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BROOKINGS STAFF PAPER

Foreign Aid in a Foreign Policy Framework

ANDREW F. WESTWOOD

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April 1966 | THE BROOKINGS INSTITUTION WASHINGTON D C



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FOREWORD

That foreign aid is an "instrument of foreign policy" has now become part of the conventional wisdom, at least in the so-called donor countries. In the principal donor country, however, relatively little effort has yet been made to analyze the relationship between foreign aid and foreign policy. How did the world look to American policy-makers during the closing days of World War II and at different times thereafter? Which foreign policy objectives was aid intended to help realize? How was it pressed into service to further these objectives? What new foreign policy problems did it in turn produce?

This Staff Paper attempts to re-create and make intelligible to the reader the broad foreign policy context within which American aid to less developed countries has evolved. It traces that evolution more or less chronologically, as foreign aid has gradually become an integral aspect of United States relations with the countries of Asia, Africa, and Latin America. It was designed as a prelude to a more detailed analysis of how well foreign aid programs have served such specific objectives as promoting economic growth in low-income countries, improving their capacity to resist aggression, and strengthening their ties with the free world. The study nevertheless stands on its own feet. Making it available at this time and in this form should be of assistance in the reappraisal of foreign aid that is currently taking place.

The present study is one of a continuing series of Brookings investigations in the field of foreign aid. The Institution's interest in this field antedates the Marshall Plan, and its published research includes a number of studies analyzing foreign aid and related economic development problems. Among them are: American Foreign Assistance by William Adams Brown, Jr. and Redvers Opie (1953), The United Nations and Promotion of the



General Welfare by Robert E. Asher, Walter M. Kotschnig and others (1957), Grants, Loans, and Local Currencies: Their Role in Foreign Aid by Robert E. Asher (1961), Development of the Emerging Countries: An Agenda for Research, Robert E. Asher and others (1962), Quiet Crisis in India: Economic Development and American Policy by John P. Lewis (1962), and Brazil's Developing Northeast: A Study of Regional Planning and Foreign Aid by Stefan H. Robock (1963). Other studies are in process.

Andrew F. Westwood, the author of the present study, was a Research Associate in the Division of Foreign Policy Studies at the Brookings Institution during the years 1962-65. Before that, he was in the Foreign Affairs Division of the Legislative Reference Service, Library of Congress. He is now associated with the Georgetown Research Project of the Atlantic Research Corporation.

Both Mr. Westwood and the Institution are deeply grateful for the helpful suggestions and constructive comments of an Advisory Committee consisting of Robert B. Black and John H. Ohly of the Agency for International Development, John D. Montgomery of Harvard University, Redvers Opie, a private economic consultant, Robert E. Osgood and Howard Wriggins of the School of Advanced International Studies of The Johns Hopkins University, and Dennis A. FitzGerald and Karl Mathiasen III of the Brookings Institution. The study was prepared under the general supervision of H. Field Haviland, Director of Foreign Policy Studies at Brookings, and Robert E. Asher, whose responsibilities include foreign aid studies.

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The views expressed in this Staff Paper and the interpretations made are of course those of the author. They do not necessarily represent the opinions of those who were consulted during its preparation. Neither should they be construed as reflecting the views of the trustees, the officers, or the other staff members of the Brookings Institution, or of the Ford Foundation.

Robert D. Calkins
President

April 1966



CONTENTS

	<u>Page</u>
INTRODUCTION	1
I. PRELUDE TO AID TO UNDERDEVELOPED COUNTRIES	9
The Search for a New Approach	14
Point Four and Aid in Southeast Asia	19
II. TRIAL AND ERROR AMID EMERGENCY	27
New Adventures with Military Assistance	32
Troublesome "Strings" on Aid	33
Aid in the Iranian Oil Dispute	35
Aid After the Korean Emergency	36
III. NEW COLD WAR CONCERNS	43
Problems in the Administration of Aid	48
Agricultural Surplus as a New Form of Aid	51
Policy Problems in Asia and the Middle East	52
A New Approach to Aid	58
Soviet Competition in Aid	59
IV. A QUALIFIED SHIFT TO ECONOMIC DEVELOPMENT	63
Crisis in the Middle East	65
New Emphasis on Economic Development	68



	<u>Page</u>
Aid for India	70
More Crises	72
Problems in Latin America	77
Development vs. Cold War Uses of United States Aid	79
V. THE "DECADE OF DEVELOPMENT"	83
The Alliance for Progress	83
New Legislation	87
Aid Problems of 1961-62	88
A Shift toward Long-Term Economic Development	92
Aid for Africa	95
The New Divergence Between Aid and Policy	96
VI. CONCLUSION	101
FOOTNOTES	109

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INTRODUCTION

The United States has tried to do many different things with aid in many underdeveloped countries, and the result has been an uncertain, confusing, and controversial enterprise. This short study seeks to put the American experience in perspective, as a useful if incomplete guide to what the United States may hope to accomplish with aid in the years to come.

No argument for or against foreign aid will be elaborated here. The writer's broad judgment is that the United States would now find itself far worse off had it not launched on aid to underdeveloped countries. To that extent, aid has been a success. It also seems most likely that aid will continue. Seen only as the transfer of resources between a wealthy, powerful country and those less favored, "foreign aid" is as old as the relations between states. Its forms and purposes in the modern world are new, of course, and, for Americans, aid is one of the novel aspects of their involvement in the world as a Great Power. So long as that involvement continues, American aid is likely to continue.

The reasons for which aid should be given, to whom it should be given, and in what kind and magnitude are indeed the central questions. They can be answered only within the broad terms of foreign policy; and this sketch of the American experience is quite as much about foreign policy, what the United States has tried to do and why, as it is about aid, economic, military, and technical assistance.

Wise foreign policy depends first of all on what is necessary, for a nation must promote and defend its vital interests before it does anything else. Aspirations, dreams, and visions of the desirable nonetheless are important, for power to alter the world and the course of events flows not alone from military divisions and wealth but is also a consequence of leadership. To lead, a nation

must lead in a direction that others will follow. Wise policy depends equally on a shrewd sense of the possible, for a nation that dissipates its energies and attention on things that do not lie within the realm of the possible is too likely to find that it has both neglected to do what was necessary and failed to secure its desires.

To balance the necessary, the desirable, and the possible is a difficult art. In the Marshall Plan, these elements fell into almost ideal conjunction for the United States. The rapid economic recovery of Europe was judged essential in the new Cold War, and the humanitarian desire to end postwar suffering in Europe could be served better by economic recovery than by temporary relief action. The basic impediments to rapid recovery were the European lack of foreign exchange, dollars in particular, and lack of confidence in the future, both of which the United States could provide with some ease. If the Marshall Plan was large and novel, it also was essentially simple. Few such attractive opportunities have been open elsewhere.

The United States has held underdeveloped countries to be less important than those of Western Europe. It has committed itself, in NATO, to defend Western Europe with nuclear weapons if need be, but has been careful to avoid such a clear nuclear commitment to the defense of underdeveloped countries. The stakes were not judged high enough to justify the potential costs of nuclear war. Yet the broad strategic posture known roughly as containment has called for the United States to defend any and all countries against Communist threat, less because of the value put on a particular country than because the loss of any was thought to pose grave peril to all, hence to the United States. On this basis, the United States from time to time has acted almost as though a threat to an underdeveloped country were as grave a matter as a threat to Western Europe. But, on the whole, when an underdeveloped country has not seemed threatened in the Cold War, it has not seemed very important to the United States.

If Communist threat has given underdeveloped countries special importance in American eyes, the nature and immediacy of the threat here has been open to much question. Overt military attack on South Korea in 1950 took the United States by surprise, but most underdeveloped

countries are not exposed by geography to such attack. Varieties of subversion and "indirect aggression" have seemed the greater problem. But all countries at all times are exposed to such threats in one degree or another, and the crucial question is not whether such a threat exists but whether it is serious and urgent in the particular case. On the whole, this has been a complex matter of judgment in which ascertainable facts--the numerical size of a Communist party--have counted for less than subjective impressions, as about the intensity and focus of popular discontent. Responsible, well-informed men have held quite different views here, and in consequence drawn different conclusions about whether a particular underdeveloped country was of great and urgent concern to the United States. Thus, Castro's real or seeming threat to Latin America after 1959 made that area of the world suddenly seem much more important than it had during the decade prior.

Americans have found it difficult, in this situation, to settle and agree on what their nation must do in underdeveloped countries. American visions of the desirable, however, have tended to soar. It is in underdeveloped countries, rather than in Europe, that some Americans have seen the opportunity to do great things, to alter the world in great ways.

Economic development first attracted Americans for humanitarian reasons, for its presumed contribution to the prospects of peace in some indefinite future, and because it seemed to offer a course of "positive" action for the United States outside the unpleasant "negative" actions of Cold War. Over the years, as the Cold War endured and became more focused on underdeveloped countries, economic development was seen more and more as a necessary undertaking, until it has come to be a vision of the desirable also held to be necessary. As economic development has become a more serious objective, more attention and aid resources have been given to it, and a host of questions--notably where and how it should be sought--have required more serious answer.

