

The Association for Diplomatic Studies and Training
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JACOB J. KAPLAN

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TABLE OF CONTENTS

An overview of a career with foreign assistance	
Early years and education	
Joined the State Department as head of the economic section on Southern Europe and contributed to the beginnings of the Marshall Plan	1946
Served as secretary to a study group on long term U. S. Foreign Assistance policy	1949
Returned to ECA to work on European regional issues and then to Paris to serve on the Board of the European Payments Union	1950
Returned to Washington as Assistant Coordinator for Program in State	1959
Headed up the International Development Organization Staff (IDOS) in AID	1961
Left AID and wrote a book and articles on foreign aid	1965
Concluding observations	
Appendix	

INTERVIEW

Q: March 22, 1999 the interview is with Jacob J. Kaplan. Let's start off with a brief summary of your association with Foreign Assistance and AID.

An overview of a career with foreign assistance

KAPLAN: My association with foreign assistance goes back to my arrival in Washington in 1943. I was assigned to OSS and put to work evaluating European food supplies. That soon led to moving to London to participate in a Combined Working Party on European Food Supplies, preparing estimates of food the Army would have to bring along to Europe to feed the people. Subsequently, I joined the State Department at the end of the war and quickly became involved in the preparations of the Marshall Plan. I left once the Marshall Plan had been submitted to Congress to take up a position at Yale. I decided after a couple of years that I really wanted to get back into public service. I joined ECA and worked in ECA in Washington and Paris. Then I came back to the State Department, which had taken over the function I was performing in Paris. I was Assistant Coordinator for Program under Douglas Dillon and then George Ball. Then I was a member of the group that put AID together, the President's Foreign Aid Task Force. I then became head of IDOS, a unit in AID. I resigned from the government soon after President Johnson took office. Thereafter, I established a small consulting business, International Finance and Economics. It did not do contracting with AID since and I did not think it was appropriate. I did other kinds of consulting work. Some brought me back into contact with either the World Bank or the UN Development Fund, as well as helping multinational firms and other U.S. government agencies.

Early years and education

Q: Okay. Let's go back to where you were born, where you grew up, where you went to school?

KAPLAN: I was born in Somerville, Massachusetts in 1920. My family moved to Cambridge a year later. I grew up in Cambridge, went to the Cambridge High and Latin School and to Harvard, took degrees there in Economics and then before the war, took a position at Iowa State College.

Q: These degrees were through the Doctorate?

KAPLAN: I was then an ABD, what is now known as "All but dissertation." The Ph.D. came later. A few months after I came to Iowa, Pearl Harbor was bombed. I returned to Massachusetts, went into the Army, served in OSS in Washington, London, Italy, and Austria. I returned to the U.S. at the very end of 1945, and joined the State Department.

Q: Your OSS experience must have given you some firsthand exposure to international

affairs.

KAPLAN: My graduate work was focused on food and agriculture which I thought was going to be my field.

Q: Why food and agriculture?

KAPLAN: I was a city boy, New England, but as an undergraduate I was steered into a course that Ken Galbraith was giving on Agricultural Economics by people who said he was a very stimulating person. Indeed he was a very charismatic teacher. He got me interested in food and agriculture problems. I wrote a senior honors thesis on the Food Stamp Plan, which I think was then a year or two old.

Q: This was domestic food and agriculture?

KAPLAN: Yes, entirely, domestic. I went on to do graduate work and decided I had better go see some real farming and get my feet in real dirt. I went out to Iowa, which then had a wonderful department headed by Ted Schultz, later chairman of the Economics Department in Chicago. He was another charismatic teacher. That is how I came to be recruited by OSS to work on food and agriculture. There Bill Malenbaum and I developed the concept of food balance sheets, which I think FAO still uses. We developed it. Shortly after I joined the State Department, the head of FAO asked us to help get it introduced into their work and we did.

In Europe, I started out working on food and agriculture but then was sent to Austria at the very end of the war to head the OSS economic reporting section. I went into Vienna with General Clark's mission that was trying to negotiate with the Russians about the terms of occupation zones in Austria. I was brought along to take a look at the food situation in Vienna. It was disastrous. The Russians had lived off the countryside and seized every bit of food in the city, including everything in the stores as well as the warehouses. The population was literally starving. My responsibilities broadened to include doing economic studies about other parts of the Austrian economy. Thereafter, my interest centered entirely on international economics.

Q: So then from OSS work, you went on to what?

Joined the State Department as head of the economic section on Southern Europe and contributed to the beginnings of the Marshall Plan - 1946

KAPLAN: From OSS work I joined the State Department, as head of the economic research section on Southern Europe, an area defined to include Italy as well as the Balkans.

Q: What year was this?

KAPLAN: 1946. By 1947 the European economic crisis was becoming dire. Van Cleveland, then in charge of Europe in the Department's economic area, asked me to help put together an interim aid program for Italy. I did that , then worked on the Italian...

Q: This was before the Marshall Plan?

KAPLAN: This was just before the Marshall Plan.

Q: We were starting an aid program before?

KAPLAN: People forget that we spent about fifteen billion dollars on foreign aid before the Marshall Plan, various kinds, in various parts of the world. Most of it was for relief and rehabilitation. The European economy was nevertheless in pretty sad shape. By 1947, people in the State Department were concerned about what could be done to rebuild the European economy. Secretary Marshall came back from a very unhappy meeting with Stalin where he became convinced that Stalin had absolutely no interest in helping restore economic health in Western Europe. He felt that we needed to do something. That led to Marshall's speech and to the European Recovery Program.

Q: What was your role?

KAPLAN: I was a major contributor to the Italian studies and to the preparation of the "Brown Books," which were Charles Kindleberger's responsibility. They provided hundreds of pages of statistics on European production, balance of payments, imports, exports, commodities, needs by country, by sector, and so forth. I sometimes joke that the volumes Kindleberger turned out were so overwhelming that Congress passed the bill a few weeks afterwards, but that is what happened.

Q: What was the main issue that you were addressing in Italy?

KAPLAN: We were concerned about high unemployment, extreme poverty, and how to restart an economy that had been shattered by 20 odd years of fascism as well as the war. There had been practically no private investment in Italy during those 20 years; it was almost all government financed. Some of us were very concerned that initiative in the private sector had thus been deadened. While at Yale, I wrote a pamphlet about the Italian recovery program, explaining this, but I was wrong. The entrepreneurial spirit picked up in Italy very, very fast. In fact, the economy started to boom a couple of years after Marshall Plan help began to arrive.

Q: What was the help that we were providing them?

KAPLAN: The help we were providing first emphasized food, energy, and raw materials. The first two years of the Marshall Plan were entirely focused on filling the pipeline of goods. After the war ended, the Europeans had at first imported things they needed from the U.S. and the rest of the world, partly using aid money, earlier aid money, and partly

drawing down the foreign exchange reserves that many of them had accumulated during the war. That foreign exchange was pretty well exhausted by the end of 1947 and the pipeline was getting very empty. So our first efforts were directed toward providing food, raw materials, coal, oil, and other commodities that were needed to enable European factories and agriculture, to restart and expand production.

Of course in Italy, to come back to your earlier question, a major concern was the strength of the communist party, financed from Moscow and making a very strong and effective appeal. The working class in Italy was impoverished and struggling. It was attracted by Marxist visions of a new society that would be bountiful and fair to everybody.

Q: The Soviets weren't providing any economic resources at the time or were they?

KAPLAN: No, they were only providing money to finance the communist party.

Q: Were there any conditions associated with this aid at that time?

