

The Director of Central Intelligence

Washington D.C. 20505

16 January 1985

The Honorable Donald T. Regan
Secretary of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D. C. 20220

Dear Don,

You asked for a copy of that portion of the report of the Commission on the Organization of the Government for the Conduct of Foreign Policy which deals with international economic policy. It is Chapter 5 which runs from page 55 to page 74. I have marked the portions which relate to our discussions starting on page 57 through page 63.

The key point is that foreign economic policy must bridge foreign and domestic policy. Throwing all trade related matters together into one large organization does nothing to deal with this critical task.

There is a need for an interdepartmental body at the White House level to see that foreign and domestic policy considerations are brought together, to see that problems aren't neglected because they fall through the cracks of established departments and to provide adequate assurance that decisions are followed up and implemented.

Only the President is in a position to integrate international economic policy with foreign and domestic policy and to provide the required focus and stimulus for decision and action.

To accomplish this, our Commission recommended a senior assistant to the President with strong qualifications drawn from economic and/or business experience to be charged with a central White House function. We urged that care be taken that he would not assume a public posture or become a Presidential spokesman and an independent bureaucratic force, usurping the duties of senior government officials. Our Commission urged that the simplicity of a single centralized structure be avoided and that the answer be sought in an effective relationship between State, Treasury, Commerce, Agriculture and other departments having domestic economic responsibilities.

We recommended establishment of a subcouncil to facilitate bringing together domestic, economic and foreign policy considerations made up of the Under Secretary of State for Economic Affairs, the Under Secretary of the Treasury for Monetary Affairs, the Under Secretaries of Commerce and Agriculture and, at that time, the Chairman of the Council of Economic Advisors. We recommended that this be done at the sub-Cabinet level rather than at the full Cabinet level to ensure the kind of sustained attention which Cabinet members are not likely to have the time to give.

This doesn't exactly deal with the formation of a Trade Department but our Commission recognized that simply creating a larger bureaucratic unit for trade would do nothing to deal with trade related monetary, development and other policy mechanisms which are inherently part of the trade picture.

Something like this worked well in the Nixon Administration when George Shultz, wearing a White House hat, chaired a Council on Economic Policy in which all active players (mostly Under Secretary level) in international economic policy sat.

I hope this is helpful.

Yours,

William J. Casey

Attachment:
As stated

cc: Secretary of State

Washington, D.C. 20505

16 January 1985

Dear George,

Here is some material from the report of Bob Murphy's Commission on the Organization of the Government for Conduct of Foreign Policy which is relevant to the issue of a Trade Department which supports the views you expressed on this in last week's Cabinet meeting. I mentioned it to Don Regan and he asked me to send this material. I thought you would be interested in seeing it too.

Yours,

William J. Casey

Attachment

The Honorable George P. Shultz
Secretary of State
Washington, D. C. 20520

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U.S. House of Representatives

NELSON A. ROCKEFELLER
The Vice President

* Resigned December 1973; succeeded by Peter H. B. Frelinghuysen, January 1974.

** Resigned November 1974; succeeded by Nelson A. Rockefeller, December 1974.

*** Resigned January 1975; succeeded by William S. Broomfield, March 1975.

CHAPTER 5**ORGANIZATION FOR INTERNATIONAL
ECONOMIC POLICY**

THE NATURE OF THE PROBLEM

International Economic Policy is concerned with the wide variety of interactions between the economy of the United States and the economies of other nations—trade and investment, resource requirements, monetary exchanges and financial flows, travel and transport, foreign assistance programs and the workings of international businesses, to name the more important ones. The issues arising from our international economic life are becoming more complicated as well as more interdependent. They will require a fresh and greater emphasis in both our domestic and foreign policymaking processes.

This is partly a matter of sheer quantity. The volume of international economic transactions has grown at unprecedented rates over the past decade and more, substantially faster than the growth of domestic economies. And this integration of the world economy is likely to continue, for it is fostered by such fundamental forces as the growing ease of communication, the speed of transportation, the urge for higher living standards, and the vast accumulation and spread of knowledge.

As international economic relationships increase, so do interdependencies. Mutual benefits will normally flow from these interdependencies, as trade provides cheaper sources of goods and broader markets for national products, and as financial flows supply needed capital for some and investment outlets for others. But interdependence also can become uncomfortable. Sources of critical materials may prove vulnerable to economic or political forces. Business and labor interests may have difficulty adjusting to changes in the flow of international trade. As governments have accepted responsibility for meeting public expectations for higher standards of living, and for more satisfactory distributions of income, these dependencies become crucial. In an age of interdependence, no government can fulfill its commitments to its own people except through cooperative arrangements for foreign governments and overseas economies. At the same time, the U.S. government should seek to encourage an international climate conducive to the play of market philosophy which prevails at home.