Furthermore, the long span of years clearly required for the success of economic development in most countries has made it an awkward foreign policy objective for the United States. The Marshall Plan was scheduled for four

years and was a success in less time. Twenty-five to forty or more years, as the estimates for economic development run, is a much greater span of the future than foreign policy ordinarily attempts to cope with in any concrete way. It is simply too hypothetical. This might be no great problem if economic development were the only objective of the United States, but the Cold War has posed many immediate problems and crises to be hurdled somehow lest the course of events change sharply and, in changing, change the shape of the more distant future.

In many instances, the United States has had to make some choice between what seemed an immediate necessity and what seemed necessary as present action on long-term economic development. Precarious governments faced with internal Communist threats have been unable or unwilling to take the difficult steps necessary if development were to proceed. To support the existing government against threat has seemed necessary, although this usually has meant to continue its inability or unwillingness to act on development. To press for major changes has seemed necessary to development, although this has entailed risk that one early and most important change might be a government dominated by Communists. Such choices are always difficult, and, when present, risk must be accepted for future gain, the less hypothetical the future and its gain the better.

A high degree of uncertainty about what it was possible for the United States to achieve has made such choices no easier. There have been sound reasons to doubt that the United States could promote a successful process of economic development, and sound reasons to doubt that it could secure many of its more immediate objectives--political stability, military defense capacity, favorable international alignment.

Aid has offered only to supply the extra margin, missing component, or additional inducement needed for success. In the Marshall Plan, dollars and confidence were the missing components. Others necessary to rapid recovery--human skills and attitudes, governmental machinery--were present in Europe. The more characteristic situation in underdeveloped countries has been the absence of a whole range of the elements necessary for success. Where only financial difficulties made a government precarious, aid could well meet these difficulties. But the problem rarely has been that simple.

To a considerable degree, aid to underdeveloped countries has been provided by the United States less out of confidence that it would succeed, the case in the Marshall Plan, than out of conviction that the United States had to act somehow to meet proliferating Cold War crises and to prepare for the more distant future. Aid often has been provided when no other course of action seemed acceptable or available to the United States. Aid for economic development often has been provided because it seemed clear that development would not succeed without aid, whatever the chances for success with aid. The experience with aid to underdeveloped countries perhaps above all has been a process of trying, and of trial and error.

The conduct of foreign aid, at first glance, is a seemingly simple matter. Brief notice here of some of the peculiarities and complexities may save the reader unnecessary confusion.

Aid, as a form of additional resources, permits the recipient to shift its own resources to other uses. Aid for economic development can free the foreign exchange another country needs for the purchase of military equipment abroad or, conversely, military assistance can free foreign exchange for development needs. A recipient also may shift its internal resources. It may decide that, since the United States is willing to provide resources for economic development, it will put more of its own into such things as higher pay for the military or the civil service in the effort to gain political support. Or it may make less effort to collect taxes or to impose new taxes.

There is relatively little the United States can do to control this process of substitution, save by withholding its aid to foreclose the opportunity for substitution. In some countries, this substitution has been no great problem because of agreement with the United States on priority needs. But it has been a problem in many cases. That the United States supplied military assistance to only one of two rival countries, such as India and Pakistan while providing economic assistance to both, does not mean that it helped only one to arm.

Official labels on aid have been changed repeatedly and are confusing. For one example, much of the aid given for economic development in the 1950's bore the label "defense support." Aid statistics are drawn together to answer legal

questions often quite different from the layman's question-- how much aid did the United States provide? They are often confusing for that reason. Data is given in this study to indicate orders of magnitude, and an effort is made to use common English terms rather than official labels where they might be confusing. This is done for simplicity, but the reader should be warned that a probe further into the data often will disclose a more complex situation and that the effort to apply the common term "budget support," for example, somewhat understates the complexities that arise when a "development loan" is used for that purpose.

Some forms of aid can be provided very quickly. The United States government can write a check to provide dollars. Others require relatively enormous amounts of time and administrative effort, as when a development project has to be engineered and planned, bids sought on the necessary machinery, the machinery produced and shipped, a process most difficult to complete in under a year. A decision to provide aid often, but not always, comes far in advance of the consequent delivery of aid. The political impact of an offer to provide aid thus may be made a year or so before any aid is unloaded at the docks, and the political situation in which the offer was made may have changed sharply by the time the aid is delivered.

Most major decisions on aid have marked the outcome of a struggle within the United States government between men of divergent views, and aid occasionally has been supported by different men for quite opposing reasons. Official statements about why a decision was made have to be taken with some reservation, not because they are intended to mislead but because they reflect these compromises. It is useful, indeed indispensable, in a study of this sort to speak of what the United States, the Administration or the Congress sought to do, but this is an effort to portray what appears in retrospect to have been the dominant reason, not to indicate a unity of mind or purpose that rarely has existed.

As the first part of a larger study, these historical chapters are as much an essay about an experience as a history, and surely not an encyclopedic history of aid. They seek to touch on many things, from the implications of American nuclear posture to the reorganizations of the aid agency. They deal with some at length and leave many others untouched. Some countries, notably Iran, are

frequently mentioned, not because they were of special import, but because the author is more familiar with them and can draw illustrations from them more confidently.

The purpose of the retrospective look is to set the stage for a more analytical consideration of present and future problems of aid and policy toward underdeveloped countries. The conclusions offered here are tentative, and point more toward questions for the present and future than toward some overall judgment about whether the past has been a "success" or a "failure."

I. PRELUDE TO AID TO UNDERDEVELOPED COUNTRIES

With victory in 1945, Americans meant to ensure a just and lasting peace. The "permanent peace" won in 1918 all too clearly had sown the seeds of greater conflict, but Americans saw their own withdrawal into isolation to have been a crucial mistake. Surely, most Americans thought, the unprecedented scope and suffering of war at long last had brought men to their senses--to clear recognition of their common and fundamental interest in peace. Now that men and nations saw that they must work together, a lasting peace was possible. The task ahead for the United States and others was to forge and perfect the mechanisms--the international institutions--through which the new will to cooperate could be transformed into actual, effective cooperation on concrete problems.

Underdeveloped countries were not a central concern, but it was thought essential, if the indivisible peace were to be kept, that their outstanding problems be met. Plans for the peace had been laid with some care, and they contained, as a subordinate aspect, a position of sorts on how these problems of underdeveloped countries were to be met. As the Cold War emerged, this position became ever less tenable, but not until just before the Korean War did the United States begin to act on a quite different basis in the underdeveloped world.

So far as Americans had inquired into the matter and could judge, the outstanding problems of underdeveloped countries were an acute need for improved standards of living for the "common man" and satisfaction of his just demand to exercise the right to national self-determination. It seemed in no way feasible for the United States alone to try to meet these problems, and the peace ahead seemed to hold little need for the United States to attempt to do so.

Economic progress for all, expected to be a pillar of the peace, was to flow from the more or less autonomous operation of the international economy, once it was restored to order and freed of the improper restraints and impediments

of the past. An International Bank, an International Monetary Fund, and an International Trade Organization were to be mechanisms of cooperation toward this end, and cooperation here in time would bring improved standards of living to underdeveloped countries. National self-determination was known to arouse strong emotions, but since the right was considered settled, when and how it was to be exercised seemed open to amicable resolution among reasonable men. Colony and metropole would have a strong common interest in continuing economic cooperation, and economic progress would help to muffle the appeals of political extremists and to bring reasonable men to power. So far as necessary, the United Nations would bring contending parties together, set limits to their dispute by checking resort to force, and bring "world opinion" to bear.

Americans could assert and believe that their central effort to forge and perfect the mechanisms of cooperation for the peace also was the most effective course of action for the particular problems of underdeveloped countries. A special United States program, such as aid, to promote economic progress in underdeveloped countries (or in Europe for that matter) seemed impracticable, unnecessary, and possibly disruptive of the international economy as well. For the United States to support one side or the other in colonial quarrels seemed more likely to undermine the authority of the fledgling United Nations than to bring about the desired settlements.

In the past, Europe had played the major role in most of Asia, Africa, and the Middle East, and the United States expected Europe now to take the primary responsibility there. The United Nations was to have an overarching responsibility in which the United States, as a major member, would share. The United States had special responsibility in the Philippines, in China, in South Korea, and other occupied areas. But this was to be temporary--a responsibility for the success of the Philippine transition to independence, for South Korea until postwar settlements brought occupation to an end, for China until the continuing battle there could be brought to a close. The United States also had a special and continuing relationship with Latin America, but this was thought to impose only a limited responsibility for the problems and future of Latin America.

Thus, while the United States undertook major new

responsibilities for the peace, it looked forward to even less direct responsibility for the problems of particular underdeveloped countries than it had had in the days of isolation. It would have a share in the general responsibility lodged with international institutions for the problems and future of underdeveloped countries. But it would no longer be responsible for the Philippines, no longer need to try to maintain an "open door" to China, no longer need to pursue the Monroe Doctrine in Latin America, and was not to take over responsibilities from Europeans in other areas. It would need a general policy toward underdeveloped countries but would have little need for policies toward particular countries.

Mounting difficulties with the Soviet Union soon cast a dark shadow across the hope for peace, and the intensity of economic disruption and distress in the postwar world much exceeded expectation. Most Americans were loathe to contemplate the possibility that their wartime hopes were to prove vain once again, and they were slow to set these hopes aside.