KAPLAN: No. The only firm condition was the one in Marshall's speech. That is, the Europeans had to get together, decide among themselves what each could do, and then agree on what their needs were. If they could do that, we would try to help. We did. We were, of course, pushing our views about economic policies. The ECA had missions in every one of the countries, headed by a political figure of a stature that made it possible to discuss policies with governments at the highest levels. However, we never threatened to cut off aid if they didn't do as we urged. There was a lack of arrogance, I believe, in our behavior. People talk about the American hegemony at that time. That is valid in the sense that we were the dominant economic power. But we didn't behave like the classic hegemon. We were interested in creating stable societies in western Europe, not in selling an ideology. While we wanted them to free up their economies, to reestablish free markets, to remove many controls, every country was allowed to do so at its own pace. In fact, of course, they wanted the same thing as we did, but they wanted to do it in ways that were both politically acceptable and consistent with their judgment about economic possibility, as they did. But the lifting of controls, the freeing up of markets was a long process, 15-20 years. Privatization came very much later, almost a 1990s phenomenon in Western Europe.

Q: You said this was a process, a mutual review, how did that work?

KAPLAN: After Marshall's speech, the British and French Foreign Ministers, Ernest Bevin and George Bidault, called a conference of the European countries to figure out how to respond. First they encountered a flap with the Russians, who wanted each country simply to tell the U.S. what it needed, package those needs, and ship the package over and let the U.S. do what it pleased. Bidault and Bevin were persuaded that that wasn't what was asked for, nor would it work. The Russian Foreign Minister, Molotov, just walked out of the conference. Eric Roll, an important British official, was with Bevin when he came back from the meeting and said, "Get Prime Minister Atlee on the phone."

Roll got Atlee on the phone and Bevin said to him, “He walked out, he walked out muttering threats.” That was the end of that. Thereafter, the Western Europeans went to work.

Q: This was our one condition I guess? Wasn't it, that they get together?

KAPLAN: That they get together, review each other's programs, reach an agreement on what each could do and put together a package of what they jointly thought their minimum essential needs were.

Q: How did that work as a process?

KAPLAN: It worked very well. Understandably, the first collection of needs they put together was bigger than we thought we could manage. Negotiations went back and forth, but finally the U.S. administration put together a package that could be presented to Congress. It was based on what Europe finally submitted but with some further pruning of their figures.

Q: What kind of criteria were they using to judge each other's proposals?

KAPLAN: They were judging what was available, where they could increase their own production if they had certain materials available. They were also taking a look at their balance of payments. Basically, the Marshall Plan sought to fill the dollar gap in each country's balance of payments. We were all using balance of payments projections realizing that they can always be questioned and argued about. The Europeans did argue among themselves. Obviously each country wanted to get as much aid as possible. When they were faced with the need to cut back the total, they had to agree about the cuts that would be made.

Q: These were decisions that the Europeans had to make themselves?

KAPLAN: They had to make themselves and submit the results to us. As the Marshall Plan operated we, in fact, made decisions about who would get how much but based on what the Europeans had submitted. For the first two years, we insisted that the Europeans divide up the aid, after which we modified their division somewhat. In the second year the division process became very acrimonious among the Europeans. They decided that they really couldn't do that any more. They set up a committee consisting of Robert Marjolin, the unsung genius of the Marshall Plan in Europe as Secretary General of the OEEC, and Baron Snoy of Belgium, a very wise and understanding man. They worked out percentages for each country. Thereafter, any recommendations about the division of aid were based on this Snoy-Marjolin formula.

Q: Which was a percentage for each country?

KAPLAN: Right, that was the way it worked for the succeeding two years of the Marshall

Plan.

Q: Do you have any idea how those percentages were derived?

KAPLAN: Yes. They were based on a critical analysis of each country's estimates. A particularly bitter argument had taken place between the British and the Belgians. However, a compromise was suggested and accepted, which was the way the OEEC and European reconstruction worked. People compromised after arguing, sometimes quite vigorously. Compromise was essential since the OEEC operated by the rule of unanimity. Each decision had to be agreed to by every member.

Q: That didn't paralyze the process?

KAPLAN: In the 15 years that the OEEC existed, I don't believe that a single veto was ever exercised. De Gaulle walked out on a British proposal for a European industrial free trade area. He interpreted it, probably quite correctly, as an attempt to subvert the Common Market and made it plain that the French would have nothing to do with it. The negotiations just broke off, but there was never a veto. Understanding the need for compromise was accepted by a generation of very great European statesmen.

Q: So what was your role in this process?

**Served as secretary to a study group on
long term U. S. Foreign Assistance policy - 1949**

KAPLAN: I left the State Department after the Marshall Plan was submitted to Congress in order to accept an appointment at Yale in the Institute of International Studies. In my second year, 1949, the Council on Foreign Relations organized a study group about post Marshall Plan foreign economic policy. They assembled a very talented and experienced group of people, including Galbraith, Harlan Cleveland, then a senior official in ECA, Tom Finletter, former head of the U.S. ECA mission to Britain, George Ball, later Under Secretary of State, Jacob Viner, the dean of the international economics profession, Gardner Patterson, then an economics professor at Princeton, later the Deputy Director of the ITO, Issador Lubin, former Commissioner of Labor Statistics, Paul Nitze, long time senior figure in the State and Defense Departments. I was asked to serve as secretary of the group and prepare discussion papers. There was never much agreement. Everybody had ideas, discussed them respectfully, but never reached specific consensus.

Q: What were you trying to come up with?

KAPLAN: I later published my own conclusions in an article in *World Politics*. I thought we needed a continuing foreign aid program. I felt the U.S. had interests in the world and our economic predominance required accepting responsibility. I hoped there would be an end to the need for aid in four years, but doubted that there would be. The President ought to have a foreign aid agency that had both funding and flexibility in the use of those

funds. We were going to have to be responsive to the needs of the Third World. Resentment in the Third World was widespread about the Marshall Plan. U.S. officials tried to explain that European recovery would probably do them more economic good than any direct aid. While I think that was true, poorer countries were nonetheless resentful. Basically, that was the tenor of my article.

Q: So you were viewing the globalizing of the foreign assistance program from the Marshall Plan?

KAPLAN: Yes. The chairman of the study group began with his proposal for an International Investment Authority. The group was receptive but its discussion of specifics ran far afield and consensus could not be reached.

Q: They thought with the Marshall Plan, it was over and out?

KAPLAN: Some didn't think the American Congress would support continued aid. Some felt that the Third World was going to have to deal with its own problems, that it could not absorb much capital soon. Some thought unilateral U.S. tariff reduction was more important. Some emphasized the problem of U.S. agricultural price supports. It was a very varied group. They were very bright, wise and perceptive about all the problems of making U.S. policy.

Q: So what caused you to think that there should be an extension of the program, what was in the world that was influencing you that said yes we need to extend this into other parts of the world?

KAPLAN: I felt as the dominant economic power in the world, with far more resources than anybody else, that we were going to have to assume responsibilities that others had been assuming in the prewar period. I was conscious of the Communist problem and of the appeal that Marxism had to the poor and impoverished and to the appeal of anti-imperialism in the Third World. That made it very difficult for the French and the British, to assume the role that they had played in the past, even if they had the economic capacity to do so. I felt we had to be a player in the world, and we couldn't be a player unless we were prepared to be generous.

Q: But you couldn't get a consensus from your Group on this?

KAPLAN: No. The original idea was that the group would publish its report in *Foreign Affairs*, the council's journal. The chairman resisted my conclusions, so I published my views in *World Politics*. Much of that paper reflected views and ideas I had derived from one or another member of the study group, though I could not claim that it was a consensus.

Q: Well we want to make a reference to that so people can look it up.

KAPLAN: *World Politics, October 1950.* Actually it contains a philosophy and attitude towards foreign aid that, in very broad terms, has continued throughout the rest of my writings and career in foreign aid. Basically, I felt that we had interests and power and we could not protect those interests without being willing to use our economic power.

Q: Well, that's probably still the case in a way, but we'll come to that later. After your work with Yale and the committee what was next?