One further aspect of foreign economic policy needs emphasis. This country can no longer play the dominant role it did in establishing and maintaining the framework of the economic system of the Western World after World War II. Economic power—and with it economic responsibility—is now far more widely diffused. Nonetheless, the United States is still the leading national economy; the size and power of our economic system make it essential that, in conducting our foreign policies, we understand the implications of particular actions—the degree to which what we do will affect the whole of the international monetary, trading, and investment systems. That understanding is critical because the condition of the international economic system will in turn affect the economic health and stability of our political and security relationships with others, as well as our own economic health. Consequently, coherent policy for the United States—even more than for other countries—will continue to require a long view of our interests in international economic order, a clear understanding of the order we would like to see evolve, and an understanding of the relation between our economic, political and security objectives.

The implications of these facts are plain. Foreign economic policy looms large in the concerns of both foreign policy and domestic. In specific instances, a particular economic interest may need to be subordinated to—or blended with—strategic, security, or diplomatic considerations. In other instances, it may properly dominate, perhaps reflecting crucial domestic priorities. But the fact that these considerations are linked—that political or foreign considerations cannot exist in watertight compartments separated from economic or domestic interests—is now clear. Such recent developments as the effect of U.S. balance of payments drains and the depreciating dollar on our security and political relations, or the impact of Middle East politics on our energy supply make the point plainly.

The situation is further complicated by the fact that although a number of interests, constituencies, agencies, and Congressional committees participate in the making of foreign economic policy, foreign economic policy has not been the *central* concern of an important constituency, line agency or Congressional committee; each is focused mainly on either foreign political and security concerns on the one hand, or domestic economic concerns on the other.

Conflicts and competition among a variety of groups in setting policy are healthy and necessary in a democracy. We do not want to isolate foreign economic policy from the mainstreams of foreign or domestic policy. Yet, we do want it to have coherence and design. It is against this background that we approach the organizational question.

THE ROLE AND OBJECTIVES OF ORGANIZATION

The processes of policy analysis, formulation, and implementation take on various colorations depending upon whether the problem is first perceived and policy options first considered, and on which other interests are then brought to bear on those options. It is easy to imagine, for instance, that a decision originating in the Department of Agriculture affecting world food supplies and costs might differ sharply from decisions on the same issues originating in the Department of State. The point is not that one decision is likely to be better than the other, but that both will be inadequate unless they reflect the full range of relevant concerns—those of the American farmer, consumer, taxpayer, and of U.S. foreign policy priorities.

The problem is not confined to executive departments, for many decisions affecting foreign economic policy—often important in themselves but of peripheral concern in the context of a larger piece of domestic legislation—may take on the coloration of a particular Congressional committee.

A simple call for coordination is not enough to deal with this problem. Content must be poured into that word, particularly to ensure that foreign economic policy gets the increased awareness and attention it requires. In formulating its recommendations, the Commission proposes a mixture of more or less fixed organizational structure and flexible processes designed to:

(1) Encourage a consistent general framework in foreign economic policy responsive to and integrated with vital considerations of domestic and foreign policy. Foreign economic policy, in short, must bridge foreign and domestic policy. No organizational structure or simple set of general principles can by itself assure consistency in the treatment of a multitude of policy issues. But they can help make sure that the relevant questions are asked, a variety of perspectives are brought to bear, longer-term considerations are not submerged in the urgency of the day, and that policies are more clearly articulated, to our citizens and to foreign governments.

(2) Permit and even encourage a broad sharing of authority and responsibility for the formulation of policy, while providing protection against narrow and isolated views becoming dominant. In our complex society, many parishes have a right to be heard. They need clear access to and participation in the decision-making process. But decision-making should not be merely a tug-of-war among competing interests. A variety of organizational means—encompassing personnel policies, Departmental structure, the choice of Cabinet officers, flexible use of committees, and Presidential articulation of a set of guiding principles—must be introduced to check excessive parochialism and encourage a broader perspective in approaching foreign economic policy.

(3) Encourage greater foresight in perceiving, analyzing and attacking problems at an early stage. The human capacity to foresee the future is uncertain and limited. But for problems to be neglected because they fall through the cracks of established jurisdictions, or because no analytic capacity has been brought to bear, is inexcusable. For this reason the Commission has given particular attention to strengthening the ongoing mechanisms for monitoring and evaluating, and for bringing to policymaking levels the significant developments affecting our foreign economic policy in a fast-moving world.

(4) Provide adequate assurance that, once decisions are made, they are followed up and implemented in the spirit intended. Again, the Commission has put special emphasis on the need for strengthening our capacity to follow through on decisions taken, and to evaluate their results over time.

Fashioning organizational structures and processes to meet these objectives is not easy, even in theory. We recognize that the relative advantages and disadvantages of specific proposals can be subject to endless debate, that others might reach different conclusions on some of the specifics, and that any President or agency head will want to retain flexibility to match organization to men and circumstances. For all these reasons, we have tried to balance organizational blueprints with flexible processes. We recognize that our objectives in recommending both may be met by alternative means, which under certain circumstances may be even more appropriate.

Finally, we have eschewed change for the sake of change. The present basic structure, while not ideal, has much to commend it.

ORGANIZATION AT THE "TOP"

Assisting and Advising the President. Only the President is in a position to integrate international economic policy with foreign and domestic policies, and to provide the required focus and stimulus for decision and action. He must direct the formulation of international economic policy—just as he does domestic economic or foreign policy—and its increasing importance will demand his increasing awareness.

