Between November 1960 and May 1961, a subcommittee of the United States House of Representatives conducted an investigation into allegations of corruption within the US economic aid program in Peru. The Foreign Operations and Monetary Affairs Subcommittee (FOMAS) held nine hearings and questioned 23 witnesses, most of them officials from the International Cooperation Administration (ICA). Before its replacement by the United States Agency for International Development (USAID) in late 1961, the ICA was the agency tasked with administering the USA’s international aid.

The members of the FOMAS were interested in three issues. First, accusations of conflict of interest against John R. Neale, head of the United States Operations Mission (USOM) and director of the Inter-American Cooperative Food Production Service (Servicio Cooperativo Interamericano de Producción de Alimentos, SCIPA). Second, complaints about the alleged misuse of a US$2 million loan conceded to the Peruvian government to build a road in the Andes. Third, allegations involving the embezzlement of US$10 million in aid, intended for the victims of a drought in the Cusco area between 1955 and 1956.

The main question that this paper explores is why the FOMAS invested considerable time and resources in investigating accusations of corruption that involved what might be regarded as a relatively small amount in aid. The sources consulted do not suggest it was for party-political reasons. Nor does it appear that the legislators were ideologically motivated, as they did not attack the economic aid in itself. But what the sources do indicate is a serious concern on the part of the Congress members with the administrative side of these allegations. The members of the FOMAS sought to understand how ICA had handled these allegations, and what they revealed about the efficiency of the aid program in Latin America.
The allegations of corruption within the aid program took on renewed importance when, on March 12, 1961, nine days before the start of the second round of hearings, President John F. Kennedy assembled a large group of Latin American diplomats to announce a new Latin American cooperation program, through which the USA aimed to combat inequality and poverty by promoting the economic development of its southern neighbors.

The FOMAS members expressed concern about the ICA’s ability to efficiently and properly manage the multi-million-dollar investment that Kennedy’s proposal would entail, especially amid the accusations of corruption and mismanagement surrounding the US mission in Peru.

The FOMAS hearings also reflected the growing discomfort of the US Congress with the country’s economic aid program. By the early 1960s, there was little left of the bipartisan support that the aid program had attracted when it was founded, after the start of the Cold War. Frustration with a lack of palpable results and concerns over costs prompted increasing numbers of Congress members to question the efficiency of the program. The FOMAS investigation was part of this process.

Because of time restrictions I will concentrate on on the accusations against Neale.

The economic aid program

Before proceeding to analyze the FOMAS investigation, it is necessary to focus on the economic aid program scrutinized by the legislators to understand the context in which the investigation unfolded.

Congressional support of economic aid had its ups and downs. In the early postwar years, opposition to economic aid was led by conservative lawmakers who were concerned about costs. The economic aid program survived thanks to the support of a bipartisan coalition made up of northern Democrats and moderate Republicans, united by the Cold War. According to the historians David Holm and Andrew David, this consensus began to break down in the run-up to the US involvement in the Vietnam War, with the program coming under attack in Congress during the early 1960s. For David and Holm stress the effect that the end of the Cold War consensus had on what Congress was prepared to do to oppose Communism. These authors contend that
Congress members lost their enthusiasm for the aid program because they did not understand its purpose -- that is, how it served US national interests. Moreover, they were conscious of the time and money required to complete aid projects.

For the economist Aurelius Morgner, the program had created certain expectations that it did not fulfill, especially in political terms. Congress, and the US population, hoped that the economic growth the program was supposed to deliver would translate into governments that were democratic, stable, and US-friendly. Accordingly, each coup d'état or anti-US demonstration in an underdeveloped country was regarded as a failure of the program.

Whatever the reasons, it is clear that by the start of the 1960s, Congress had begun to question the efficiency and the merits of the economic aid program. The FOMAS investigation is proof of this.

**Accusations and administrative investigations**

The main figure at this stage was a career official in the Department of State called John R. Neale. According to Department of State information, Neale was born in 1895, worked in the US government for 36 years, and was assigned to Peru from 1943 to 1958. He became head of the aid mission in January 1952 and retired from public service in 1958. From the FOMAS hearings, we learn that he was married, had at least one daughter, and remained in Peru after retiring, where he took up livestock farming.