**Returned to ECA to work on European regional issues and then to Paris
to serve on the Board of the European Payments Union - 1950**

KAPLAN: Well, after two years at Yale I decided that I really did not want to remain an academic. I had grown up thinking I wanted to be an academic but as a result of my war time and post war experiences, I began to realize that my real interests were in the application of economic analysis to real world policy problems. Hence, I went back to ECA in 1950. I soon found myself a member of a new staff that had been established to deal with European regional problems. Primarily, the staff served to backstop the OEEC. It also dealt with NATO, which had by then come into existence, and which became very important once the Korean war broke out in June 1950. Also, we provided some backstopping and support for the European coal and steel community which had just come into existence. It was a group of people, all of whom believed in the importance of European economic integration. We wanted to promote it and Dick Bissell, the ECA Deputy Administrator, set the staff up for exactly that purpose.

Q: Which was in the State Department?

KAPLAN: Within the ECA, a European regional staff. Its first head was John Hulley, who had been a major contributor to the European Payments Union concept. He shortly resigned and I succeeded him as chief of that Division.

Q: What were you trying to bring about?

KAPLAN: We were trying to promote economic integration through specific moves. That had actually begun with the European Payments Union Agreement. The OEEC was a forum that conducted discussions and meetings on all sorts of issues, but its major decision making role had been in the division of aid. By 1950 that was no longer practicable. The real problem was that although European production was well above prewar levels, trade within Europe was still 15% below and European dollar balance of payments was still in serious deficits. Neither the Europeans nor we in ECA had any great confidence that the need for aid was going to end by 1952. It was important for the Europeans to get rid of their bilateral trade agreements, to learn to be competitive with each other. Maybe that would increase productivity sufficiently to give them enough confidence to free their restrictions on trade with the dollar area. That was the purpose of the EPU to which we were giving strong support. ECA had provided the capital to get it started. In 1954, I went to Paris as the U.S. Representative to the Managing Board and

stayed there for five years. It was probably the best work experience of my life.

Q: This was mainly putting together the Payment Union?

KAPLAN: Well, the Payments Union was together by then; it had functioned for several years, quite effectively. At the time, there were two issues. First, how was Europe going to get ready for convertibility and second, when were they going to reach the point when they could make their currencies convertible. The British were pushing for an early move to a very limited kind of convertibility. They wanted to reestablish the London financial and gold markets, which had been dormant because of trade and payments restrictions and because the British balance of payments itself was so weak. They had some hope they could reestablish those markets if the EPU were abolished. Most of their permanent officials had opposed its formation in the first place. Hugh Gaitskell, their Minister of State for Economic Affairs and later the Chancellor, overruled them. He was an economist by training and was persuaded by our very able staff in Paris that the Union would indeed be in Britain's interest, and so it turned out to be. The Bank of England and the Treasury civil servants were very unhappy about the whole affair and did not cooperate terribly well.

The Germans were also restless, particularly Mr. Erhard, the Economics Minister, who preached convertibility at any audience who would listen, though he had not succeeded in persuading his own government that Germany should move to convertibility before the rest of Europe was ready to move. The OEEC convened a Ministerial Conference on Convertibility. Harold Stassen, by then the head of the foreign aid agency, MSA, brought me along as his principal advisor. We were trying to figure out a way to hold Europe together, hold European integration together, and to promote European integration at least until such point as they really were able to become convertible together successfully. The Conference was able to agree that the EPLI should be changed to provide more flexibility.

When I came to Paris, the first issue was negotiating changes in the EPU Agreement to establish the conditions under which a move to convertibility could be made. The British were given a veto power, the power to move when they were ready. By late 1954, their situation had deteriorated to a point that they put off any such move to convertibility. Then the EPU went on.

The Managing Board was the place where the most intensive economic policy coordination took place that had ever occurred up to that time. Country's situations were reviewed regularly. Every member of the Union had accepted an implicit commitment to keep its payments with the rest of the members in balance over time and the Board supervised that commitment. It reviewed a country's position when it was getting out of balance. It made recommendations, both to the surplus countries and the deficit countries and they were accepted and proved successful. It had become a very prestigious and influential body because it had dealt with several crises in its early days very effectively. It had thus acquired a great deal of clout. In 1957, the Board was finally able to get the French government to accept conditions that required economic policy changes in return

for a special credit. The EPU incidently did impose conditions on its credits. It invented the idea of conditionality, which the IMF later took over.

Q: These were conditions associated with...?

KAPLAN: They were fiscal and monetary conditions designed to help countries get their payments back into balance. In some cases, recommendations were made to surplus countries. They didn't get credits, but they had to give credit. They would get recommendations to remove trade restrictions that affected countries in difficulties.

Q: Were there other issues you addressed in that role?

KAPLAN: The Board had two major crises. One was with France, which had fallen out of step with EPU Agreement. The Agreement not only involved keeping one's payments in balance but also reducing quantitative restrictions on trade with each other. A companion European Code of Trade Liberalization required countries to free at least 75 percent of their trade in each of three major categories. The French had done so, fell back, later conformed and then fell back again. They were in economic and financial difficulties all through the '50s. The U.S. had provided them with a lot of aid and urged that they bring their economy into better balance. However, the governments changed every few months and none of them was willing to do anything unpopular. So the problems just rolled on. They got involved in fighting in Vietnam and later pulled out. We paid most of their bills, including retroactive payments for bills for their Vietnam expenditures before they moved out.

Q: I gather we were supporting...?

KAPLAN: They were in trouble and we were still generous. But by 1957, the U.S. government had had it. The French had run through the very large reserves accumulated from our earlier aid and they were desperate for further help. We told them to go to the other Europeans, who were in a position to help. The other Europeans were willing but they insisted that there be conditions. Finally in the fall of '57 a new French government put together a program that seemed to be acceptable. The EPU was willing to provide them with some credit, and the IMF offered a little more credit. The Germans offered a substantial credit and the French sent a mission to Washington to seek some more aid from the U.S. The German Chairman of the Board pleaded with me to persuade Washington to provide something. It would be politically embarrassing if Germany were the only bilateral contributor. It would be embarrassing for the French as well as for the Germans. I did go to Washington and passed this message along. The U.S. did make a modest contribution to the package and the program worked fabulously well. De Gaulle took over shortly thereafter. After a lot of debate he decided to honor the EPU's conditions and the French economy and balance of payments thrived thereafter. All of this is told in a book about the EPU that I co-authored with Gunther Schleiminger. It appeared in 1989.

Q: It was called the European Payments Union: Financial Diplomacy in the 1950s by Jacob J. Kaplan and Gunther Schleiminger, Clarendon Press, Oxford, 1989. Were there other issues?

KAPLAN: Then we had Turkey. Turkey had been a member of the Union from the very beginning, but it never removed quantitative restrictions on its imports. It kept asking for credit all the time, and none of the Board's members was responsive. Finally, in 1958, things had really gotten desperate. The U.S. had been providing substantial aid to Turkey for years and we were certainly not interested in increasing it. Turkey was then in real trouble and had huge debts. The Europeans had been letting them buy goods with export credit guarantees and the debts were enormous. An IMF staff member, a former Czech national named Ernest Sturc, had developed a relationship with the senior people in the Turkish bureaucracy. He went to Ankara and persuaded them to introduce a decent stabilization program. Mangoldt, the German chairman of the EPU Board, also went there. Thereafter, I got a telephone call from Washington saying that the stabilization program looked very good but that Turkey would need a financial package of X amount. The U.S. and the IMF can provide some, but how about the Europeans? Can you get them to fill the gap? Knowing the European attitude toward the Turks and their behavior up to that point I was very skeptical but said I'd try. I invited Mangoldt to lunch at one of his favorite restaurants in Paris and fearfully explained the need to finalize the operation quickly. To my surprise, he thought the stabilization program could succeed. This was a chance to bring Turkey back into being a full-scale member of the OEEC and thus to fill out the last gap in the European Community. So we wrote some numbers down, put together a package, and agreed to recommend all its components to our governments.