They seized instead on the possibility that difficulties with the Soviet Union would prove temporary. Perhaps the conduct of the Soviet Union was a consequence of its terrible suffering in war and would change once Russians saw that they had nothing to fear and everything to gain from cooperation in peace. Perhaps Soviet conduct was aggressive. No lesson of the interwar period was more deeply etched on the mind than the folly of appeasement. Aggressive behavior had to be "nipped in the bud," firmly and immediately, by the unity of all against the transgressor and, properly "nipped," was to die back, not sprout anew. Thus, whether Americans saw Soviet conduct as defensive or as aggressive they could remain in agreement that peace remained possible and that the United States must not risk the chance for it through doubt, distrust, or hesitation in its leadership. There was no clear reason to adopt an entirely new policy toward underdeveloped countries.

As unpleasant experiences accumulated to enfeeble this optimism, Americans began to see Soviet conduct as a serious threat to the security of their own nation. This was startling, for the United States, in sole possession of nuclear weapons and an economic giant among those devastated by war or historically weak, had seemed beyond serious threat. Yet

Soviet intent to remain in Eastern Europe had become clear while events in Western Europe raised the spectre of Soviet domination of all Europe against the United States.

The imperative was to act in good time to forestall this eventuality, but probable opposition at home threatened to thwart any effort to act. The Truman Administration, with little mandate from a public absorbed in domestic concerns, faced probable opposition from remaining isolationists and from many of the new internationalists caught up in the vision of peace through cooperation--a coalition of those who opposed and those who supported the postwar foreign policy so recently adopted.

With British notice in early 1947 that Great Britain no longer could carry the burden of responsibility for embattled Greece and threatened Turkey, the United States had to decide whether to substitute American for British aid and support, and quickly, or to acquiesce in impending disaster, at least in Greece. The Truman Administration made the choice without hesitation and, having decided on a course for immediate action, had to try to carry the Congress and the public with it as best it could. ^{1/} President Truman made his public case for aid to Greece and Turkey in broad terms of the responsibilities which unpleasant reality thrust on the United States in the world at large. It would be difficult to exaggerate the historic importance of this case, promptly labelled the Truman Doctrine, for perhaps on no other terms could Americans have drawn themselves together as a nation to begin to act in the Cold War. But it is more to the point here to note its effect on policy toward underdeveloped countries where for the moment the United States saw no pressing need to respond to the Cold War threat.

The Doctrine portrayed the Cold War response as an unpleasant, presumably temporary tactic in the pursuit of peace, to be adopted only where the threat arose in forms which could not be met through the mechanisms of international cooperation. Elsewhere, the President seemed to assert, the United States could and would continue with new vigor its pursuit of peace through cooperation. The call to Cold War was sounded, and those who saw and feared the threat could rally. Yet those who thought reports of Soviet threat exaggerated, and feared more that unnecessary American militancy would destroy the chance for peace, could choose

to hear the President's emphasis on their vision of peace and, with him, renew their efforts to secure it. They could acquiesce in, rather than oppose, the limited, temporary Cold War measures of aid to Greece and Turkey. The potential coalition of opposition never fully came into being, while the public acquiescence and support essential to action in the Cold War became dependent on the idea that the United States could and would pursue its plans for peace through cooperation amid Cold War.

In the Truman Doctrine, the President absolved the Russian people of any ambition other than for peace, which by implication placed the blame on the few men in the Kremlin, perhaps on Stalin alone. This implied "devil theory" was familiar to Americans, readily grasped by them, and made the idea that the Cold War was a limited and temporary tactic credible. The near-universal desire for peace would not be defeated by a few evil men, and the peace could be pursued pending their removal or departure. Rather different views, however, were influential among many of the officials responsible for United States foreign policy.

One held Soviet conduct to be a continuation of the historic expansive thrust of the powerful Russian nation now under a Communist regime. Another, found most clearly in George Kennan's formulation of containment, put more stress on the expansive thrust as a consequence of the dynamics of a totalitarian, Communist society. While these two views led to somewhat different policy prescriptions, both held the threat to be much more enduring, deeply rooted, and encompassing than implied in the Truman Doctrine. Neither held out much hope for effective action on peace through cooperation until a position of strength had been fully secured, perhaps until the Cold War had been won in some vague future.

With Europe and China of urgent Cold War concern, the underdeveloped countries were the concrete geographic area in which the United States presumably could and would pursue peace through cooperation with new vigor. Whatever the President may have meant by his assertion in the Truman Doctrine that the United States must "assist free peoples everywhere to work out their own destinies in their own way," many Americans, particularly those most unhappy with the "negative" character of the Cold War, took this to mean some new "positive" role for the United States in underdeveloped countries where it need not respond to Cold War

threat. Such a role had not been thought feasible or necessary before the Cold War began, and policy officials absorbed in efforts to mobilize support for the Marshall Plan, to begin plans for NATO and for military assistance to Europe, and to prepare Americans for impending failure in China found it less rather than more feasible, and hardly urgent. But this interpretation of the Truman Doctrine could not be denied explicitly without peril to the precarious structure of public support essential to further action in the Cold War.

The Search For a New Approach

The need for some new approach to the problems posed by underdeveloped countries was nonetheless clear. If the focus of Cold War concern was Europe, American officials were worried about Communist challenges in underdeveloped countries as well--notably in China, but in the Philippines, Indochina, Iran, and other places. Neither the weakness of European metropolises nor the strength of resistance to their return to former colonies from which they had been ousted by Japan had been fully anticipated. In general, the strife in underdeveloped areas--in the Philippines, Indonesia, Indochina, the partition of India, between Arabs and Jews--compelled attention. But what the United States could do here, and hence what it wisely should undertake to do, were far from clear.

The British decision to give early independence to India, Pakistan, Burma, and Ceylon pleased Americans and, seemingly, relieved them of any major problem here as well. France decided to do otherwise. A weak government may lose an empire, but to relinquish one requires strong government, which Great Britain had and France did not. With French pride and morale battered by defeat in World War II, the French government had little chance to weather the domestic political consequences of a decision to give up a major part of the French empire.

It was now a prime American concern to strengthen and support Western Europe, France in particular, in the Cold War. The Marshall Plan offered to do this through rapid economic recovery. ^{2/} The battle in Indochina was a drain

on French resources, which impeded recovery, and the Marshall Plan inescapably helped France to find the resources it needed to continue in Indochina. To deny France the aid it needed for recovery and to continue in Indochina would weaken France, perhaps topple its Cabinet of the moment, not provide France with a government strong and secure enough to relinquish Indochina. The priority was to strengthen France in the Cold War, and American officials hoped that France soon would find some way to bring the struggle in Indochina to a conclusion.

Aid to the Netherlands was suspended, briefly and tentatively, when it failed to comply with the United Nations recommendation on Indonesia or the Netherlands East Indies. France, with a veto in the Security Council, kept the question of Indochina out of the United Nations, but once the question of Indonesia was before the United Nations, the United States felt compelled to take its stand on the principle of national self-determination and then, in support of the United Nations, to invoke the sanction readily available to it against the Netherlands. Aid was soon resumed with little damage to the pace of Dutch recovery. It was, nonetheless, a most difficult episode in the relations between the Netherlands and the United States, and one that surely would have proven much worse had the Netherlands suffered from internal disabilities akin to those of France, or had the aid been suspended long enough so that the United States was forced to make a serious choice between its interest in European recovery and its support of the United Nations.

The United States had no similar way in which to try to influence Asian leaders and people toward a more moderate course. It could not withhold aid it was not providing and, as it was not prepared to undertake some sort of Marshall Plan for Asia, could not hold out prospects of massive aid as an inducement. The United States would have liked to induce both sides in these quarrels to find early and advantageous compromise, but it was most difficult to do so in Europe, and Asian leaders felt that the first step was not for them to compromise, but for the United States to withhold its aid from Europe.

Economic improvement in underdeveloped countries seemed a less pressing and urgent problem. The immediate task, if there was to be hope for general economic progress, was to see to the recovery of industrial Europe. And in the

years immediately following the war, the underdeveloped countries, if poor, seemed in less acute need than they would in later years.

War had not brought dramatic devastation to these countries, China excepted. On the contrary, in many respects they seemed better off than before the war. Demand for their exports had been high and remained so. Great Britain had financed the war in a fashion that left former debtors now its creditors, and half of its external liabilities in 1945 were held in India, Burma, and the Middle East. Latin American countries had accumulated sizable foreign exchange reserves. The problem was not that underdeveloped countries were unable to pay for the manufactures of Europe, but that Europe could not supply enough manufactured goods to satisfy old liabilities and pay for essential food and raw material imports. Furthermore, the new International Bank for Reconstruction and Development soon found the needs of Europe far beyond its resources and, with the Marshall Plan, left European recovery to the United States. It now had funds available for economic development.

Accumulated reserves in the underdeveloped countries were soon expended, in no small part to satisfy pent-up demands for imported consumer goods that had been scarce during the war. The World Bank found few clients among underdeveloped countries that met its stringent criteria: sound development projects with excellent prospects of repayment. In the original conception, the Bank was to operate largely by guarantees of loans made by others, thus to help restore the element of confidence in international lending. But since it found little prospect of loans it might guarantee, the Bank turned to raise capital through the sale of its own securities, largely on the American market. This was both a source of delay--the Bank was not ready to lend until 1947--and meant that it had to establish its own standing as a sound, "hard-headed" banking institution if it were to secure funds. Loans to underdeveloped countries on less than stringent criteria threatened to impair the Bank's access to further funds.