He will need help in dealing with international economic problems to assure that necessary issues come to him for decision and unnecessary ones do not; that issues for decision have been fully staffed and relevant viewpoints presented; that newer and emerging problems are given appropriate attention; and that issues are dealt with in timely fashion.

In light of these and other needs, we propose three organizational measures:

(1) *A senior Assistant to the President should be charged with the central White House staff function in economic policy, both domestic and foreign. Having direct personal access to the President and strong qualifications drawn from economic and/or business experience, this Assistant should participate or be represented in all relevant meetings of the National Security Council and of domestic policymaking bodies (such as the Domestic Council, the Troika or Economic Policy Board). He would be the Executive Secretary and Director of staff of the proposed joint Subcouncil on International Economic Policy.*

He should have no operational or representational responsibilities that would undermine his ability to work closely with—and not compete with—cabinet officials. His function is a delicate one: to facilitate, on occasion to prod, to think innovatively, to translate technical debate into lay language, to observe the way Presidential decisions are acted upon and to bring deficiencies to his attention, thus helping to monitor the implementation of policy. In the perspective of the President, he will need to make sure that in domestic councils, foreign policy concerns have been brought to bear, and in foreign policy decisions domestic economic implications are not forgotten. But we do not contemplate he will assume a public posture—become a Presidential “spokesman” and an independent bureaucratic force, usurping the duties of the responsible line officials. In line with this conception, occupants of the position should not be subject to confirmation by the Senate. His immediate staff should be small.

(2) *The President should appoint, and have available to him for advice, a senior and representative group of people drawn from the private sector who are well equipped by training and experience to assist in formulating foreign economic policy in the national interest—an International Economic Policy Advisory Board. The Board would be provided a small secretariat to help prepare meetings, disseminate information and focus discussion on relevant issues. It would meet at least quarterly to review issues raised at its own initiative or by the government. The Board should have direct access to the President, and the President should himself take the initiative to meet with it from time to time. The Board should have wide latitude to set up ad hoc groups, commission studies and otherwise equip it to carry out its functions. It should replace most, if not all existing advisory groups dealing with aspects of international economic policy.*

There are several precedents for this kind of advisory board—for instance, in the areas of intelligence and disarmament. Such boards can prove particularly useful when responsibility for policy is shared

by several agencies, and where the policy itself poses difficult or sensitive problems. We believe that a board to advise the President on foreign economic policy is particularly appropriate since the matters it involves cut across much of the fabric of our private economic life. The President should therefore have direct exposure to thinking outside of official channels, and conversely the ability to generate broader public understanding and support of policy positions.

In addition, the Commission believes that the nation's ability to deal with its foreign economic problems would be substantially enhanced if the President and his advisers had available an independent study group dedicated to identifying and analyzing longer-term developments in this area and investigating their significance for policymaking. We are impressed by the difficulty any operating agency experiences in undertaking such research, given the pull of its immediate responsibilities.

(3) In order to provide a focus for objective study of longer term international economic problems and a more effective early warning system for identifying the major related policy issues on the horizon, we believe an independent study group on international economic issues should be created under the auspices of the Council of Economic Advisors.

The proposed study group, comprised of a limited number of senior specialists, should have the broadest possible mandate as to areas of study, drawing upon the expertise of relevant agencies to augment its own resources. It should work closely with the various departments to improve methodologies, cross-check its data, and assure that research findings are broadly shared. Its particular focus, however, should be on issues of longer-range importance to the White House, for example, the problem of this country's having to deal with the increasing number of economies that are centrally controlled or planned. The group should not be involved in current policy decisions or operations; neither should it have coordinating responsibilities for the research activities of the departments.

Interfacing of the Departments. Under the President the major responsibility for initiating, formulating and implementing policy should lie with the major departments. We are convinced that delegation of large authority to a White House staff—with its implied corollary of a sizable staff—will erode the competence, authority and thus inevitably the quality of the Departmental executives and their staffs. Yet if his policy is to be successful, the President needs effective Cabinet officers, and highly competent Departmental bureaucracies. The President also will need to work closely with the Congress—and substantive interplay with the Congress on the mass of policy issues must perforce fall to Cabinet officers and their principal assistants

under Presidential policy guidance. The competence and initiative of departmental officers can be maintained only by their full participation in policy formation.

The Commission is persuaded that in this area, the simplicity of a single centralized structure must be avoided. If foreign economic policy were simply an arm of foreign or of domestic economic policy, its management could be entrusted to a single department. However, since we believe that foreign economic policy cannot be considered the exclusive concern of any single executive department or Congressional committee, but must reflect the interplay between foreign and economic policy considerations, neither pattern is suitable. That conclusion is reinforced by the consideration that responsibility for domestic economic policy is not centralized in the U.S., but is dispersed among a number of departments and agencies. Thus, the answer must be sought in effective relationships among State, Treasury, Commerce, Agriculture, the Energy Agency and the other Departments having domestic economic responsibilities, with each bringing its own strengths to the process of policy formation.