I guess there is no point in my now not telling tales out of the school. In Paris at that point a Treasury representative held the rank of Minister in the U.S. delegation, of which I was a member. He was a retired banker who had little to do except exchange gossip and views with anybody who would talk to him. A friend of the Ambassador, he saw my reporting cables. I had reported my conversation with Mangoldt in an "eyes only" telegram. My Treasury colleague promptly drove to Frankfurt and related its contents to Emminger, then the key international person in the German Central Bank. Emminger had been angling for Mangoldt's job for sometime and he proceeded to put the kibosh on the proposal before Mangoldt had a chance to approach Bonn. And so we had to recover, as we did. The Germans contributed a little less than we had suggested, and the other Europeans more. It was amazing that small countries like Belgium and even the French offered money. France had just been given a package itself. It offered a small sum if the others would agree. We thus were able to put together a package that was approved at an OEEC Ministerial Meeting and it all worked. We also set up a group to deal with Turkey's debts. The European debts were almost all government guaranteed, while our debts were all private, some substantial, some very small. I remember 10 dollars owed to a bookseller in Philadelphia.

Q: Put together a rescheduling of the debts?

KAPLAN: We put together a rescheduling of the debts. The Europeans wanted them repaid as soon as possible. We were providing aid and didn't want our aid money to be used to pay off European government debts. I was a thorn in the Europeans' side, but after awhile we reached an agreement and it was successful. In fact, the debts were cleared off on schedule.

Q: Were there economic policy conditions?

KAPLAN: Very tight conditions that the Turks adhered to for awhile. They got into trouble again later on.

Q: Were there other issues?

KAPLAN: The other issue was the timing of convertibility. The British senior civil servants and the Bank of England had been recommending such a move for a long time. Finally, they had a new Chancellor of the Exchequer, previously the Minister of Agriculture, and persuaded him on the idea of moving fast. At the same time, the U.S. had just appointed a new Secretary of the Treasury, a former Secretary of the Navy, whose understanding of these matters was not yet very profound. The Governor of the Bank came to Washington, met with the Secretary, and told him what Britain proposed to do. Convertibility sounded wonderful to the Secretary. The Governor asked him not to tell anybody or it would all fall apart. The Secretary asked if he could tell the President. The reply was yes, but nobody else. None of the U.S. officials who had been involved in convertibility discussions for years knew about the move until the British told their European colleagues that they would act in a few weeks. It was all agreed. Despite the fact that they acted prematurely, it worked. However, the British ran into serious balance of payments trouble and had to be rescued by the IMF a couple years later.

Q: And you were in a very pivotal role in that location, weren't you?

KAPLAN: It was a great role working with a great Board. Almost all of my colleagues except Mangoldt held key positions in their governments. They came to Paris for meetings once a month or more, if necessary, but otherwise had full-time jobs in key international financial policy roles in their governments. They were a sophisticated group, very committed to European integration and to making the Payments Union work. It was a great job, the most educational work experience of my life. I learned much more there than I did in graduate school. I also established valuable friendships.

Q: I'm sure you were learning in a very practical way.

KAPLAN: In a very practical way from wise men, with very good judgment and real commitment to getting constructive things done.

Q: So, from that you moved to what?

Returned to Washington as Assistant Coordinator for Program in State - 1959

KAPLAN: Once the EPU was liquidated, I felt it was time to come home. I had small children and wanted to get home. By that point, Douglas Dillon, former Ambassador to France, had been appointed Under Secretary of State for Economic Affairs.

Q: Which was what year now?

KAPLAN: 1959. A very able man, he turned his position into a much more important job than it had been. He acquired the title of Coordinator for Mutual Security. That conferred authority over ICA, the economic aid agency that was essentially engaged in technical assistance projects in the Third World. He also chaired the Board of the Development Loan Fund which had money to lend for projects. In addition, there were all the other aid-giving parts of the U.S. government: the Export/Import Bank, the Department of Agriculture, and contributions to the U.N. Development Program to the World Bank and a new Inter-American Bank.

Q: Was there defense or economic support funding at that time?

KAPLAN: There was defense support to a few, countries administered by ICA. ICA had two funding categories, defense support and supporting assistance. The defense support worked for countries that had military programs, the supporting assistance for countries where we had other special security interests including military bases. It was all scattered and diverse. ICA had lost much of its skilled personnel as it lost responsibilities. Dillon centralized broad policy control over U.S. foreign assistance, something that had not existed since Stassen was pushed out of the foreign aid agency.

Q: This was the Mutual Security Agency?

KAPLAN: Stassen headed the Mutual Security Agency with strong support from President Eisenhower. He had cabinet rank. However, he became a tragic figure after announcing on the steps of the White House that he intended to campaign against Nixon for the Vice Presidency. That was the end of his political career and he was moved out of the foreign aid agency. Robert Taft's law partner became head of the Mutual Security Agency and proceeded to cut the aid budget year after year. That continued until Dillon took over. Dillon created a small staff, a coordinating staff under Jack Bell, one of the best Foreign Service officers I ever encountered. Bell had been chief of the ICA mission to Pakistan. He was appointed to be Dillon's Deputy Coordinator. I was the Assistant Coordinator for Program.

Q: You had a mini-agency but you still had all these...

KAPLAN: We had an agency of probably 20-25 people but we had broad policy control over U.S. foreign aid. After Secretary Dulles passed on, Dillon also became the Under Secretary of State, the key person on foreign affairs. He understood aid as a very

important instrument of foreign policy. My job was deciding how much money we were going to ask of the Budget Bureau for each country and category of foreign aid. Mr. Stans, the head of the Budget Bureau, thought it was all a waste of money. With the President's support, Dillon was able to go forward with his request to Congress. One or another committee of the Congress would cut. Each time, we had to redo the budget and determine who was going to get how much. Dillon also had control over military assistance. The Defense Department ran the military assistance program, but State, in the person of the Coordinator for Mutual Security, had to approve how much money could be spent for each country.

Q: So he had Military assistance then he had the Development Loan Fund, and the ICA and...?

KAPLAN: As Under Secretary, he could deal with Agriculture and also with the Export Import Bank. Thus, he could put country packages together by centralizing control over all U.S. funds in dealing with foreign governments. It worked very well. Then came the election in 1960.

Q: Before you get to that, was there any dominant objective or interest in this group that was guiding how you allocated resources?

KAPLAN: We thought the major lesson for foreign aid to be derived from the successful Marshall Plan was the importance of country programs. We thought we should use our resources in a concentrated way to help with countries that were trying to expand their economies responsibly and that were willing to recognize and be responsive to U.S. interests. We tried to put as much as possible into those countries that were, in those days the term "friendly" was used. We were then dealing with a world where a non-aligned group of countries tried to position themselves between the Soviets and the U.S. and play one off against the other. Nehru, Sukarno, and Nasser were the most prominent. We felt we didn't want to get into that game. We preferred to concentrate our resources on the countries that were aligned with us and supportive. Money was concentrated on about 15-20 countries. In the last budget we put together (1960), I tossed in a contingency fund for Africa and Latin America that caused some consternation among those U.S. officials who preferred to limit aid to those continents to technical assistance. There was not a separate African Bureau in the State Department in those days.

Q: Why did you make it a contingent? Contingent on what?

KAPLAN: Well, we could use it for whatever constructive purpose that might arise, such as regional integration. All the Latin American experts opposed sending any money to Latin America, arguing that it would just go down the drain. We should only give them technical assistance. If they would introduce appropriate conditions for private investors, they would then have plenty of money for constructive purposes. As for the people who dealt with Africa, well, practically nobody was much concerned about aid except through the colonial powers. African countries were just becoming independent in 1960.