The dissipation of accumulated reserves coupled with failure to meet the World Bank's loan criteria meant that many underdeveloped countries began to have a new need for outside economic assistance. But these reasons hardly made aid to underdeveloped countries appear promising. In

American eyes, the basic need was for these countries to put their own houses in order.

Iran was one of the acute cases. The United States in its involvement in Iran during the war had awakened Iranian expectations of postwar aid. Once the withdrawal of Soviet troops was secured, however, Iran's basic problem seemed to lie in the inability of its government to govern and to put existing resources, notably oil revenues, to good use. Early Iranian requests for economic aid were turned to the World Bank in the knowledge that the Bank was not yet ready to lend. Later requests were turned to the Bank in the knowledge that the Bank was most unlikely to lend unless Iran undertook major fiscal reforms and development planning, steps which American officials also felt Iran must take. Development planning was begun, but fiscal reform amid political instability was more difficult. By the end of 1949, the World Bank still had no intention of lending to Iran, and President Truman once again told the Shah of Iran that he must first put his own house in order before consideration could be given to United States economic aid.

The unfortunate experience with aid in China was a special frustration for American officials throughout this period, and colored thought about aid to other underdeveloped countries. In China, the United States had tried aid and the denial of aid, through the brief suspension of arms shipments. Neither proved effective. A large part of American commodities and those shipped through the United Nations Relief and Rehabilitation Administration found their way into the black market, inflation and profiteering went unchecked, no significant action was taken on reforms, and much military assistance ended in Communist hands. Further aid was judged a waste or worse, short of a major change in the Kuomintang, which meant the departure of Chiang Kai-Shek. Yet Chiang was judged the indispensable man and Americans, unprepared to press for his departure, did not see what they could do without it. 3/

The Philippines offered some corroborative evidence. Efforts to make independence a success became bogged down in the corruption and favoritism of Philippine politics and in recurrent economic crises, while the continuing "Huk" rebellion ever threatened another disaster such as China. A program to equip and train Philippine armed forces had shown some success, but it had not brought an end to rebellion, or to the political and economic discontent that fed the rebellion.

The limited experience with aid to underdeveloped countries was not encouraging. When the Administration sought funds for Greece and Turkey in 1947, a number of congressmen asked why the Truman Doctrine did not call for further aid to China, since both Greece and China were beset by civil war in which Communists challenged the existing government. The official reply was that the situations differed and called for different responses by the United States. 4/ The Truman Administration hoped that the Greek Government would put military and economic assistance to good use, and had lost hope that the Chinese Government would do so. Military assistance to Turkey brought a strong Iranian request for similar treatment, and the two countries were exposed to much the same Soviet military threat. But Turkey's stable internal situation was a basis for confidence that the aid would be put to good use, while Iran's internal malaise was a reason to lack such confidence. The Truman Doctrine indeed could be applied to China or Iran, but the Administration doubted that aid was an effective response here and was uncertain what, if anything, it could do.

The early success of the Marshall Plan turned new and favorable attention to aid as a means to deal with troubled areas. On the one hand, success in securing funds of such magnitude from the Congress for the novel purposes of the Marshall Plan forced some reconsideration of the commonplace view that, whatever might be said for aid, the Congress would not vote the money. The Congress had insisted on an early termination of postwar Lend-Lease, and a prohibition against its use for postwar relief or reconstruction was defeated only by the vote of the then Vice-President Harry Truman in the Senate. 5/ It had insisted that UNRRA funds not be used for reconstruction and, as UNRRA became caught up in the Cold War, brought it to a close by refusing an additional American contribution. The Congress was more willing, in the early stages of the Cold War, to provide funds for Government and Army Relief in Occupied Areas (GARIOA), largely for West Germany, Japan, and South Korea. It was insistent on further aid for China, and accepted aid for Greece and Turkey as an emergency measure in the face of clear armed threat. But it was determined to invoke economy in government and was not expected to favor massive aid for Europe, designed not to meet armed threat or as traditional relief, but to reconstruct the entire economy of Western

Europe. The Administration mounted a careful, extensive, and prolonged campaign to secure public support for the Marshall Plan, and its acceptance by the Congress was considered a major political victory.

On the other hand, the Marshall Plan was indeed a novel enterprise that gave Americans experience and confidence that they could significantly improve the overall economic situation in other countries. The Marshall Plan was also characterized by programs ranging from support of political action and labor unions to improvement of communications media designed to strengthen European governments against internal Communist threat while economic recovery was in the making.

There was little tendency among American officials to confuse the problems posed in Europe with those posed in underdeveloped countries. As one high official of the Marshall Plan put it, in reminiscence: "We knew from experience in Turkey (included within the Marshall Plan sphere) that what worked well in Europe would not necessarily work elsewhere. But we did not know what would work." Successful experience in Europe, however, brought a new sense of confidence, where failure in China once had been the predominant thought, that a great deal more might be done with aid in the troubled world.

Point Four and Aid in Southeast Asia

Amid these concerns, President Truman won election to a new term and turned to fashion an inaugural address for delivery in January 1949. A bright, challenging note is the order of such inaugural days, but was hard to find. The President reiterated American support for the United Nations and for the Marshall Plan, and spoke of the new and unpleasant need for NATO and military assistance in Europe. Then his fourth and final point called for a "bold, new program" of technical cooperation to lift the mass of the world's population out of its age-old condition of misery, disease, and ignorance. He spoke only of his intent to have the new Administration study the matter, but the enthusiasm of public response at home and abroad thrust the Administration into almost frantic organization of a Point Four program.

The cynic's remark that Point Four was neither new,

nor bold, nor much of a program had some justification. The United States had a program of educational, cultural, and technical exchange with Latin America, begun just before World War II to mend fences in the hemisphere and continued after the war with increasing emphasis on economic betterment. It was not considered a particularly potent or important program, save by those engaged in it, and the Information and Educational Exchange Act of 1948 had provided for similar activity in other underdeveloped areas. Some congressmen questioned whether new legislation for Point Four was indeed necessary.

A more flamboyant effort to transform Iran into a model of what the United States could do in underdeveloped countries had been suggested in the last year of the war and rejected by the Department of State. Wartime efforts to assist Iran had been most frustrating, and the suggestion was called "messianic global baloney" in a Department of State memo of the time. 6/ Finally, the United Nations with American support was proceeding with a small technical assistance program.

What was new and bold was the strong suggestion that technical assistance held the key to successful economic development. This concept had been held by a few men, largely those engaged in technical assistance activity, and as the Administration moved to act on Point Four rather than to study it, became after a fashion the policy of the United States, or at least one of its policies. Point Four legislation, passed in 1950, for the first time declared economic development to be an official objective of the foreign policy of the United States, and it was to be pursued with technical assistance.

Many, perhaps most, foreign policy officials doubted that technical assistance would bring economic development. But it was not to cost much and hence would neither upset the economy-minded Congress nor divert funds from military assistance for NATO or the Marshall Plan. Nor would limited technical assistance open the problems of corruption and diversion of aid encountered in China. It seemed doubtful that it would bring any radical change in underdeveloped countries, or difficult complications that might flow from these changes. From this viewpoint, Point Four was an innocuous program, with some diplomatic and propaganda advantages, which had strong public support. Both those who doubted that technical assistance would produce economic development and those who did not were careful to stress that it was a long-term

endeavor from which conclusive results could be expected only in some indefinite future.

There were many reasons for the warm reception Americans gave to Point Four. It was much in their humanitarian and missionary tradition. It seemed a course of action which fit the earlier assertion of the Truman Doctrine that the United States "must assist free peoples everywhere." While the President did not portray Point Four as entirely apart from the Cold War, it was widely taken to be so. The idea that American technical superiority and "know-how," rather than American money, would put an end to poverty, disease, and ignorance had wide appeal.

Economic development thus was not just formally declared to be an objective of foreign policy but established as one for which Americans had some enthusiasm--on the proposition that it could be secured through technical assistance. Administration spokesmen were careful to stress that the United States did not propose to secure economic development for others, but only "to help others to help themselves," and the proposed legislation sent to the Congress recognized that more than technical assistance might be required. There were two bills; one for technical assistance, the other to permit the Export-Import Bank to guarantee private American investments in underdeveloped countries. Technical assistance was to help create the conditions for the success of private capital, and American investments encouraged by guarantees were to help provide the capital needed to move the process of development forward. The Congress rejected investment guarantees, largely on the grounds that it was for other countries to promote and safeguard private investment within their own borders. Strong opposition also was expressed to the idea, which the Administration did not encourage, that the future might bring requests for capital assistance by the United States government.

Economic development could be seen either as a foreign policy objective which the United States meant to take the necessary measures to secure, or as a continuing aspiration toward which the United States meant to take some new action. In either case, it was to be sought not in some few selected countries but everywhere, or at least wherever American assistance was asked.

The major concern of the Administration during 1949, however, was not Point Four but NATO and military assistance,

the new Mutual Defense Assistance Program. This concern about NATO and the mounting domestic political quarrel over "China policy" began a course of events that led the United States to undertake substantial economic assistance in South-east Asia shortly before Point Four was finally enacted in June 1950.

The Administration asked the Congress for blanket authority to undertake military assistance anywhere outside the Soviet Bloc. But opposition was so sharp and immediate that a new bill specifying the countries of Western Europe, Greece, Turkey, the Philippines, South Korea, and Iran was substituted. Outside Europe, Iran was the one new addition. It seemed wise to strengthen internal security forces there.