The State Department's principal task is obviously the formulation and conduct of foreign policy, encompassing the full range of our relations with other nations. In this context it must follow closely and influence trends abroad—making sure that the President and his advisors are aware of the probable consequences of our decisions before they are made rather than afterwards. State, through the Foreign Service, also must bear the brunt of official activities and representation abroad. These central responsibilities are large ones; they encompass economic as well as political and security matters, but the orientation is inevitably outward and generalist.

Observers have commented again and again on the systematically lower professional regard accorded economists in the Department, the relative thinness of their economic expertise in various specialties; the built-in incentives for generalists; and the political preoccupation of the Secretaries. We know that State has taken some steps to strengthen its economic capability—the greatly improved economic instruction offered by the Foreign Service Institute, for example—but much more needs to be done. We make recommendations below. But these are not designed to place the Department in a dominant position with respect to foreign economic policy formation. To discharge that role would require the Department to become so entwined with the warp and woof of domestic economic policy as to jeopardize its primary mission, and would cloud the interaction which characterizes foreign economic policy.

Looking at the domestic side, there is, as we have said, no single agency responsible for economic policy. Treasury has recently assumed a more general role than other operating departments, but this

has resulted in part from combinations of personalities, circumstances and resource availabilities which may not continue naturally. Nonetheless, because of its traditional concerns with international monetary affairs, taxation, and some specialized aspects of trade, Treasury is intimately concerned with the interface of domestic and international economics. Commerce also has broad concerns affecting foreign economic policy—trade, investment and tourism, for example—although it has been less successful than Treasury in expanding its influence. Agriculture has a more limited involvement, but an important one.

It is these departments—Treasury, Commerce and Agriculture—in close contact with domestic economic interests and the principal government decision-makers which must share with each other and with State responsibility for foreign economic policy. When they fail to reconcile positions, it will be by definition an issue worthy of Presidential decision.

Of course, these four are not the only voices to be heard—almost no important department or agency fails to touch upon issues of foreign economic policy. Their top men should have access to the President as well, when they deem critical points are at stake. Organizational mechanisms need to recognize that reality too.

There is need for a mechanism to address foreign economic policy in a sustained way and to facilitate the processes necessary to bring together the domestic economic and foreign policy considerations that must make up the analysis, debate, formulation and implementation of foreign economic policy. For this purpose, we recommend that:

The President should establish a joint subcouncil of the NSC and the Domestic Council and the Economic Policy Board (or whatever White House organizations should come to perform their functions). Members of this body, the Subcouncil on International Economic Policy, would be the Under Secretary of State for Economic Affairs, the Under Secretary of Treasury for Monetary Affairs, the Under Secretaries of Commerce and Agriculture and the Chairman of the Council of Economic Advisers. Other sub-cabinet officers and agency heads would attend Subcouncil meetings as full members with respect to questions impinging significantly on their responsibilities.

Designation of a Chairman should be left to the President. However, we anticipate that normally the Subcouncil would be chaired by the Under Secretary of State for Economic Affairs. The Assistant to the President for Economic Policy would serve as Executive Secretary of the Subcouncil and Director of its staff. The staff would be drawn in part from the staffs of its parent bodies but would function as the Assistant to the President's own staff.

The Subcouncil could create such committees or task forces as the President may deem necessary to assure adequate interagency attention to continuing issues of international economic policy and to special problems. The regular members of the Subcouncil normally would be represented on each such group, as would the staff of the Assistant to the President.

The CIEP should be abolished by Congress, and its staff should be used to strengthen the economic capability of the NSC and White House Domestic Council. Other interagency international economic policy bodies would be brought under the Subcouncil framework.

In recommending this arrangement, the Commission considered carefully the merits of building this link between foreign and domestic economic policy at the full Cabinet level, especially since we recognize that Cabinet members must give more attention to matters of foreign economic policy. However, because the broad responsibilities of Cabinet members will not always permit them to devote sustained attention to foreign economic policy, and because our research indicated that the bulk of foreign economic policy issues fall at the sub-Cabinet level, the organizational pattern recommended seems most appropriate and consistent with these major needs.

In expressing our preference for Subcouncil Chairman, we recognize that good arguments also exist for other choices, and have, therefore, left that decision to the President. Our preference for the Under Secretary of State as the most likely choice reflects a number of considerations. First, he is the most senior U.S. Government official concerned solely with foreign economic policy. Second, while State may not always be the lead agency in every foreign economic policy issue, it will be so in many, and it will be *one* of the principal actors in *all* foreign economic policy issues. Third, State—alone among Departments—has in the Foreign Service and its posts and missions, the capability to provide the bulk of the foreign inputs that feed the decision-making process and to carry out decisions reached, all on a sustained basis. Fourth, in the formulation, negotiation and implementation of policy, only State has the capacity to relate a particular policy or issue to all other aspects of our relationship with a foreign country.

The Commission considered the possible channels through which recommendations (or disagreements) of the Subcouncil might go to the President and concluded that even though it may seem untidy, the most practicable arrangement was to leave open various channels. Accordingly, issues might proceed up to the President through either parent council. Other issues could be taken directly by the Assistant to the President. But formal requests for a Presidential decision should proceed to the President through one of the parent bodies.