Q: What motivated you to put them in the picture?

KAPLAN: Well, I felt that as the dominant economic power, we had interests everywhere and we needed to have some facility to promote those interests. Dillon went along and the contingency funds request stayed in. Then there was a change of administration.

Q: Was there any particular development strategy or philosophy dictating the use of the funds?

KAPLAN: The development strategy was to negotiate with recipient countries about their economic programs, including their economic policies and their investment priorities. We should reach agreement about what they needed and about what they were prepared to do to help themselves.

With the change in administration, Mr. Dillon became Secretary of Treasury and George Ball took his job in the State Department. Ball, a member of the 1949 Council on Foreign Relations study group, wasn't much interested in foreign aid. His interest was in trade policy. He really wanted to get out from under foreign aid responsibilities. The new President Kennedy was very interested in foreign aid and wanted a better program. Many ideas floated around at that point about how to improve foreign aid. Walt Rostow's *Stages of Growth* had appeared and he was on the White House staff. By that point, the foreign aid program had been reviewed and re-authorized with changes year after year. People spoke about pulling the plant out of the ground to see how it was growing.

The new President set up a task force to recommend a new foreign aid program. Despite the pleadings of some of us, who understood the importance of the coordinator role, Ball didn't want to have anything to do with it. He had Harry Labouisse appointed to head the task force. Frank Coffin, who had just been appointed head of the Development Loan Fund, was another member, Ted Tannenwald, served as the lawyer, Jack Bell was added and George Gant served as the organization and administrative expert. Frank Coffin was put in charge of developing a program. Tannenwald was involved in preparing and presenting legislation to Congress. Labouisse was a dedicated man, but not very forceful. As the most experienced foreign aid official, Bell became the most forceful personality on the task force.

Q: Bell was in OMB at this time?

KAPLAN: No, this was John O. Bell, Jack Bell. It's easy to confuse the Bells. Coffin was put in charge of developing a new program. A sub group under his chairmanship was appointed, consisting of myself, Jim Grant from ICA, Lester Gordon from the Development Loan Fund and Isaiah Frank from the State Department's Economics Bureau. We met interminably, long days with lunches brought in. Many controversial issues arose. Perhaps the principal controversy was between Jim Grant and myself. Jim was really sold on the *Stages of Growth* with economic development as the dominant

purpose of our aid programs. He would have divorced aid from foreign policy. I felt that our national interests should be the focus, as the only kind of program that would get the domestic support that it needed. We had long arguments about terminating aid to some of the defense support countries, or greatly restricting it, putting more money into India and other countries that had multi-year development plans.

Q: Five year plans were important in those days?

KAPLAN: Absolutely. They were a major element in the stages of growth concept. After AID was enacted, Rostow pushed for making multi-year commitments to four or five countries that had good plans. My friend Bill Malenbaum, by that point a professor teaching development at the University of Pennsylvania, commented that the *Stages of Growth* book was a marvelous theory but had little to do with reality in the less developed world. I think he turned out to be correct. India had great plans, but they were all paper documents. No mechanisms existed to implement them, so that economic results over those four or five years bore little relationship to the plans. Someone once said that plans are no better than the mechanism for implementing and revising them. I regard that as a wise observation.

Q: What was the practical difference between you and Jim Grant in terms of what your perspective was, in terms of how it actually might be applied?

KAPLAN: Our assignment was to put together a program to present to Congress with illustrative amounts for each recipient. We were in complete agreement about most of the proposed program. There was no disagreement about the importance of country programs. There was no disagreement about the importance of central control over all U.S. foreign aid, though that never got through Congress. I'm not even sure the Administration finally sought it from Congress. There was no disagreement about the basic administrative structure. We were in agreement that ICA and the Development Loan Fund should be folded together. We were also in agreement that there should be a grant program as well as a loan program, and that the loans should be on very easy repayment terms, virtually grants. But we were in disagreement about how the money should be allocated to different countries.

We are talking about my 40 year old memory, I should warn you, I could be misrepresenting it. An AID publication went out to all its employees. When AID was 20 or 25 years old, it distributed a special anniversary issue. Coffin wrote a long, very honest account of the functioning of that program task force.

Q: Can you characterize that difference? You said national interest and development but how did that differ?

KAPLAN: The difference was whether to put money into countries that were trying to thwart our foreign policy and may have been less serious about development. Much lip service was paid to development, but if you looked at their policies, their priority was to

build steel mills, to finance an airline, to finance automobile production. When they eventually got money, they built the highest cost airline, the highest cost steel mills, and the highest cost automobiles in the world. I didn't see much point in putting much money into that sort of activity. They claimed to have a well-conceived development plan that would soon raise them into self-sustaining growth. Remember self-sustaining growth in Rostow's book? He had them all flying off to such a level.

Q: Who resolved this, or did it ever get resolved?

KAPLAN: Oh, it got resolved, as usual in some sort of a compromise. India and Pakistan did get money. As best I can remember, Grant wanted to cut off Taiwan and Iran and to slash Korea and Turkey. He later became the mission director in Turkey and did in fact bring the economic aid program to an end there, at least for awhile.

Q: You referred to some structural changes that you brought about, like merging the Development Loan Fund and ICA. Were there other structural changes that you had in mind? You talked about country programs and a regional focus why was that; ICA was very functionally oriented why the switch?

KAPLAN: The switch was related to the idea of trying to strengthen the economies and societies of the recipient country, which meant focusing substantial resources there. A substantial part of the resources we had available were intended for countries that were prepared to adopt sensible policies and reasonable programs, that could command political support in the U.S., and thus continued funding. Once you went to the functional programs you were dependent on special interests in the U.S. to provide support for appropriations. That had very little to do with national interests, with national security or foreign policy interests.

Q: The communist threat ,was that a dominant consideration in the allocations?

KAPLAN: No, the communist threat was always in people's minds, but in all my experience in the aid field, including the Marshall Plan, I don't remember it having much impact on policy decisions. It played a big role in dealing with Congress, in seeking public support and in Congressional testimony. Basically, we did not want to give money to countries that weren't going to use it very well. That would not do much good, even in terms of maintaining support of their populations for democratic processes. I remember there was some urgency to the Italian interim aid program in 1947 because of a Communist threat in their upcoming elections, but Italy really needed food, quite apart from whether there were elections or not.

Q: So it was more public rhetoric rather than a fundamental consideration; your impression?

KAPLAN: That was always my feeling. To the extent that the program built strength in the noncommunist world, it served U.S. interests.

Q: Anymore on the task force?

**Headed up the International Development Organization Staff (IDOS)
in AID - 1961**

KAPLAN: There was one more idea, whose implementation I more or less inherited. Europe had now recovered to a point where it should be accepting some of the responsibilities for foreign aid. Accordingly, we should be trying to get them to pick up more of those responsibilities. At that time, the British were being helpful to some of their colonies and former colonies, the French to their colonies, and that was about it. I have noted the German contribution to France and Turkey. For the rest, the Europeans were engaged primarily in export credit guarantees. We needed to get them involved partly because they were capable, partly because it was hard to persuade Congress to vote funds when the others would not. In fact, much of our money was indirectly helping to finance the exports of many of these other developed countries. That was another constituent part of the new program. It led to creating a separate staff in the new AID called IDOS, the International Development Organizations Staff, an obscurantist title that some management expert invented. I was reluctantly persuaded to head that staff for awhile.

Q: What year was this?

KAPLAN: 1961.

Q: The beginning of AID?

KAPLAN: As soon as AID came into being.

Q: What were you supposed to be doing in that job?