Military assistance to Europe was controversial, and the exclusion of China provoked a major quarrel in which some congressmen charged that the United States was neglecting Asia in favor of Europe. The Administration firmly resisted further military assistance for China but accepted a compromise provision which permitted the use of \$75 million for either military or economic assistance in the "general area of China." The Administration did not plan to use the funds and was not required by law to do so. It sought to avoid jeopardy to the entire bill with its funds for NATO. Indeed, the planning within the Administration pointed in a direction quite different than new aid and involvement in the "general area of China."

Soviet explosion of a nuclear device well before American expectation, together with the impending fall of China, brought a major foreign policy review in 1949. Attention was focused on the probable situation, four or five years away, when the Soviet Union would have an effective nuclear force. Overt Soviet use of military force had been somewhat discounted in American calculations because the Soviet Union did not possess nuclear weapons. It had seemed improbable that the Soviet Union would accept the risks of overt military action for the limited stakes of an underdeveloped country. However, once the Soviet Union had a nuclear arsenal, it might adopt a more adventurous course, particularly for the high stakes of Europe.

It seemed essential, to those who tried to plan for the future, that the small American ground forces not be engaged in Asia, about the periphery of Communist China, at the moment when they might be desperately needed in Europe.

The vital was to be protected at possible cost to the secondary. This position was set forth in public by Secretary of State Dean Acheson in January 1950 when he drew the defense perimeter of the United States in Asia so as to exclude Korea, Taiwan, and Southeast Asia.^{7/} The Administration had decided that it could not defend these countries if attacked, but the predominant estimate was that the new Communist regime in China would be too absorbed in the difficulties of consolidating its control within China, disrupted by years of civil war, to launch an external attack.

American troops were withdrawn from South Korea in 1949. The Rhee government, though faced with many other problems, managed to put an end to guerrilla activity. Relief and rehabilitation programs were taken over by the Economic Cooperation Administration (ECA) of the Marshall Plan, in 1949, and emphasis was shifted to reconstruction and development. When the Korean War came in June 1950, the United States had provided some \$450 million in economic aid of all kinds since 1945,^{8/} and it had been judged a substantial, if incomplete, success. The immediate prospect had been for reduction in Korean forces and military expenditures, with Mutual Defense Assistance Program (MDAP) military assistance focused on spare parts and further training, and for diminishing economic assistance.

Taiwan was quite another matter. The Truman Administration sought to disengage the United States from the uncertain future of that island without precipitating its collapse. Military assistance was brought to a close at the end of 1949, and economic assistance was to be reduced. A rural reconstruction program, combining land reform and technical assistance, had been begun on the Chinese mainland far too late to have any impact but nonetheless showed promise. It was pressed forward on Taiwan.

The struggle for Indochina was not going well for France, and, at the same time, all was not well in NATO. French ground forces were to be central to NATO strategy, but they were deeply engaged in Indochina, and the French government was too weak to contemplate a major force increase. It instead sought American aid in Indochina on the proposition that the struggle there thus could be brought to an early conclusion, and French energies turned to NATO. Many American officials doubted this proposition, and some opposed such aid strongly as ineffective involvement in the last stages of a losing and

unpopular cause. But NATO was a much larger problem, the defeat of French forces in Indochina would be a disaster for NATO, the challenge in Indochina now was seen more clearly to be Communist, and French knowledge that "general area of China" funds were available made it particularly difficult for American officials to fend off French requests.

Missions were sent to Southeast Asia in late 1949 and early 1950 to see if aid could be put to good use there. Predictably, they found uses for it. Military assistance for France in Indochina, and economic assistance for the Associated States of Vietnam, Laos, and Cambodia that made up Indochina, were announced in May 1950. The United States was not prepared to aid only the embattled colonial power in the area, and aid programs for Burma, Thailand, and Indonesia also were set under way.

The \$75 million in "general area of China" funds was about what the Administration contemplated for France in Indochina. But Secretary of State Acheson, under continuing pressure from the Congress to increase aid to Taiwan, suggested in early 1950 that if congressmen insisted on further action in Asia, they might provide authority to use some \$84 million, remaining unspent from the China Aid Act of 1948, in the "general area of China." This handy device both eased pressure to make these funds available to the Kuomintang government on Taiwan and provided additional funds for Southeast Asia. The Congress went along, with provision that half of the \$84 million should be used on Taiwan if feasible, and officials charged with aid to Southeast Asia were instructed to draw their plans to fit the \$75 million under MDAP, a consequence of compromise with the Congress in 1949, and roughly half of what happened to be left over from the China Aid Act. It was a rather random sum, and one which was over three times what the Administration was seeking for Point Four on a world-wide scale.

The economic programs--\$22 million for the Associated States of Indochina, \$10.2 million for Burma, \$8.9 million for Thailand and \$7.9 million for Indonesia--were inaugurated on June 5, 1950 when authority to use China Aid Act funds became available in the omnibus aid legislation also authorizing Point Four. Point Four officials, contemplating a program of roughly one-half million dollars in Iran and one the same general size in India, were hard pressed to find appropriate personnel and projects on this

small scale. ECA officials charged with the programs in Southeast Asia, began on "the premise that, unless concrete results can be achieved promptly there will be no future for long-range technical assistance and development programs." Here the United States sought to employ military assistance and "all the various instruments of (economic) aid--technical assistance, grants, loans and general economic planning--now, and in sufficient volume." 9/

There had been no overall policy decision that the United States had a special interest in pressing economic development forward rapidly in Burma, Thailand, and Indonesia (economic assistance in Indochina would be largely emergency relief). If anything, there had been a decision somewhat to the contrary. Nor was there anything about these countries that made an effort to promote rapid economic development appear particularly promising here. Funds had become available, and there were pressures to put them to work here. ECA officials were to try to promote rapid economic development in these countries while Point Four officials followed their quite different approach elsewhere.

During the same period of time, the Export-Import Bank was being pressed into a new departure that amounted to a form of capital assistance for economic development. The prime function of the Bank was to promote American exports, but in the late 1940's, it gave increasing favor to loans, particularly in Latin America, which also could be seen as a contribution to economic development. In late 1949, it extended a \$100 million line of credit to Indonesia and then, in early 1950, prepared a \$25 million line of credit for Iran. Both were undertaken primarily for political reasons. American support for Indonesian independence brought a certain sense of responsibility for its success, and the line of credit, prior to the decision to provide aid, was in celebration of Indonesia's final, formal independence. The Shah of Iran, told once more that economic aid depended on his setting his own house in order, had installed a "strongman" reform government of some promise, and the line of credit seemed a necessary American response.

This was not just an export promotion activity which also might promote development. It was a substitute for aid in the absence of an established program and a substitute that incidentally would promote exports. The lines of credit also were a form of aid most suitable to the doubts of the time, for they were not funds provided but funds promised if

and when the recipients came up with acceptable projects or uses. The transfer of funds, or aid, was reserved pending better demonstration that it would be put to good use, yet the aid could be offered and announced. The line of credit to Iran was allowed to lapse unused as Iran plunged into the turmoil of oil nationalization and Dr. Mossadegh. That to Indonesia was not used for some years, and then slowly as American technical assistance helped Indonesians draw up suitable projects.

Just before the Korean War, then, the United States had moved rather far into aid to underdeveloped countries. It had established military assistance programs in Turkey, the Philippines, and South Korea, was closing a program on Taiwan and beginning new programs in Iran, Thailand, and to France in Indochina. Economic programs for Burma and Indonesia also were to include funds for equipment and training of police or security forces, rather similar to military assistance for Thailand but not called that due to the "neutralism" of Burma and Indonesia. Point Four was to promote economic development everywhere through technical assistance. The United States had been providing a good deal more than technical assistance in Turkey, South Korea, and the Philippines and was to begin to do so in Southeast Asia as well. The Congress had indicated sharp opposition to the idea of capital assistance for development, but a substantial portion of these larger programs was that, and the Export-Import Bank was being used as a source of capital assistance.

The United States had a coherent military posture that called for it to defend the greater interest in Europe at possible cost to the lesser interest in underdeveloped areas. But as yet it hardly had a coherent policy toward underdeveloped countries. Save in Turkey, military assistance was more to meet internal security needs, including guerrilla challenge, than to meet a possible overt military attack from the Soviet Bloc. This internal threat, as the Philippines clearly showed, was not dependent on a common border with the Soviet Bloc, yet military assistance was very much concentrated about the Soviet periphery. Economic assistance to promote rapid economic development in Southeast Asia was very much directed at this internal threat, but elsewhere in the underdeveloped world, the United States was to pursue development through the leisurely means of Point Four. Policy as well as aid had grown piece by piece.

II. TRIAL AND ERROR AMID EMERGENCY

The unexpected attack on South Korea in June 1950 posed an acute dilemma for the United States. It seemed clear that Communist intentions had been misgauged, but how badly, no one knew. To respond in Korea seemed essential to demonstrate American will to resist aggression. Yet the attack, as evidence of a new Communist willingness to resort to military force, was perhaps evidence as well of Communist intention to use military force elsewhere in the near future. To fail to respond in Korea might well encourage additional Soviet attacks. To respond in Korea meant military involvement in Asia at peril to the greater interest in Europe, and Korea might prove a feint to draw the limited ground forces of the United States into Asia.