In order to facilitate the development of policy with a Presidential perspective in which the diverse strands are brought into a consistent and intelligible framework and rationale, and a more orderly and coherent examination of the issues by the Congress and the public, we recommend:

Maintaining the practice of submitting to Congress an annual Report of the President on International Economic Policy. This report should be prepared in conjunction with the State of the World Report recommended in Chapter 10 and should be submitted as part of that Report.

The President's Assistant for Economic Policy might assume coordinating responsibility for preparing this report.

STRENGTHENING THE DEPARTMENTS

In recent years most executive departments (especially Treasury and State) have strengthened their capacities in the area of foreign economic policy. We believe that this effort should be continued but with some important shifts of emphasis.

With respect to Treasury we do not favor, as has been suggested, efforts to split responsibilities of the most senior Treasury officials—at the Deputy and Under Secretary level—between domestic and international concerns. Certain of those officials—particularly the Under Secretary for Monetary Affairs—may increasingly find the balance of their work weighted toward the international side. But relieving them of their domestic responsibilities, or removing other officials of similar rank from responsibility for foreign problems, would be damaging to that understanding of intimate interactions between the two which we seek to reinforce.

In the case of the State Department, a number of needs exist. To better equip State to play a balancing role in foreign economic policy, and to assure its closer integration with the whole body of foreign policy, changes should be made to assure on a continuing basis a strong Under Secretary of State for Economic Affairs, experienced in dealing with business and economic problems and able to command adequate resources to support his activities.

In emphasizing the crucial nature of the Under Secretary's position, we do not intend to diminish the importance of having the Secretary himself play a greater role in foreign economic or scientific policy. In fact, we believe that events will leave him no alternative. On the other hand, we know that the Secretary will often find it impossible to devote large amounts of his time to these matters. Effective delegation to the proposed Under Secretary for Economic and Scientific Affairs will thus require an incumbent with enough stature in the Department

and in the eyes of the President and other Cabinet officers, to permit him to act as the alter ego of the Secretary in this area.

The traditional preoccupation of the State Department with political matters has impeded the Department's effective participation not only in such main line foreign economic matters as trade, aid and investment, but also in the more novel but increasingly important questions of global environmental and resource interdependence.

Concerning such issues as world population, weather modification, ozone depletion, governance of ocean uses and resources, it is essential, we believe, to improve the Department's capacity to conform in particular U.S. positions to the larger purposes of American foreign policy. The reorganization of 1975, instituting a Bureau of Oceans and International Environmental and Scientific Affairs (OES), represented a step in the right direction. A remaining weakness in the current organization of the State Department, however, derives from the lack of integration between units dealing with global resource and environmental issues and those focusing on economic questions. Both the relatively low status of those bureaus and their separation from the Economic Bureau should be corrected.

We believe this can best be done by broadening the scope of the Under Secretary for Economic Affairs. We, therefore, recommend that:

The Under Secretary for Economic Affairs be retitled the Under Secretary for Economic and Scientific Affairs and that the Bureau of Economic and Business Affairs, and the Bureau of Oceans and International Environment and Scientific Affairs, together with the functional units of the Bureau of International Organization Affairs, be reordered as four new, closely related bureaus, each headed by an Assistant Secretary responsible to the Under Secretary, as follows:

- (1) *International Economic and Business Affairs (principally trade, monetary, and investment policy);*
- (2) *Energy, Transportation, and Communication Affairs;*
- (3) *Oceans, Environmental, and Scientific Affairs;*
- (4) *Food, Population, and Development Affairs.*

As the senior officer of the Department responsible for all of these matters below the Secretary, the new Under Secretary would have greater status, as well as closer links with experts and officials working in these areas. As discussed in Chapter 9, the Under Secretary also would play a major role in multilateral diplomacy, since many of the issues of concern to him will arise in multilateral contexts.

The effect of these recommendations would be to create a coherent economic-scientific-technological complex within the Department of

State. The Under Secretary and the bureaus concerned should be able not only to provide more assistance to the geographic Assistant Secretaries on economic, scientific, and interdependence matters, but to monitor much more effectively the activities of other parts of government whose concerns parallel their own.

In addition, we believe that certain changes in personnel policy will be required in the Department. Existing career incentives and organizational arrangements in State have discouraged promotion to the prestigious positions of officers with a background in economics, contributing to an insulation of foreign political and economic policy. This problem has been recognized before, and some changes instituted, but more must be done if State is to meet the challenge of a more effective international economic policy. We therefore recommend that:

Larger numbers of career Ambassadors and Deputy Chiefs of Mission should be appointed from among officers with economics training and background: senior officers at economically important consular posts should ordinarily be expected to have had economic and commercial exposure either in State or through assignment to another agency; the recruitment of professionally trained economists should be accelerated without requiring that they become part of the Foreign Service; and training programs in economics for Foreign Service Officers should be accelerated.

