authority in the event of unreconciled differences between the heads of the agencies involved. It is essential, therefore, in this case to make sure that the administrator will have as direct an access to the President as the heads of the other agencies with which he will need to coordinate his activities.

Hence, the responsibilities assigned to the new agency and the powers given to it should be vested in a single administrator who should be appointed by the President, with the advice and consent of the Senate, and who should serve at the President's pleasure. The rank of the administrator should be the equivalent of a Cabinet officer, and he should be responsible only to the President.

3. Form of the agency

The form of the new agency must be such as to provide sufficient flexibility of structure and operation and to attract outstanding personnel. If the Congress makes the necessary authorization for exemption from existing regulations, this is possible whether the form of the agency is corporate or noncorporate. On balance, the noncorporate form would appear to be more in keeping with the suggested position of the new agency in the executive branch of the Government on a plane with Cabinet departments.

Hence, the new agency should have a noncorporate form, but the administrator should be exempted from existing limitations on salaries for a limited number of his personnel; on per diem compensation and travel allowances; and, as necessary, on making contracts and on the expenditure of Government funds. The administrator should maintain an adequate system of accounting

and control, subject to post-audit by the General Accounting Office in accordance with commercial practices.

4. Advisory bodies and publicity

Because of the range of problems involved and the far-reaching consequences of the program, public confidence in the undertaking will be increased if provision is made for the administrator to have the benefit, through consultation and advice, of the knowledge and experience of private citizens. For the same reason, the fullest practicable measure of publicity should be given to the operations under the program.

Hence, there should be created an advisory committee or board, composed of eminent citizens of broad and varied experience, to be appointed by the President. It should be made clear that the committee or board should not be vested with administrative responsibility, but should only be advisory to the administrator, who should act as its chairman. The administrator should be authorized to set up special advisory bodies and to consult with representatives of industry, labor, agriculture, and with other private citizens. Periodic reports should be made by the President to the Congress concerning the activities under the program.

5. Relations with other agencies

In administering the program, it is important to avoid a split arrangement that would center authority for policy determination in one department or agency and vest responsibilities for execution in another agency. Experience has amply demonstrated the impracticability of achieving the necessary unity of direction and administration by that method. Such a concept of administration is essentially negative or at most permissive in that it sets many limitations but offers few directions for positive action. In this case, it is essential to place primary responsibility for the formulation of operating policies and programs clearly upon the official who also has the responsibility for seeing to their execution. Only by such concentration of responsibility can there be adequate coordination of the complex considerations involved and the strong sponsorship that will be necessary if the program requirements are to receive the full recognition which their merit warrants.

Hence, the administrator, subject to the over-all authority of the President, should be responsible for formulating programs, determining financial and material requirements, and, in consultation with the departments and agencies concerned, insuring the fulfillment of those requirements.

In obtaining allocations of scarce materials and services, the administrator should proceed in consultation with the departments or agencies that are responsible for conserving supplies. The procedures or special arrangements required for interagency consultation and assistance in the allocation process should be prescribed from time to time by the President, in the light of experience. These procedures should cover both domestic allocations and foreign allocations, including commercial exports, and should be carried out within the framework of the existing

arrangements for the administration of export and other controls involved in the execution of the program. In case agreement cannot be reached with respect to the allocation of scarce materials, the matter would of course have to be referred to the President.

The administrator should have the responsibility for determining what services of procurement, storage, transportation, or other handling are necessary to insure delivery of supplies in conformity with approved programs, and should be responsible for working out arrangements for the effective performance of these services. Hence, he should determine when supplies are to be purchased through private trade facilities and when public procurement is necessary. He should have authority to enter into arrangements with other agencies for the utilization of their facilities or personnel in carrying out these functions, on such terms as may be mutually agreed upon, to prevent duplication of facilities, to insure efficient performance of the necessary procurement and handling services, and to protect his position as the official primarily responsible for execution of the program.

The control and allocation of funds, under the provisions of the legislation, should be the responsibility of the President.

The financial arrangements to be used should be the responsibility of the administrator, in consultation with the National Advisory Council on International Monetary and Financial Problems. If decision is made to permit the Export-Import Bank to act as the administrator's agent in arranging loans to the participating countries, its authority should be accordingly amended.

The President should be given authority to transfer to the new agency the administration of any current programs involving United States foreign aid to participating countries. The question of whether the administration of any future foreign-aid programs should be made the responsibility of the new agency should be left for determination by the Congress as the occasion arises.