KAPLAN: We were supposed to be doing two things: (1) coordinate our programs with all other donors and (2) persuade them to increase their contributions. I had two deputies, one in charge of relations with the big potential donors, the Europeans, Japan, and the World Bank. The other handled relations with the UN program, the Colombo Plan, other international groups, and organizations that were providing aid. We stationed a senior ICA officer, Herman Kleine, in New York and had supporting staff in Washington. We were exchanging information with the UN about their program and our related ones. They would send proposals for new projects to Washington. We would get the appropriate U.S. officers to comment, attempt to avoid duplication, try to see if we could not get reinforcing activities. We had also stationed an officer in Paris and in London. We were trying to build relations with other donors and coordinate our programs with theirs.

Most of my personal effort was trying to persuade governments to increase their aid programs. By that point, I was well acquainted with European officialdom, I knew how

the governments worked, where the power was, and who made decisions. I also knew many of their senior officials and had pretty good personal relations with them. I put much effort into Germany as the country that could then afford a major aid effort. I made a number of trips. The Germans had created a new cabinet job for foreign aid, under a very ambitious man, who later became president of Germany. Unfortunately, he was not terribly interested in increasing foreign aid, in fighting for a bigger foreign aid budget. Such aid as Germany provided was administered by their Economics Ministry, with the support of the foreign office.

The British had programs mostly for their existing and former colonies, but were making loans on commercial terms, though we were making loans on very soft terms. I laid the groundwork for traveling with Fowler Hamilton, the first AID Administrator, to London. Despite resistance by the Bank of England and his civil servants, the Chancellor of the Exchequer was persuaded that it was in British interests to meet us part way in softening their loan terms.

I made one visit to Japan, where the foreign office was interested in increasing aid. Their Finance Ministry told me that they preferred to put all their aid money into the World Bank. When I asked why, the response was that Japan got two dollars worth of business for every dollar put in the World Bank. That was as far as I got there.

At that time, I felt that the couple years I spent in IDOS were not terribly fruitful. As time went on, I realized that we had been over achievers. Not too many more years later, most of these developed countries were providing much more foreign aid than we were. Our programs were decreasing while theirs were growing.

Q: Where did the DAC fit into this picture at that time?

KAPLAN: IDOS was also back stopping the DAC.

Q: Now did they create it when you were there?

KAPLAN: The DAG had been created the previous year.

Q: What's that?

KAPLAN: That was the predecessor in the OEEC.

Q: Development Assistance Group?

KAPLAN: Development Assistance Group. When the OEEC was transformed into the OECD, the DAG became the DAC.

Q: Where was the prime mover for bringing DAC into being?

KAPLAN: That came from the State Department. The IDOS group took over the Economic Development division from the State Department. Ball arranged it, thinking that the State Department should leave the development business to AID. He also wanted to see more integration of personnel. IDOS had Foreign Service officers as well as former ICA personnel. I had a very good staff. They worked hard and I think we did lay the groundwork.

Q: Did you relate to the DAC a lot?

KAPLAN: Oh, yes.

Q: What kind of issues were you trying to get them to address, mainly the levels of aid?

KAPLAN: Well, that was not easy to do. We put much effort into the DAC, recruiting Willard Thorp, Assistant Secretary of State under President Truman, to be the Chairman of the DAC. I persuaded Seymour Rubin, the General Counsel of ICA, to become the U.S. Representative to the DAC. He used the DAC to explain how our programs worked, what we did. Managing foreign aid programs was new to most of the others, and our explanations helped overcome reluctance to move forward. We also tried to get the DAC involved in more direct coordination, organizing and sharing responsibility for country programs. That did not work very well, though we did set up a coordinating group on Turkey and Greece under the OECD/DAC. The World Bank set up consortia on India, Pakistan, and a few others.

Q: What do you mean by a country program?

KAPLAN: What was the country going to do with its resources, how much aid did it want, what was it going to do with the aid, what policies was it going to adopt. Really very much like the Marshall Plan. You put the whole package together of policies, domestic production, trade and aid to see whether all these parts fit together into a consistent package.

Q: And this was supposed to be done under the DAC?

KAPLAN: Well, we tried, and the World Bank tried to do it under their Consortia and Consultative Groups. The DAC tried it with Turkey and Greece and it worked for awhile. We recruited Mangoldt, the former Chairman of the EPU Board, to head the Turkish aid group.

Q: But that was under the DAC?

KAPLAN: It was under the DAC, yes. It was hard to get the DAC to become a decision making body, to become operational as well as exchanging information. I would have liked to have seen it become much more operational. There is a limit to which exchange of views is useful. The DAC became a forum where views were exchanged and the

chairman wrote a very good annual report with much useful information.

Q: What was your understanding; why was there a reluctance to make it operational?

KAPLAN: Everybody wanted to do their own thing, including the U.S. The AID regional directors were no more interested in coordinating aid operations than the Europeans were. To some extent, AID regions had too much money in those years. They were having trouble obligating all their funds and didn't want other countries picking off their good projects. I had at one point suggested to some of them, a way to get the others to do more was to present them with a project that might interest them and their companies. We could suggest that they finance it if they were interested.

Q: Too competitive?

KAPLAN: Well, the AID regions had money and not enough projects. They were not going to turn over good projects that were ready to be financed to somebody else.

Q: Were there any substantive issues that the DAC was trying to get agreement on?

KAPLAN: We tried to get a resolution about loan maturities and interest rates and succeeded. Again, it was not as good as we wanted but an improvement in what existed. We tried to get a little more control over the export credit business. We also talked about some countries taking the lead in one or two less developed countries, taking the lead responsibility rather than spreading aid everywhere. Furthermore, we talked about regional groupings.

Q: Was there any development philosophy emerging at that time; any emphasis on how to promote involvement?

KAPLAN: I don't think so. The Europeans were very export promotion minded. We were not. There was a tendency to prefer discrete projects rather than country programs. Somebody said the aid business was bogged down in "projectitis." Governments wanted to finance a project that might have an export component, and that they could identify as theirs. Countries with smaller programs felt there was not much point in talking about country programs. That is why we tried to suggest they take responsibility for one country or two and concentrate their resources there. That did not fit with export promotion. After all, foreign aid was still a learning experience in the early 1960s.

Q: What about the fact that you had started this interest in Latin America and Africa; was that something you were working on then?

KAPLAN: The Alliance for Progress came along. My very limited role is an interesting story. The first meeting to organize the Alliance occurred in the summer of 1961, not too long after the Bay of Pigs. The idea was generated in the White House, by the White House staff. A conference was organized in Punta del Este, Uruguay, at a time when the

task force was functioning. ICA was very weak on the Latin American side. Labouisse and Bell thought the task force ought to have a representative on the delegation, and they asked me to be their representative. I did not pretend to be a Latin American expert and asked myself what might I contribute to the delegation. The Coordinator's office had a very good Latin American desk officer, a Foreign Service officer named Herbert Higgins. We talked about it. Realizing that the plan for the Alliance involved all kinds of policy changes in Latin America, we concluded that the Latins were likely to ask how much foreign money would be available to support the program. I asked Higgins to research how much money had gone into Latin America during the preceding year or two, whether from ICA, the Department of Agriculture, the Export-Import Bank, the IMF, the Inter-American Bank, Europe, private capital, and so forth. He dug up numbers totaling just under \$2 billion per year. Since the Alliance for Progress was proposed as a 10 year program, that led to the conclusion that at least \$20 billion dollars should be available. When we put it all together, it did not even require an increase in AID appropriations, in what we had already put into the AID budget. It would not require any further Congressional action. I put this account in a memo. Bell sent it up to Secretary of State Dean Rusk. As usual, the State Department Secretariat distributed it for comments. They were all very negative. Every comment thought that it was a very bad idea to promise the Latins any money. I saw the comments, but that was the last I heard of it.