The decision to respond was made with some hope that air power would prove decisive, would allow the United States to respond and yet not be drawn into military engagement on the mainland of Asia. The hope proved illusory, but the United States could not afford to have its response prove ineffective. Years of economy in defense expenditure now meant that American ground forces became absorbed in Korea. There was no reserve to meet attacks elsewhere.

The United States, turning to muster whatever means it could, pressed foreign aid heavily into service. The Mutual Defense Assistance Program, off to a slow start before Korea, was given all the impetus money could provide. The Congress quickly passed a pending, \$1,222 million, one-year extension and then provided a supplemental \$4,000 million. By far the greater part was for NATO, and there alone did it seem possible to put massive new military assistance to good use. There was no shortage of funds for military assistance to underdeveloped countries, but money and equipment would not quickly build strength where skills, organization, and will were lacking.

The Technical Cooperation Administration (TCA)

for Point Four began to function in September 1950. The larger and urgent economic aid programs just begun by ECA in Southeast Asia seemed more to the point than Point Four technical assistance that looked toward results in some vague and distant future.

Policy toward Taiwan was changed sharply. The Seventh Fleet was ordered to protect Taiwan, military assistance was begun anew, and economic assistance was increased to some \$92 million in the year following the attack on Korea, mostly as an emergency support program. Commodities were imported for sale to generate revenues to pay military costs, to help check inflation, for direct use by the armed forces, and as raw material to keep existing productive capacity in operation.

Military assistance to French Union forces in Indochina was pressed forward. In Thailand, port, rail, and road improvements had been planned and seemed most suitable to the new possibility of external attack. The "neutralism" of Burma and Indonesia made these two countries more difficult problems for the United States. Greater need was felt for the political support of these countries in the Cold War, and the United States sought to enlarge its small programs to build police forces into military assistance. But Burma and Indonesia found any connotation of military or political alignment with the United States to be unacceptable.

Burma declined to receive a mission sent in the summer of 1950 to discuss military assistance. Indonesia, with its government badly split on the matter, received the mission but declined to receive military assistance for the time being. Economic assistance continued to be acceptable to both of these countries, and, since the United States could not act here with military assistance, it found all the more reason to press forward with economic assistance.

The United States had decided, in early 1950, that it must do more in the Philippines, but that this required major reforms by the Philippines. Americans felt greater confidence that they could understand and recommend solution to Philippine problems than, say, those of Iran, and a mission was sent to investigate and recommend specific reforms which were to be prerequisites for further economic assistance. The mission reported, after

the Korean War had begun, that major reform of public administration, fiscal policy, and land tenure (in general, what Americans wished they had secured in China) was necessary if further aid was to succeed.

Some \$250 million was held out in prospect, but not until the spring of 1951, after the Philippine legislature had enacted most of the proposed reforms, was specific new aid approved. Then only \$15 million was provided pending performance with respect to reform. This did not mean that the Philippines were without economic assistance in the interim, as existing programs were not suspended or terminated. Reform was required for additional or new aid. Nonetheless, here perhaps more than in any other instance throughout the history of aid to underdeveloped countries, the United States imposed a stringent requirement for broad reforms as the condition of its aid. This was done in Asia during the height of the Korean emergency when the United States felt impelled to press new economic assistance forward in neighboring countries, aligned or "neutralist," with few if any conditions.

Concrete situations differed. The Philippines were aligned with the United States and Americans were confident that they would not turn against the United States in the Cold War. Americans were not confident of this in Burma and Indonesia. Americans also were confident that they could cope with Philippine problems; a confidence which did not extend to Burma and Indonesia where the United States had had little prior experience. Nevertheless, conditions on aid for the Philippines made it appear that to be an ally of the United States in the Cold War offered little advantage in terms of securing aid; indeed, in some ways less advantage than to be "neutral." The need for major changes if aid were to prove effective was not confined to the Philippines but was quite as true in Burma, Indonesia, and Thailand, with the necessary changes different in each country, of course.

Iran was scheduled to have a Point Four program of some \$500,000. Now, in the hope of early impact on the worsening internal situation, this was increased to \$1,500,000. This meant a program somewhat larger than Point Four officials could conduct effectively, one of no particular promise for rapid economic development, and

one too small to satisfy the desire of the Iranian government for substantial economic assistance. It was satisfactory to no one, and plans were laid for a \$23.5 million "Point Four" program in the fiscal year to come; that is, for an emergency aid program conducted by TCA under the Point Four label.

India and Pakistan were less exposed by geography than Iran or Burma to external attack, save from each other, and seemingly less threatened by internal Communist movements. They were scheduled to receive only Point Four technical assistance. However, a number of American officials thought it necessary to do more, particularly in India. Some, emotionally attracted by the India of Ghandi and Nehru, wanted a larger effort to promote India's economic development. Others thought that more aid might soften India's strident "neutralism." Pakistan was linked to India by intense mutual hostility. Whatever was done for one seemingly had to be done for the other if the United States was not to have this hostility focused on it.

Larger programs for Iran, India, and Pakistan were among the changes in aid for underdeveloped countries the Administration had in mind when it turned to the Congress in early 1951 for new aid legislation, to be the Mutual Security Act. Aid to Europe, however, remained the principal concern, and a controversial change was proposed here.

The successful Marshall Plan was to end in 1952, but the Administration sought to continue economic assistance as "defense support" to permit rapid rearmament without economic disruption. The Congress had grown unhappy as foreign aid became a complex and confusing enterprise, and it consistently viewed aid, save only Point Four, as a temporary expedient. This transformation of a successful program due to end into a continuing effort of indefinite duration was anything but popular. It begged the broad and awkward question of how temporary the emergency and foreign aid were to be. Some months before, the Congress had accepted new emergency aid, but it now was neither prepared to deny the Administration's requests nor fully prepared to accept them.

The Administration chose not to propose obvious changes in the one aspect of aid popular with the Con-

gress -- Point Four. The new programs for Iran, India, and Pakistan were portrayed as but larger Point Four programs. A fair case for this could be made in the program for India, where a promising community development project was to be multiplied many times over to cover much of the country and become a \$54 million program. 1/ But by contrast, in the preceding year TCA had had only \$14.5 million for new Point Four projects in all countries. 2/

The Mutual Security Agency (MSA) was created to take over the functions of ECA in Europe and in Asia. The United States now had a clearly labeled emergency aid program and aid agency in the view of the Congress to support its "friends" abroad in the Cold War. It also had a Point Four program administered by TCA, not to be an emergency program and not for "friends and allies" alone. But practice did not follow this appealingly simple division. The United States had begun emergency aid programs of one sort or another from Turkey to Formosa about the Soviet periphery. Some were called Mutual Security programs, some were called Point Four.

TCA officials called on to defend their program in Iran as "Point Four" found it an awkward task at best. Economic development was to be a long-term endeavor, but both emergency and nonemergency programs were concerned with development, rapid development for early political impact in one case, long-term development in the other. Confusion lent strength to a conviction that there were elements of the "shell and pea" game in aid to underdeveloped countries, which did not bode well for congressional or public support.

American officials were just beginning to stumble over some of the more prominent obstacles to effective use of aid to promote development. MSA officials, often with experience in the Marshall Plan, were impressed with elements present in Europe but absent in underdeveloped countries: "the very first step in any program of economic development . . . must . . . be the organization and maintenance of self-sustaining public services." 3/ Or in the words of Dean Rusk, then Assistant Secretary of State for Far Eastern Affairs; "These new nations have institutional weaknesses which are difficult to exaggerate. . . tax structure, a police structure, a public health structure. . . educational structures. All these need building from the

ground up." 4/ Point Four officials, as yet drawing most heavily on agricultural extension experience within the United States, were convinced that carefully chosen and conducted demonstration projects would cast widening circles of influence to bring successful development over a long period of years. They felt that it was necessary to begin by showing how hybrid seed would increase crops yields rather than by trying to restructure the government.

The "experts," MSA and TCA officials, gave very different testimony about what would work and what was likely to prove a waste of time and money. It was, to say the least, a situation in which a diligent congressman could become confused and wonder if the "experts" knew what they were doing.

New Adventures with Military Assistance

A proposal for military assistance in Latin America was given close and hostile attention by the Congress in 1951. The United States had sold a considerable quantity of surplus military equipment to Latin American countries and maintained the military advisory missions established there shortly before World War II. But military assistance to Latin America had been resisted by the Congress as unnecessary, in the absence of external threat, and as an inducement to Latin military dictatorships.

The Korean emergency provided new argument for hemispheric defense planning, and the Congress rather reluctantly accepted military assistance to Latin America on this basis. Only \$38 million was appropriated for fiscal 1952, a modest sum compared with military assistance elsewhere, and as the necessary international agreements were not signed for some time, less than one percent of this sum had been delivered as equipment by the end of the fiscal year. The major concern was not with external military threat but with consistent Latin support in the United Nations, on Korea in particular, and with internal security in Latin American countries. The Administration wanted flexibility to offer military assistance in Latin America when and where this might prove advantageous as events unfolded. Once begun on this basis, military assistance to Latin America remained a permanent, ever

small part of foreign aid, while the Congress perennially voiced its misgivings.

At the request of the Administration, the Mutual Security Act of 1951 also provided for the transfer of up to 10 percent, or \$39.6 million, of military assistance funds for Greece, Turkey, and Iran to other countries in the Middle East. Great Britain, with strong American encouragement, was seeking to form a Middle East Defense Command among Arab states, and it was thought that military assistance might provide the inducement otherwise lacking for Arabs to join. The Command was to offer some safeguard against Soviet threat, to secure the important and challenged British base at Suez, and to some degree to turn Arabs away from their preoccupation with Israel. The Arabs desired military assistance--but for use in their quarrel with Israel.