6. The position of the Department of State

Because of the responsibilities vested in the Department of State in connection with the conduct of foreign relations, the position of this Department in the administration of the European recovery program is obviously of paramount importance. The Department is vitally concerned with all operations under the program that may affect this country's foreign relations and policies. Occasions may arise in which a choice may need to be made between decisions under the program and more general foreign-policy decisions. Arrangements, therefore, are necessary under which the administrator and the Secretary of State would so concert their respective activities as to strengthen and make more effective the conduct of the country's foreign relations.

Hence, while the President alone should be authorized to enter into formal agreements with foreign governments, within the scope prescribed by the legislation, and to determine the methods and procedures for the conduct of the negotiations involved, he

should, in practice, charge the Secretary of State with responsibility, under his authority, for the conduct of negotiations for the conclusion of initial basic agreements and for subsequent modifications of them, with such participation by the administrator as the latter may, with the President's approval, deem necessary. Similarly, the President should charge the administrator with responsibility, under his authority, for the conduct of negotiations with foreign governments relative to operations under the program, with such participation by the Secretary of State as the latter may, with the approval of the President, deem necessary.

The administrator should keep the Secretary of State fully and currently informed on all actual or prospective activities of the new agency; and, conversely, the Secretary of State should keep the administrator fully and currently informed on pertinent departmental policies and developments. To this end effective working relations should be established between the new agency and the Department of State.

The Secretary of State should have the authority to request the administrator for information on any matters that in his judgment have an important bearing on the conduct of foreign policy. He should have the right to enter objections to any proposed action by the administrator, to make proposals to the administrator, and to call attention to the consequences of failure to act. In the case of objection to contemplated action, such action should be deferred until the differences of view are adjusted by consultation between the Secretary of State and the administrator, or by decision of the President. The same process of adjustment should apply to other differences of view.

7. Overseas organization in individual countries

In formulating, carrying out, and reviewing programs, representation in each of the participating countries will be required. Such representatives must have special competence for dealing with the many technical aspects of the recovery program In their work they will necessarily be in intimate contact with many departments of the participating governments, and the head of the group will on occasion have to confer with the highest officials. There is need, therefore, for effective relations with the regular embassies and legations of the United States in these countries.

Hence, the special representatives for the program in each individual country should be organized into a special mission, the head of which should be made a member of the regular mission in that country and should have a rank second only to that of the chief of the regular diplomatic mission in that country. The head of the special mission should be responsible to the administrator, but should keep the ambassador or minister currently and fully informed on all his activities, actual or contemplated. The chief of the regular diplomatic mission should have the right to enter objections to contemplated actions, to make proposals to the head of the special mission, and to call attention to the consequences of failure to act. In the case of objection to a contemplated action,

the proposed action should be deferred pending reference of the matter to Washington for determination. The head of the special mission should be free to communicate directly with the administrator, with the heads of the other special missions, and with the special representative referred to below.

For the performance of his functions abroad, the administrator should have the authority to recruit the necessary personnel. The pay and allowances of the representatives for the program in individual countries should correspond to those of Foreign Service reserve officers who might be performing similar tasks, with the understanding that, in the event that it is impossible to obtain qualified personnel on these terms for certain of the necessary positions, the President should have the power to exempt these positions from existing limitations. The administrator should have the right, with the approval of the Secretary of State, to recruit personnel through the facilities of the Foreign Service, but should not be restricted solely to that method.

8. Representation in organizations of participating countries

The success of the whole European recovery program will depend in large measure upon the effective cooperation among the participating countries—which they have themselves pledged. To achieve this purpose it will be necessary for these countries to develop continuing organizations through which cooperative plans and projects can be made effective. Provision should therefore be made for representation of the United States in such organizations as may be established.

Hence, there should be appointed by the President, with the advice and consent of the Senate, a special representative of the United States Government with a rank equivalent to that of an ambassador. The functions of this official should relate primarily to matters which require joint negotiation with two or more participating countries and cannot therefore be handled through the representatives established in individual countries. His instructions on such matters should be formulated in conformity with the general arrangements established in the United States for the administration of the program and its integration with the foreign policy of the United States. He should keep the administrator, the Secreary of State, and the heads of the embassies and legations concerned fully and currently informed of his activities. He should consult with the heads of the special missions and the chiefs of the regular missions, meet with them as necessary, and be entitled to receive their assistance.

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