The Commission has not examined in depth the organizational problems concerning economic policy within other Departments, but wishes to express its conviction that, if those departments are to play a proper role in shaping and implementing international economic policy, they too will need increased emphasis on such policy in personnel selection and organization. Some recommendations follow for strengthening the capability of all government agencies to deal with foreign economic policy problems. It is the Commission's view that all domestic agencies concerned, as well as our national interests, would benefit from such strengthening.

PERSONNEL FOR INTERNATIONAL ECONOMIC POLICY

Central to our strategy for a more effective foreign economic policy is the open competition of divergent interests and perspectives. But that competition must take place within a context of genuine understanding of opposite perspectives and a commitment to serve the national interest. To help create the context to facilitate communication among Departments, and to encourage greater depth and professionalism among civil servants, we recommend that:

Systematic personnel interchange at the middle-grade levels among the Departments and agencies with principal responsibilities for foreign economic policy be expanded.

To assure the success of such a program, arrangements should be instituted by the Civil Service Commission and the Foreign Service, to designate a number of responsible positions in the key agencies involved in foreign economic policy as interchange positions. Such positions would then be filled by officials from other agencies on at least a two-year term. For such a program to succeed, meaningful incentives and sanctions would have to be imposed: for example, in the case of domestic agency employees, that career officials would not ordinarily be eligible for positions of senior responsibility in foreign economic policy unless they had served with the State Department or in an overseas post. In the case of State Department officials, a corresponding tour with a domestic economic agency would be required before eligibility for senior economic positions was permitted.

The Commission rejected a more extreme option of creating a separate "International Economics Service," administered by the Civil Service Commission or the Foreign Service, to provide a common pool of trained and experienced manpower to all executive departments and agencies involved in international economic policy. Such an arrangement would provide the strongest incentive to minimize narrow bureaucratic loyalties and to broaden the horizons of key officials. Despite those attractive aspects, the Commission felt that the proposal would too sharply insulate a specialized corps from the very concerns of domestic and foreign policy that we wish to integrate. Further, the top policymakers in each department might be deprived of the loyalty and continuity they will properly demand of their key subordinates.

POLICY IMPLEMENTATION AND OVERSEAS REPRESENTATION

Unlike foreign political policy, where States has virtually exclusive responsibility, the execution of foreign economic policy has been shared to a degree among the Departments of State, Treasury, Agriculture, Commerce, and others, depending upon the substance. We believe this is appropriate, both because of the degree of knowledge required in specialized areas and because of the value of direct exposure to foreign concerns for domestically oriented agencies. Moreover, as international economic problems have grown in importance and multilateral diplomacy has increasingly supplanted bilateral negotiations as the main channel of international decision-making, Washington-based officials have assumed a larger role in economic negotiations relative to Embassy personnel. These trends have suggested to some that the time has come when we might appropriately transfer from

State and the Foreign Service the bulk of its responsibilities for economic negotiations and reporting. As is implied by our earlier recommendations, we reject this line of reasoning. But, equally, an attempt to centralize all responsibility for these matters, removing them from economic departments to State, appears impractical and counterproductive in terms of our basic objectives.

As a consequence, the Commission supports flexibility in the use of multiagency participation in policy negotiations and implementation abroad. The State Department must retain overall coordinating responsibility; no international negotiations should proceed without its knowledge and approval. It should normally participate in the manning of international delegations, but need not automatically chair these, depending upon the substantive area. Overseas representation of domestic economic departments should continue in selected areas (e.g., agriculture and finance) so long as their representatives are under the control of the Ambassador.

The proper balance between Treasury and State Department representatives overseas presents some problems; their functions overlap, yet their loyalties and conceptions will necessarily be somewhat different. Still, if the desired balance is to be achieved as we propose, we feel that direct and senior representation by Treasury staff overseas, under the overall guidance and control of the Ambassador, will remain important despite the organizational untidiness. Ultimate control by the Ambassador is essential. It is as important that we speak with one voice in our relations with other governments as it is in the executive branch's relations with the Congress and the public at home.

RESEARCH, ANALYSIS AND INTELLIGENCE

The need for effective research, analysis, and intelligence in the foreign economic field can hardly be overemphasized. The impression of the Commission is that this function, which presently involves modest costs, can usefully be intensified in virtually all concerned Departments.

We are aware that research and analysis tend to take on the preoccupation and orientation of originating agencies, and there will be no certain and unambiguous answers to economic questions. But supporting research capacities in the relevant agencies is a necessary corollary of the basic theme of competition in policy formulation. Neither the President nor other policymakers should be confined to one source of research. Moreover, the President will be able to draw upon the CEA directed research group recommended earlier.

Considerable effort has developed in recent years to facilitate communication between the intelligence community and the makers of international economic policy, paralleled by some reorientation of the intelligence community toward economic matters. We welcome these efforts and feel that the CIA, among others, should continue to improve its capacity for international economic research and analysis.

RELATIONS WITH BUSINESS, AND THE COMMERCIAL FUNCTION ABROAD

We have noted that successful foreign economic policy will be dependent in part on more active communication between the government and the private sector. In considering how to accomplish this, we recognize that the links between the public and private sectors will need to conform to established traditions, attitudes and laws establishing the broader context of government-business relations in American society. Intimacy in policymaking is discouraged by these traditions in contrast to the practices of some foreign countries. Those traditions are fully consistent, however, with better communication.