I went off with the delegation. It stopped in Brasilia. As head of the delegation, Secretary of the Treasury Dillon visited the Brazilian president, regarded as a rather shaky character in his relations with the U.S. Most of the large delegation stayed outside the room. Dillon went in with John Leddy, his Assistant Secretary, and a few others. When Leddy exited the meeting, he came over to me with a smile on his face. He said that I had just saved the conference. The Brazilian president wanted to know how much and was told 20 billion dollars." Apparently, Rusk had sent my memo, possibly including the comments, to Dillon and Leddy and they used the data to respond to the Brazilian, who was pleasantly surprised and agreed to support the U.S. proposal.

Q: Were there any conditions associated with the \$20 billion?

KAPLAN: Indeed there were. The Alliance for Progress proposal that had been developed in the White House was nothing but conditions. It was a program to increase living standards and social welfare. I have forgotten the details, but it would provide some education to every child over some age, full primary education to a large percentage of those children, better housing and clean water. There were all kinds of sectoral goals that the Latins would commit to achieve.

Q: What about conditions, about performance on their economic policies? Things like that?

KAPLAN: That too, but I don't remember much of the details. Again, we are talking about forty year memories. Some details are very vivid and some are not.

Q: What about the Africa side? Was there anything you were associated with?

KAPLAN: No. I was not. They were just emerging as independent countries. Two things I do remember. One had to do with the push to make multi-year commitments in support of development plans, including one in Nigeria. Nigeria had not yet developed its oil and we only had a technical assistance program in Nigeria. The mission director wanted to use it all the aid for technical assistance. I really don't remember any more.

Q: But what was the concept behind that? Was it some sort of a long range assistance strategy or something like that?

KAPLAN: Well, they had a four year plan.

Q: Out of the concept that you and Grant and others had discussed way back?

KAPLAN: Something like that. The other thing I remember was the Congo situation. Around 1961 or 1962, the Belgians departed hastily and pulled all their people out. The Congo, if I remember correctly, had only five citizens with a college education. They had nobody even to operate the telephone switchboards in Kinshasa or Leopoldville, as it was then called. Argumentative telegrams abounded between our ambassador to the Congo and our ambassador to Belgium. I have forgotten the name of the ambassador to the Congo, but the ambassador to Belgium was Douglas MacArthur, not the General, but his nephew, a Foreign Service officer. They had a cable war that rivaled anything going on in the Congo.

Q: Do you remember the issue?

KAPLAN: Our man in the Congo wanted to keep the Belgians out of the place, not let these imperialists back. He wanted the United States to provide aid and rebuild the economy. MacArthur, with considerable justification, asked how many technicians do we have that speak French? They would have to learn the language, as well as the country and its people. The Belgians know the country and are capable of helping it. We may exercise some restraint on what they do and participate and play a role without taking responsibility for a very difficult problem. Again, I don't remember the details. I remember the controversy. I visited Belgium on one of my trips to encourage more aid and talked to many Belgian officials whom I knew and visited MacArthur to report what I had learned. We talked about the Congo, but I don't remember how all of that finally worked out. I can hardly forget the controversy.

Q: Right, well it was very controversial at that time. Were there any other dimensions of this work in IDOS at this time?

KAPLAN: No. At that point, I had had 20 wonderful years of government service. I had participated in a variety of interesting and constructive endeavors. I thought it was time to decide whether I was going to be a civil servant for the rest of my life or try to do

something else. I had reached an age where I had to make that decision. Moreover, at that time, I was not too happy with what was happening in AID.

Q: Why what happened?

KAPLAN: The new President did not seem to be much interested in foreign economic aid. I'm referring to Lyndon Johnson. I was in AID throughout the Kennedy administration. Kennedy was very supportive of everything AID was doing. I did not think Johnson was. Economic aid totals declined over the balance of the 1960s while prices rose. Aid money was being diverted to Vietnam and its neighbors. I obviously had different ideas about what the U.S. should be doing about foreign assistance. I was not about to urge friends in Europe to put money into Vietnam. It would not have been fruitful anyway. And so I left and wrote a book about foreign aid.

Left AID and wrote a book and articles on foreign aid - 1965

Q: What year was this you left?

KAPLAN: This was 1965. I wrote a book that included what I had learned and also what I thought ought to be done differently.

Q: Challenge of Foreign Aid: Policy, Problems, and Possibilities, by Jacob J. Kaplan, published by Prager, in 1967. Is there any way of summing up the main point?

KAPLAN: Well, that would be hard. The basic thrust is a challenge to what I called the "economic development syndrome." The notion that the overriding function of foreign aid was to maximize GNP everywhere.

Q: You were challenging that?

KAPLAN: I was indeed. I challenged it on a variety of grounds. First, I did not think that was the overriding interest of the United States. Secondly, I did not think that was the overriding interests of governments in developing countries. Their overriding interests in almost all cases was to stay in power. They had all kinds of specific interests in addition to increasing the GNP. I thought we ought to be allocating money to countries on the basis of country programs and to countries that were cooperative. Once we had decided on how much money to make available to a country, then we should try to get that money used to promote development, but a broader concept of development than merely raising GNP. It ought to include social and political development as well as...

Q: Political development, what do you mean by that?

KAPLAN: Democracy, elections, human rights, governments that are responsive to their people, and responsible. I also urged again the consolidation of all U.S. foreign aid in a single independent agency.

Q: You wrote about aid coordination too? I raise that because of a whole new interest in coordination.

KAPLAN: Yes. Sy Rubin, who had been our minister to the DAC and was then Executive Director of the American Society of International Law, organized a project and I produced a pamphlet in 1978. It reviewed all the possible ways of coordinating and stressed the importance of getting more and better coordination. One of the weird stories in the pamphlet concerns Kenya, where there were 356 projects and 34 different donors. A government that was struggling to function effectively needed time to deal with all these well motivated people. Coordination was minimal. Everybody did their own thing. Nor was it clear that all the projects added up to very much.

Q: What was your basic solution to that kind of a problem?

KAPLAN: We suggested two approaches. First, a coordinating group in every country, I don't know if by that point I had given up on the UN. Earlier, and in my book. I had proposed making the UN Development Fund, then headed by Paul Hoffman, the coordinator of all UN aid expenditures. Every UN specialized agency had its own aid program, some funded by the UN Development Fund, some of it not. The UN Development Fund was primarily dividing up its money among the specialized agencies, with each one doing its own thing, keeping its own people employed. Paul wanted to play a coordinating role, with the UNDP special representative in each country having authority over what the specialized UN agencies were doing. Thus, they would coordinate. We tried to support him, but it just didn't work.

Q: When was this you were pushing this idea?

KAPLAN: 1962-63.

Q: When it was first formed?

KAPLAN: It didn't work very well. I had at that point suggested that if it did work, I would have liked to see all of technical assistance gradually moved under the coordinating authority of the UNDP special representative.

Q: To the UN?

KAPLAN: To the UNDP. I still think that there is a tremendous waste of money and very meager results from technical assistance programs. They seem to do some good for awhile in some small area. The notion of replication was current, but it has never worked well. Demonstration does not work. You really have to have country programming.

Q: That's your basic theme.

KAPLAN: That is my basic theme. Technical assistance should be related to the rest of the country program. Some of it is obviously related. The World Bank relates it to its projects, with a technical assistance component in almost all its projects, as it should have. Some of its technical assistance relates to a need to improve education and the skills of the population.

Q: The country program should be a very comprehensive program?

KAPLAN: Should be a very comprehensive program. I prefer the term growth, rather than development. What we want is to see stable, growing, and democratic societies in the Third World. That is what we should be supporting. We should seek growth in every dimension, every sector, politically and socially, as well as economically. An awful lot of these ideas have come in later. People have begun to consider the division of income in these countries. That is a relatively recent idea. But it should have been thought of a long time ago. Excessive concentration of income in these countries is why so many are unstable.

Q: So your country program includes the political, the governments...?

KAPLAN: Yes, indeed.

Q: Where did the country program come from?

KAPLAN: Where does it come from?

Q: How does it get formulated? A lot of agencies have their own country programs but yours is...