Neale was accused of having formed, alongside Peruvian businessman Juan Bazo, a company (*Negociación Bazo Velarde Sociedad Anónima*) engaged in livestock and industrial activities. As far as Neale’s detractors were concerned, this constituted a conflict of interest because, as head of USOM he could favor the company of which he was the main shareholder and chairman.

Neale was investigated on six occasions: in 1954, 1955, 1956, February 1958, April 1958, and 1959. The first three investigations were very lenient. The three investigators pointed out that Neale was a public official who was highly respected by his colleagues, and dismissed the accusations against him as a character assassination borne of problems with certain subordinates and, thus, were totally unfounded. These investigations were subject to serious irregularities, with signs of cronyism and the exaggeration of Neale’s credibility as mission leader.
It was not until February 1958 that Neale was investigated with any thoroughness; this time, a letter sent by a Peruvian legislator to a US counterpart (Benton F. Jensen, R-Iowa), and referred in turn to the ICA head (James H. Smith, Jr.), appears to have been decisive. This investigation confirmed the relationship between Neale and businessman Juan Bazo who, together with his wife Margaret, worked at the mission. As we have seen, alongside Bazo, Neale had created a livestock enterprise, whose board he chaired. For the investigator Edward P. Guinane, this constituted a clear conflict of interest, since as head of the mission and director of the agricultural extension service (SCIPA), Neale could make decisions that might favor a company in which he held shares. Guinane therefore recommended his removal. The April 1958 investigation came to the same conclusion, and also recommended Neale’s dismissal. However, Neale was not dismissed, but was allowed to retire on a pension of $731 per month.

The FOMAS hearings

Before we continue examining the course of the FOMAS investigation, it is worth noting that it almost provoked a constitutional collision with two presidential administrations. The first hearing was held on November 14, 1960, less than a week after the Republican defeat in the presidential election that year. The outgoing Republican administration did not cooperate with the FOMAS, refusing to submit the documentation that the body had requested, to the frustration of the subcommittee members.

This situation did not improve after John F. Kennedy was sworn in as president in January 1961. The new administration also refused to hand over the requested documentation to the Department of State. Moreover, on the instructions of the newly appointed secretary of state, Dean Rusk, a group of witnesses declined to answer questions related to the Neale case. This sparked a backlash by committee members that leaked out to the printed press. But the dispute was resolved relatively swiftly when the Kennedy administration submitted the documentation and allowed ICA and Department of State officials to answer the subcommittee’s questions.

Why did two presidential administrations—one Republican and the other Democrat—attempt to block the FOMAS investigation? The documentation examined does not provide a conclusive answer to this question. We can only speculate that it
was for institutional rather than political reasons. It would appear, especially in the case of the Eisenhower administration, that the defense of institutionalism prevailed against what the executive officials saw as undue legislative interference. In the case of the Kennedy administration, the immediate context must also have been an important factor since the hearings coincided with the launch, in March 1961, of the Alliance for Progress (AP). That is, perhaps there was a desire to avoid a scandal that would affect the proposed program of economic aid for Latin America.

Throughout the hearings members of FOMAS stressed one basic question that prompted others: how had the ICA handled the complaints against Neale? Their conclusion was clear: its handling was terrible and reflected serious failings in the aid program, sparking fears among subcommittee members about possible mismanagement of the economic aid that the Kennedy administration wanted to give Latin America under the terms of the AP, and which required the approval of Congress.

For the FOMAS members, it was evident that the ICA had been ineffective in its handling of the accusations against Neale. It had investigated these accusations in 1954, 1955 and 1956 without conclusively determining that they were unfounded. Those behind the accusations were mistreated or even dismissed, Neale's explanations were accepted uncritically, and when it was finally established that the head of mission had engaged in a clear conflict of interest, he was allowed to retire. Moreover, no criminal charges were brought against him in the courts of justice. For the members of the subcommittee, it was obvious that the ICA officials were more concerned about concealing the scandal, as well as protecting their friend, than they were about discharging their responsibilities.