As one approach toward improving communications with the interested public, we have recommended establishment of an International Economic Policy Advisory Board. We also recommend that:

The present personnel interchange program between government and business should be expanded substantially. The Commission believes this program should be concentrated at the middle and junior, rather than at senior levels.

The Commission considered transferring from the State Department to Commerce responsibility for overseas commercial assistance to business, but we rejected this proposal, in part because we believe it would further compartmentalize functions, in part because we were impressed by recent efforts of both State and Commerce to accent this function and to strengthen their cooperation.

SPECIAL PROBLEM AREAS

Foreign Assistance Programs. The Commission considered the possible advantages of separating the major assistance programs administered by the Agency for International Development (AID)—security or supporting assistance, development assistance and disaster relief—and housing them in new organizational units. In doing so, we recognized that AID has come under increasing criticism from public and professional groups, and that the reception it has received from the Congress has been increasingly hostile.

We concluded that foreign assistance programs, while they differ in specific orientation, are inevitably overlapping instruments of foreign policy. The programs share the use of taxpayer's money in support of diverse foreign policy objectives, and almost certainly will continue to do so. We do not think that their management or operation will be made less difficult by breaking apart the agency. On the contrary, there are advantages in treating these programs in a common administrative framework.

That AID has survived for 15 years in essentially its original form despite constant criticism is a fact of some significance. The Agency has served as a relatively flexible, multi-purpose resource for the support of foreign policy, subordinate to the State Department with respect to general policy direction but charged with operating responsibilities that the State Department itself is not equipped to provide. It can accommodate frequent changes in program emphasis, an important advantage. The evolution of new kinds of assistance programs, or greatly expanded programs might suggest other organizational arrangements, but in the absence of such initiatives the present organization has much to be said for it.

The Commission, therefore, recommends that the Agency for International Development (AID) remain the State Department's operating arm for the implementation of bilateral foreign assistance.

The Commission did not concern itself with the proper roles and relative funding of bilateral and multilateral programs. We assume both will continue. We did consider whether coordination between these two forms of assistance would be more assuredly achieved if State/AID assumed the lead role in supervising U.S. participation in the multilateral development banks (as is already the case with respect to the United Nations Development Program), rather than leaving that responsibility with the Treasury Department.

We resist this change. The flows of capital through the development banks are a logical concern of the Treasury Department both as they impinge upon U.S. capital markets and as they affect the climate of international financial affairs. We are conscious that the Congressional interest in these institutions has emphasized the need for a banking or financial orientation in their management, and for a distinction between these programs and bilateral assistance. Finally, there is much to be said for separating the long-term U.S. interest in the development missions of these banks from the shorter-term and more specific political and security interests which our bilateral assistance program must perforce reflect.

Accordingly, we endorse the continuation of primary Treasury Department responsibility for supervision of U.S. commitments to the international development institutions. Treasury should coordinate with the State Department concerning directives given U.S. representatives on the executive boards when political issues arise in connection with the policies and operations of these institutions.

The Flow of International Investment. Issues of international investment have received greater prominence as a result of the growth of international corporations, many of which are based in the United States. More recently, the actual and potential flows of larger amounts of foreign investment into the United States, particularly from oil-rich nations, have raised new opportunities as well as new questions. These issues have led some nations to set up organizations to deal specifically with direct investment or with that form of enterprise popularly known as the multinational corporation.

We recognize that a wide range of substantive issues is raised by international investment and by international corporations, including tax, monetary, anti-trust and expropriation questions. We welcome the recent establishment of the Interagency Committee on Foreign Investment to screen investment funds coming into the U.S., as well as the increased efforts being given by the Commerce Department to collecting and analyzing information about foreign direct investment in the United States.

This is only part, and probably the smaller part, of of the national concern with the flow of investment funds. We need huge amounts of capital to meet energy, environmental and economic growth needs. With so much of the world's capital formation taking place in the oil rich nations and the Eurodollar market, a good part of the capital needed in the U.S. should come from abroad. Also, our need for raw materials, our interest in the development of the poor countries and the world's food needs make the application of our technology and a flow of capital from the U.S. to other countries essential to a satisfactory international economic order. To achieve a satisfactory inward and outward investment flow, it will be necessary to make investment attractive and secure both here and abroad. This is primarily a matter of tax and financial policy here and in other countries and of international understandings on expropriation and other barriers to investment.

We do not, however, believe it is necessary or desirable to establish within the United States Government a new agency, or Special Representative, to control either international corporations or the flow of capital to or from this country.

In resisting such proposals, we are influenced by two considerations:

(1) In concept, the activities of multinational corporations necessarily cut across a number of aspects of international economic policy, but those policy issues will need to be considered on their merits as they apply to all businesses with some international exposure—not just to some indefinable group labeled multinational. The designation of a special organizational entity to deal with multinational companies on the one hand, or to screen foreign investment in the United States on the other, would imply a decision to treat these matters in a new and special manner—a decision that is not justified at present.