KAPLAN: Well, you need a coordinating mechanism. If one agency has a country program, that doesn't cover very much. The World Bank has a country program, but it may provide only five or 10 percent of all assistance to the country. What is wanted is some central country program, worked out with the country. Much technical assistance and loan project concepts come from the donor, not from the country. I don't think that works very well. I did some work with the World Bank at one point and asked how many of their projects were conceived and initiated by the countries asking for financing. I was told maybe 10 percent. All the rest were generated at IBRD headquarters. That may be all right. I don't know. If countries don't feel that the project is their idea and their priority, it isn't going to be very effective.

Q: That's been a theme of yours throughout your comments.

KAPLAN: I make that observation all the time. I think you have got to give countries a certain amount of flexibility in deciding what is important, even if it is different than what you think is important. They may even be right. I remember being told that McNamara never wanted to finance telephone projects, air transport, or tourism for whatever reason.

He probably had his reasons but some countries felt that improving their telephone service was basic and that has later become widely recognized. Tourism is, after all, a great development project. I think if he had been responsive to what countries regard as their priorities, some of the Bank's efforts might have been more beneficial.

Q: Are there other aspects that you want to comment on?

KAPLAN: The UN matter that I referred to. Sometime in the 1970s there was a disastrous drought in the Sahel. The UN was seized with helping. Brad Morse, then the head of the UN Development Fund, called and asked if I would help. I was then running a consulting business and agreed. When I turned up in New York, staff skepticism was very evident. I employed some expertise and tried to put together a sensible approach to the situation.

Q: What kind of approach did you have in mind do you remember?

KAPLAN: My memory is a little dull but I think what we were talking about is developing existing human capacities, their skills with animals, trying to settle people in the valleys where there was a reasonable amount of water and fertile land, where the cattle population could be expanded. I became quickly discouraged as I realized that Morse really could not control the specialized agencies. Each wanted to do their health program, their agriculture program, their labor program and what not. It was an occasion for me to revisit an old idea. The coordination of technical assistance should be done at the country level. Possibly if the DAC were engaged in country programming, it could do some, too.

Concluding observations

Q: Well, let's go back to some general questions. Looking back over your association with foreign assistance, do you think it was effective, did it have an impact, did it make a difference in the world over the last 40 years?

KAPLAN: The programs in the early years certainly worked. There were many success stories in the Third World. For example, Greece and Korea, which were both widely called basket cases in Washington. Thailand, Taiwan, and Israel are others.

Q: What was it that seemed to produce those successes?

KAPLAN: U.S. country programs in almost every one of those cases.

Q: They were comprehensive programs?

KAPLAN: I sometimes kidded my World Bank friends that none of these countries got very much money from the World Bank, that the few countries that received large sums from the World Bank didn't do very well for a long time. India, for example. I have gathered that India picked up its socks in the 1980s, and their economy began to improve.

What I have been reading recently suggests that it is going downhill again.

Q: Do you think , apart from country programs, was there any particular development area that foreign assistance has made a difference in?

KAPLAN: You mean developing sectors?

Q: Yes

KAPLAN: I really don't have a basis for judgment. I know there has been an enormous improvement in education. I know there has been an enormous improvement in health statistics. I know there's been a great improvement in water supplies. There has been a considerable improvement in agriculture here or there. I am really not in a position to judge whether that is a result of country efforts or of foreign assistance. I remember there was a lot of improvement in the water supply in Latin America, probably as a result of Alliance for Progress work. I am sure there are other examples of that sort, but I'm really not in a position to judge the sector work.

Q: How would you size up your experience in Foreign Assistance?

KAPLAN: I thought it was very productive for most of the 20 years I was involved. The experience in Europe was fantastic. The results were there and it also led to a lot of...

Q: You feel that the success in Europe was...?

KAPLAN: Was due to country programs and the integration of the European economy, as well as the dedication of the Europeans. In the Third World, some of the countries that I have mentioned as success stories were countries in which we concentrated our aid in the 1950s and 1960s. Subsequently, the amount of aid has dropped and private investment has become the dominant source of capital. There has been substantial economic growth. There is certainly much more democracy in Latin America, much less dictatorship than there was 30 years ago. Africa is still very distressing, although there are some shining spots. Ghana apparently is doing very well. My wife was a member of the first Peace Corps group in Sierra Leone. Things went beautifully there until the 1990s. The current situation is very distressing.

Q: Do you have any general thoughts you would like to add?

KAPLAN: Yes, I have some general thoughts. I think the United States needs a foreign aid program; it needs a much more focused foreign aid program than it has. It needs to deal with the real problems. It is making a terrible mistake hiding behind international agencies, asking them to do it and providing support from behind. That would have been a disaster if we had tried it in Europe. The only way to be effective is to assume responsibility. To be sure, you are likely to be criticized. But if we don't assume responsibility, we cannot expect to get good results. Or we will get bad results.

Q: And we're still the dominant economic power.

KAPLAN: We're still the dominant economic power and we still can afford a larger foreign aid program. It ought to be a results oriented foreign aid program. It should focus on longer term results. People sometimes have said that some foreign aid is something a new ambassador can carry along with him, hand over to the government and thus get into the government's good graces. That is not what foreign aid should be used for.

Q: You say it should be more focused, what do you mean by focused?

KAPLAN: Focused on results. Focus on the needs, on what the country is prepared to do for itself and on whether our contribution will, in fact, bring the kinds of results we would like to see. We should be very results oriented in our programs. I think the morals are right. Helping the poor and the weak is something we should be doing as a moral matter. But I don't think we're going to get money out of Congress on that basis. I think if we are getting results, Americans will feel very good about it, about what they have given. If they don't get results, don't see results, they are not going to see the point of financing foreign aid.

Q: You made a point in terms of European success...? How does that experience apply to other parts of the world?

KAPLAN: Well, we tried to repeat in Latin America under the Alliance, but now the Alliance is more or less disbanded. In other parts of the world it's very difficult. I am unhappy with what we have done in Eastern Europe. I think we have drawn on none of the Marshall Plan experience. I noted that of all the American leaders who were invited to attend the Marshall Plan reunion, only the Secretary of the Treasury, Mr. Rubin, accepted. None of the congressional leaders, nor the Secretary of State, though they were all invited. Nor the President or the Vice President, who were also invited. Now they are all going to celebrate the NATO anniversary on a grand scale, an organization whose usefulness may be nearing its end. If the heads of the Marshall Plan beneficiary governments had been assembled for its anniversary in Washington, as was suggested, the occasion might have been used to get a coordinated, important effort in Eastern Europe. What we have had is what used to be called, I guess still is, "market magic." The only thing magical about markets is not understanding how they work. There is nothing magical about them if you do understand how they work. Economies are very delicate instruments, resembling a machine with thousands and thousands of interconnected wires. What was done in Eastern Europe was to pull out all the wires at once and hope new market economies would emerge in full bloom. What was needed was progressive repair, not massive destruction. One of my EPU colleagues once used an expression that is appropriate to the way the Eastern Europe economy has been treated. About another proposal, he thought it suggested a leap into chaos and then try to organize it. A chaotic situation has been created in Eastern Europe. Marshall's speech could have been repeated to the Eastern Europeans, including the Russians, with few modifications. It's basic

message was still relevant. Get together, look at each other's programs, see what is needed, come and tell us. We will try to help. Instead, we have provided Pepsi-Cola and McDonald's, together with ideological sermons.

Q: Any other general observations?

KAPLAN: My ideas are explained in my publications. Obviously, much that I have written is dated. But I think the fundamental ideas are still valid. This is the time when one might legitimately pull the plant out of the ground and inspect the roots. I think we've reached that point with our foreign aid program. I am not optimistic about its occurrence in the near future. However, I remain a long run optimist.

Q: I think this is a good point on which to wrap up an excellent interview.

End of interview