The FOMAS criticisms were centered on two officials: Theodor C. Achilles (Assistant to the Secretary of State and former Ambassador to Peru) y Rollin S. Atwood (head of the Office of Special Operations, Inter-American Development Bank; and formerly regional director, Office of Latin American Operations, ICA).

Achilles, a member of the Foreign Service from 1931, had been the US ambassador in Peru from July 1956 to January 1960; in this role he was responsible for the embassy’s officials, Neale among them. Achilles came in for harsh criticism because of how he had handled the accusations against the head of mission, having only gone as far as to
acknowledge Neale's involvement in an unintentional “technical conflict of interest”. For Achilles, Neale did not act in bad faith in his dealings with Bazo, and nor did he seek to benefit financially.

Achilles was also criticized for having failed to confirm or investigate the accusations against Neale, and for having trusted the explanations he had ventured without subjecting them to scrutiny. Achilles subscribed to the theory put forward by several witnesses: that Neale had fallen prey to the ill-will of some of his subordinates. All this was roundly condemned by the subcommittee members, who saw Achilles's attitude as proof of the shortfalls of the economic aid program.

Atwood began working in the Department of State in 1942. In 1955 he was assigned to the ICA as director of the Office of Latin American Operations, a post he occupied until 1961. Atwood was Neale's immediate superior and thus the individual responsible for his supervision.

Atwood came in for two fundamental criticisms: first, with regard to his view that the aid program was beyond the accusations against Neale; and second, that his attitude toward the accusations and investigations were conditioned by his friendship with the head of mission. The subcommittee members were highly critical of Atwood, who they felt had been inefficient, irresponsible, and passive in discharging his duties.

Atwood stated that he met with one of Neale’s accusers, a Mr. Tarr, and then conversed with Neale, who refuted Tarr’s claims. The refutations of the head of mission and the rumors about Tarr that Atwood had heard, from US and Peruvian citizens alike, prompted the ambassador to petition Neale for his dismissal – and Neale obliged. To Hardy’s questioning, Atwood said that he sought Tarr’s resignation due to insubordination, and not because he had accused Neale.

The FOMAS members’ criticisms of Tarr’s dismissal were overwhelming. Atwood was asked why he had dismissed the allegations against Tarr without examining their validity, especially when the most significant of them (the conflict of interest) proved to be true. Atwood answered that although there was no excuse for the conflict of interest, he had known Neale for more than 20 years, had great confidence in him.
This did not convince the members of the subcommittee, who questioned Atwood's capabilities as an administrator. At the time of his testimony, Atwood was head of the Office of Special Operations of the Inter-American Development Bank, and as such was responsible for a budget of $394 million. This worried the lawmakers, especially after having evidenced Atwood's passivity and inefficiency in handling the Neal case. In the words of Hardy,

The harsh words of Hardy revealed the primary motive behind these hearings: concerns about the administration of the aid program and the possible cost of its inefficiency for the US people. These concerns were shared by an increasing number of Congress members, and foreshadowed problems for the US aid program.

**Conclusion**

The FOMAS investigation was part of the process of congressional scrutiny and questioning of US foreign aid, which, as we have made clear, intensified during the 1960s. The subcommittee members were concerned about the handling of economic aid, paid for by US taxpayers. Hence their interest in the Neale case, which evidenced the problems of lack of oversight and scrutiny of aid by the officials tasked with administering it: the ICA.

These concerns intensified in the face of the imminent launch of a new economic aid program for Latin America, which would entail a multi-million-dollar investment by the US government. In the words of two important members of the FOMAS,

What concerned the subcommittee members was the millions of dollars assigned to Latin America as part of the implementation of Alliance for Progress. The FOMAS investigation had exposed the ICA's inability to investigate and remedy the problems reported in Peru in a timely manner. Worried, the members asked themselves whether the AP funds would be used properly and efficiently.