(2) In practice, dealings with other nations on the problems of international corporations and international investment do not reveal a clear need for new and separate organizational arrangements. What are needed are the sustained attention and cooperative efforts of existing bureaus and agencies, especially in State, Commerce, Treasury and the Export-Import Bank in this area. Both for general policy problems and for more specific concerns, these flexible arrangements are effective and adequate. This issue should be a major item on the agenda of the Subcouncil on International Economic Policy.

There are, however, *two exceptions* to our conclusion that no broad organizational changes are necessary.

The *energy* industry is one special case. Rapid changes are underway in the nature of the international energy business, with ownership of production passing rapidly into the hands of foreign governments. Petroleum has enormous importance to the economy and security of the United States, and we have become substantially more dependent on foreign sources. Sensible energy policy necessarily involves simultaneous consideration of domestic and international considerations. In fact, energy policy is, perhaps, the outstanding example of how domestic and foreign policies intertwine. Oil embargos and the cartelization of oil prices generate concern for our national security, deterioration in our trade balance and the value of the dollar, and differences among allies, as well as lines at gas stations, unemployment and higher prices at home. To meet these multiple threats will take a combination of domestic policies which will conserve fuel and bring in new oil and gas and develop alternative sources of energy, and foreign policies which will result in the application of our superior oil-finding and nuclear technology around the world in order to increase the supply of oil and reduce demand for it. It also will be necessary to develop understandings among nations which will assure access to supplies, mitigate distortions in financial flows, and provide for joint efforts at conservation, oil reserves, the pooling of supplies to blunt the impact of any embargo, and so on. Some progress has been made, but not nearly enough. This is primarily a matter of deciding on appropri-

ate policies and implementing them. This is, above all, an area where cooperation between Congress and the Executive Branch is critical.

An improved organizational focus also can help resolve these problems constructively. We recommend therefore that :

The Federal Energy Administration should provide the focus and leadership for carrying out the national energy policy. The State Department will have a crucial continuing role in bringing to bear on all aspects of the policy process the critical considerations of security and diplomacy, and in coordinating and implementing the foreign policy aspects of our energy policy.

The second area in which a better organizational focus appears necessary includes trade, investment, credits and technology transfers with Communist countries. Economic contacts with nations having a centrally planned economy differ qualitatively from those where market forces predominate. Relatively close government surveillance and regulation of the process appears inevitable and necessary. Especially is this so where national security considerations arise out of the export of high-technology products. But in no other area has the Commission heard more criticism of the fragmentation of authority within the executive branch, and apparent inability to receive necessary guidance. We believe improvement here is important.

The Commission proposes that the Office of Export Administration in the Commerce Department be designated a central point of contact between the private sector and the government for the licensing and surveillance of trade and investment with Communist countries. Policy guidance for that office should be centralized in the Board of East-West Foreign Trade authorized by the Trade Act of 1974, and consisting of Cabinet-level officials from each of the departments involved in export regulation. The Board should be backed up by a working group of officials from the same agencies.

This Board, now being organized, shall reevaluate existing policies and devise a new, more efficient, and more consistent system of export control management. It shall review proposed transactions with Communist countries in light of economic criteria as well as their potential effects on national security. We believe the broad range of agencies represented on the Board, and its directive to "coordinate the policies and operations of all agencies of the United States which regulate or participate in trade with nonmarket economy countries" will help it supersede the relatively narrow approach traditionally taken toward export control. Strong State Department participation shall also seek that objective.

By itself, however, such a board will not be enough. Also necessary is a working-level staff with wide expertise on all relevant considerations, including a balance between business development interests and those of national security. This staff should be drawn in part from the Office of the Secretary of Defense, the Joint Chiefs of Staff, the CIA's Office of Strategic Research, and the Arms Control and Disarmament Agency—organizations knowledgeable about the crucial link between technological capabilities and the enhancement of important military capabilities. In addition, trade specialists and other experts on Soviet political and economic affairs should be drawn from the Departments of State, Commerce, and Treasury, as well as from other government agencies, in order to integrate more fully these considerations with military ones.

Representatives of the academic and business communities should be formed into technical advisory committees to assist the Board in gauging existing foreign availability of proposed U.S. exports, monitoring new technological developments and establishing procedures for evaluating the success or failure to export control process itself.

Close Congressional contact with the proposed Board of East-West Trade should be maintained to insure the reflection of Congressional views, and help insure Congressional approval of those arrangements which may require legislative action or approval.

Trade and the Special Trade Representative. The Office of the Special Trade Representative grew out of particular legislative concerns prior to the Kennedy Round of trade negotiations in the 1960's. It has successfully provided a focus for consideration and negotiation of questions of trade policy cutting across the jurisdiction of a number of agencies, particularly at times of complex multilateral negotiations. We see no reason to disturb a reasonably successful modus vivendi, particularly in the midst of ongoing negotiations. However, this Office will presumably be less active following the termination of the present multilateral trade negotiations some years hence.

We propose that, after the current negotiations are concluded, the ongoing tasks of administration, negotiation and coordination be accomplished by a transfer of the Office, under a Special Ambassador, to the Department of State.