Egypt was the key, and Egypt abruptly rejected the formal proposal put forward jointly by Great Britain, the United States, France, and Turkey in October 1951. The United States then announced that military assistance to Egypt did not hinge on the specific proposal for a Middle East Defense Command and would remain under consideration. But as the situation in the Middle East worsened, particularly with Egyptian harassment of the base at Suez, the United States found no promising use for military assistance in the Middle East.^{5/} It only threatened to exacerbate the Arab quarrel with Britain and with Israel.

Troublesome "Strings" on Aid

Meanwhile, "strings" on American aid had become a source of difficulty for the United States far out of proportion to any value they might have had. The Congress, much irritated by the "neutralism" of India and others, sought to require that all recipients of American aid, save Point Four, in effect declare their alignment with the "Free World." The Administration managed to get this softened so that it applied only to recipients of military assistance. Recipients of economic and technical assistance were required only to declare their adherence to the principles of the United Nations.^{6/}

This distinction escaped most people at home and abroad. Congressional desire was seen more clearly than the actual legal requirement, and seen as a political "string" of the most blatant sort. An angry, confused storm raged abroad, particularly in the "neutralist" countries required only to reiterate their adherence to the principles of the United Nations. The most dramatic complication occurred in Indonesia.

The United States ambassador sought to induce the Indonesian government to issue the stronger declaration of Cold War alignment although only the vague declaration of support for the United Nations was necessary. He may have sought to clear the way for military assistance, perhaps to strengthen the internal role of the Indonesian Army and other anti-Communist forces, or more simply have seen the formal declaration as of value in itself. The government issued it and was promptly forced to resign. It was a month before a new government could be formed, so excited was the atmosphere, and a year before an Indonesian government was willing to enter into a new aid agreement with the United States, this time incorporating the declaration of adherence to the principles of the United Nations necessary in the first place. Economic and technical assistance was continued in the interim, but on a dubious legal basis as the Indonesian government considered the aid agreement abrogated if the United States did not. The episode deepened and entrenched Indonesia's "neutralism," and was widely taken in other countries as a dramatic illustration of how the United States sought to use its aid in the Cold War. It hardly served American concern with the internal threat in Indonesia or the American effort to build public institutions there. 7/

No country was induced into Cold War alignment, verbal or substantive, in order to receive United States aid. Nor was any country deprived of American aid its government desired. The "string" at most pulled off a husk of verbiage reiterating established positions. But this was little noted at the time, and the uproar brought the question of "strings" to the fore in the argument over foreign aid at home. Men took extreme positions, either that the United States must aid only those who would stand up and be counted, or that it must place no "strings" or conditions whatsoever on its aid, which added yet another

layer of confusion.

Iran declined to issue the declaration required for military assistance. Consequently, military assistance was suspended for a few months at a time when the United States was particularly interested in pressing forward with it. The large "Point Four" program had been planned to bring political support for the Shah's reform government, but before this program could be announced, the "strongman" premier, General Razmara, was assassinated, the oil industry nationalized, and Dr. Mossadegh had emerged out of the resulting political chaos. The opportunity for Communist seizure of power seemed much increased, and the United States wanted to strengthen the internal security role of the armed forces. But Mossadegh was wary of the armed forces as the major threat to his position and wary of American involvement with them as well. In all probability, he was happy to see military assistance suspended and, by declining to issue the required declaration, seized on the legal requirement by which the United States bound itself.

Aid in the Iranian Oil Dispute

The United States wanted a settlement of the oil dispute with Britain lest Iran, deprived of oil revenues, slip further into chaos advantageous to Communist seizure of power. Mossadegh sought massive American economic aid, roughly ten times the size of the planned "Point Four" program, as a substitute for oil revenues, in order to free himself of any need to come to terms with Britain. This posed an awkward choice for the United States. If it did not provide such massive aid, Mossadegh would continue in financial straits, perhaps an inducement for him to compromise with Great Britain, or perhaps a cause of breakdown within Iran that would lead to Communist seizure of power. To provide such aid would strain the important American alliance with Great Britain, mean no settlement of the oil dispute, and it was unclear that Mossadegh, with aid funds, would be able to control the internal situation.

The \$23.5 million planned "Point Four" program was a readily available compromise. It was not enough to

solve Mossadegh's financial problems, or to remove the financial pressure to settle the oil dispute, but in very modest degree might help to fend off the Communist threat. The projects planned for early impact on economic progress were thought particularly useful to demonstrate to the "common man" the benefits of cooperation with the West, benefits he might easily overlook with Mossadegh at the helm. If this was an effort primarily against Communist influence, it was no longer, as it once had been designed to be, also an effort to support the Iranian Government, for the way for Iranians to reap these benefits on a larger scale was to settle the oil dispute with or without Mossadegh. Last but not least, the large "Point Four" program, as well as the military assistance program, provided access to Iran for Americans at a time when the United States was much worried about Communist infiltration into the government of Iran.

The United States also made a rather half-hearted attempt to hold out the prospect of greater aid to induce Iran to settle the dispute with Great Britain. For one among several instances, the United States in August 1951 joined with Britain in a new proposal for settlement that included an offer of \$10 million in American aid to ease Iran's budgetary problems until oil revenues could resume. It had no more success here than in inducing Egypt to join the Middle East Defense Command, and indeed, since Iran was willing to go without the larger oil revenues rather than settle the dispute with Great Britain, the prospects were not good in the first place.

Aid After the Korean Emergency

By 1952, when the Administration had to turn once again to the Congress for new, one-year, aid authority and funds, the Korean emergency was drawing to a close. The war in Korea had been stalemated since the summer of 1951, and the once strong fear of immediate additional attacks elsewhere had faded. Frustration with the lack of victory in Korea, and with the Cold War in general, had become dominant among the public and on Capitol Hill. It was also a Presidential election year, and it was known that the Truman Administration would not continue after January 1953. Angry dissatisfaction

with almost every aspect of foreign policy could be found somewhere in the Congress, and foreign aid was not the least of the targets.

The Administration, in a pattern to be common in the years to come, proposed an overall total, \$7.9 billion (half military assistance for NATO), which was less than it had sought the year before (\$8.5 billion) but more than the Congress had appropriated (\$7.3 billion). It could claim a reduction and yet sought an increase. The Congress made a major cut, 24.5 percent overall most of which came from military assistance for NATO. The main effect of this cut, however, lay well in the future.

Military assistance expenditures lagged far behind funds appropriated, due to long lead times for new production and other difficulties. Of \$11.7 billion appropriated since the beginning of MDAP in 1949, only \$3 billion had been spent by the spring of 1952, although most of the remainder was obligated to specific uses. The Administration sought an additional \$5 billion so that the military assistance "pipeline" would not become depleted to force curtailment of military assistance some years hence. This was not convincing to congressmen who expected that foreign aid could be sharply reduced as the emergency drew to a close, and expected the coming Administration to reduce it.

The United States had to decide what it meant to do about underdeveloped countries. Korea had overturned the posture of the late 1940's, notably the decision that the United States could not become militarily engaged about the periphery of China. Most Americans expected that an end to battle in Korea would bring a return to some Cold War "normalcy," but it was hard to tell what this might mean.

Aid for economic development was one facet of the broad question. The United States had gone far beyond Point Four on the basis of the Korean emergency. Some Americans expected that the United States might return to Point Four alone, while others felt that an even greater effort, and one less charged with emergency, was required to promote development. This latter view became thoroughly embroiled in 1952 with the question of aid to India.

The Ambassador to India, Chester Bowles, a prominent Democrat, returned to the United States in 1952 to lobby in the Administration and on Capitol Hill for \$1

billion for India over four years. The sum was the additional foreign exchange judged necessary if India's first five-year development plan were to succeed. This proposal that the United States should do whatever was necessary to the success of Indian development was, as close as a concrete instance could be, to what the Congress had feared and strongly opposed when it enacted Point Four. It would have been difficult to choose a country which stirred more emotions among Americans.

Americans were sharply divided in their attitudes toward India. Some found the India symbolized by Gandhi most attractive, its socialism and "neutralism" of a high moral order, and its size and location such as to make its friendship vitally important. Indeed, they were engaged in a love affair with India akin to that which other Americans had had with the China of pre-Communist days. They favored greater American contribution to economic development in general, but especially in India. Other Americans were deeply irritated by India's socialism and self-righteous "neutralism," and by the love affair of their countrymen with India. Furthermore, aid tied to planning in a country insistently socialistic was seen as aid tied to a Soviet, not an American, economic philosophy. Aid to India divided Americans on emotional and ideological grounds and, as much as any issue of foreign aid, along party lines.

The Administration did not accept Bowles' proposal. It requested \$115 million for one year and justified it, not on the basis of India's five-year plan, but as a new departure within Point Four: "to compress into a short period of time, 4 years, what in other parts of the world . . . will take a long time to do, because we do not believe we have a long time and we must get results sooner," ^{8/} or roughly the justification of the previous year. But the Administration was unable to disengage aid to India from the issues Bowles raised, or disengage aid for economic development from aid to India.

All became embroiled together. When the Congress voted on the Administration request, it voted more generally on the Bowles proposal and on greater aid for economic development. It voted an emphatic nay. It was necessary in the coming fiscal year 1953, to cut back the program in India from \$54 to \$44 million rather than increase it to \$115 million. But the enduring and important effect was

not on aid to India. The next Administration, in different circumstances and with different arguments, found it possible to secure greater funds for India. The important effect was on the general issue of aid for economic development.

It was unlikely in 1952 that the Congress would accept more substantial aid for economic development. It had also been unlikely that the Congress would accept aid to Greece and Turkey in 1947, the Marshall Plan in 1948, perhaps military assistance for NATO in 1949. Wise heads held that one could not know what the Congress would or would not accept until one tried in the right way. It was hard as always to tell, save in retrospect, what the right way might be, but a proposal for massive aid to India proved to be a wrong way, as the Administration had recognized it to be.

The Truman Administration, which in general favored aid for economic development, saw its last major opportunity to affect this matter lost in the quarrel about India. There would be strong opposition to substantial aid for development within the Administration to come. To argue successfully for it would be a most difficult task, and one rendered almost impossible by the evidence of 1952, such as it was, that the Congress was strongly opposed as well. Not until pressures rose in the Senate in 1956-57 for greater emphasis on economic development was really serious consideration given to the matter.

The strategic posture necessary now that the Korean emergency was drawing to a close was another, and more urgent, facet of the broad question before the United States. If the 1949 decision to avoid military engagement on the periphery of China had been overturned by the Korean War, the reasons for it had not lost much of their force. In the Korean War, the United States alone had a nuclear arsenal, but the time was drawing ever closer when the Soviet Union would have an effective nuclear force as well. How the Soviet Union and Communist China would then act, and how the United States should react, were questions that still required answers.

If the question had not changed much, the answers which could be given had changed. To have successfully defended South Korea only to pull back to the 1949 posture, in effect to abandon Korea, was unacceptable. It was no more acceptable to pull back from Formosa, Indochina, or

Thailand. In its defense of South Korea, the United States had become committed to the defense of all countries about the Sino-Soviet periphery. There had been talk of a "policy of containment" before the Korean War, but the real policy had fallen short of this in underdeveloped areas. Now the United States had become committed to such a policy, but how it was to fulfill this commitment, if it became necessary to act on it, remained uncertain. But most Americans expected their new military forces and expenditures to be sharply reduced with the end of the Korean War, and their new emergency aid to be curtailed.

The defense of South Korea, if less than the victory Americans would have liked, was presumed to have deterred further attacks of this sort. In retrospect, men saw a variety of different explanations for the attack on Korea; perhaps the Soviet Union had taken the withdrawal of American troops in 1949, and Secretary of State Acheson's statement of the defense perimeter to exclude Korea, to mean that the United States did not put particular value on that country and would not defend it. The Soviet Union may have mistaken American intention as the United States mistook Soviet intention.

The three additional crisis spots of that time--Iran, Indochina, and Malaya--happened to be on the Sino-Soviet periphery, but in none was overt military attack the central problem. Guerrilla warfare with outside support raged in Indochina and Malaya, while in Iran the element of military force lay only in the distant background. If these crises showed the nature of the present and future threat, "indirect aggression," there was no particular reason to believe that urgent problems for the United States would be confined to countries on the Sino-Soviet periphery.

The United States had to gauge the threat correctly and prepare to meet it. If the threat were military against peripheral countries, concentration of military assistance there was in order. If it were a threat of "indirect aggression" to both peripheral and remote countries, other kinds of action would be required in many places, perhaps in all underdeveloped countries. If both threats were combined, as many officials believed, the demands on the United States would be great, and aid could not be curtailed, but perhaps must be increased, at the end of the Korean emergency.

While Americans expected their aid to be curtailed, the United States had raised opposite expectations in the underdeveloped world. In June 1950, Point Four had been largely prospect. In January 1953, the United States had either a Point Four program or a larger emergency aid program in virtually every independent underdeveloped country, and varieties of aid in a number of colonial territories as well. 9/ Furthermore, this spread had not been solely a consequence of spontaneous demand. American representatives abroad had been instructed to encourage other governments to request American aid, notably Point Four. Point Four programs in Ceylon and Nepal, for example, were thought necessary because the United States was engaged in a large program in neighboring India and might incur an "adverse reaction" if it displayed no interest in these countries. 10/

In few underdeveloped countries, if any, was the United States held to be supplying all the aid that might reasonably be expected of it. Point Four programs, far from being received as a sign of special American interest and concern, as Americans had hoped, as often had come to be seen as a sign of American disinterest. Everyone had a Point Four program, while the United States was providing the few of special interest with a good deal more. Americans began to talk of a "revolution of rising expectations" for economic development, and the United States was increasing expectations for American aid.

Where some aid once had seemed necessary to cement an alignment in the Cold War, to help ensure a vote in the United Nations, to support a "friendly" government, or more broadly to improve the "image" of the United States or the "Free World" among the populace, more aid now seemed required for the same tasks in the same places. The United States felt that it was making a proper contribution to economic development in Latin America, but found that Latins were dissatisfied with the idea that they should receive Point Four assistance while India and other countries received more substantial economic assistance. Whether the United States was "neglecting" Latin America, Latins felt neglected. Pakistan was unhappy with the magnitude of aid to India; the Arabs were unhappy with the magnitude of aid to Israel. The United States had entered on a spiral in which, aid to

some countries became a reason for aid to others, then some American aid became commonplace and taken more or less for granted. Only ever-increasing aid to each recipient offered to improve American relations with it.

American officials were aware of this spiraling situation, but the United States had yet to decide how it was to be handled. In general, each American ambassador wanted more aid to help meet the problems he faced in the country to which he was accredited. To continue the same amount of aid was not much help to him, while less aid would complicate his relations with the host government perhaps in ways that could be portrayed as dangerous in the Cold War. The United States had to decide how seriously to take its relations with each and every underdeveloped country, and this depended in large part on what sort of threat was to be posed in the Cold War, where, and how the United States was to respond to it.

The questions open for the future were large. Americans gave one form of answer when they elected a new Administration in the strong expectation that it would be able to, and would, return the United States to some form of "normalcy."

III. NEW COLD WAR CONCERNS

The Eisenhower Administration took office with strong commitment to end the frustrating struggle for Korea and stop the burgeoning of government expenditures. That foreign aid was to be curtailed was taken more or less for granted. However, the new men responsible for foreign policy soon saw many urgent problems requiring foreign aid, particularly in Asia, and were loathe to see it cut. Tension between the desire to "economize" or "balance the budget" and to do justice to foreign policy problems marked much of the new Administration's handling of foreign aid.

To "economize" quickly proved more difficult than had been expected. Major cuts in domestic programs posed unacceptable political costs, and attention turned to the large defense budget. Cuts here were perilous but nonetheless made on the proposition that, with a "new look," the force increases planned under Truman could be "stretched out" over a longer period of years. Most military officers opposed this but were overruled by General Eisenhower as President. In this situation, foreign aid came into a more direct and immediate competition for funds with military defense programs. Funds for the one meant cuts in the other, and the political need to justify foreign aid as a national security program in the narrow sense had new force.

The Administration cut the sum proposed by Truman for aid in fiscal 1954 by 30 percent amid much talk about waste and reduction. 1/ The reality was somewhat different for the cut came largely from military assistance for NATO, and, as in the cut made in the preceding year, the effect lay in the future. There was no intent to reduce NATO force goals or the United States contribution. The immediate shortage was not of funds but of the complex modern military equipment suitable to American and European forces. "Lead times" for the production of some of this equipment were long, and some of the funds obligated shortly after the onset of the Korean War were just beginning to produce equipment in quantity. A current reduction, however, would

affect what equipment came out of this "pipeline" at what rate in the future.

Funds for military assistance in Asia, on the other hand, were increased above the Truman proposal to over \$1 billion. The year before, military assistance for all underdeveloped areas had been less than a third of that for NATO; now funds allotted to Asia were roughly half of those for NATO. Economic assistance for Asia also was increased, notably by \$400 million to help defray French costs in Indochina. If this is counted as aid directed to a problem in Asia, rather than as defense support for France, 2/ economic assistance for Asia for the first time was larger than that for Europe. The Eisenhower Administration did not cut the funds its predecessor had proposed for Point Four, still the one popular element in aid. But it did cut a new category, "special economic assistance," for India, Pakistan, and the Near East, including Iran, in effect to transfer funds proposed for these countries to Southeast Asia and the Far East and to re-entitle it "development assistance."

A strong impression was given of major reduction in aid, while the substance was to "stretch out" plans for the defense of Europe as the United States turned more aid to military problems in Asia. On this basis, aid was able to compete effectively in the budgetary process with the defense budget. Aid was judged a better defense expenditure for the United States in Asia than equivalent funds spent on American armament.

Indochina was the most worrisome problem. "Any armistice in Korea," said President Eisenhower in announcing the armistice in July 1953, "that merely released aggressive armies to attack elsewhere would be a fraud." Unfortunately, the armistice inescapably did allow China to give more attention to Indochina, where the struggle was going badly for France, just as it allowed the United States to give attention to problems other than Korea.

It would not do to secure an armistice in Korea only to see Indochina fall under Communist control. Nor would it do to end the frustrating experience in Korea only to plunge Americans into perhaps the greater frustration of battle for Indochina. Furthermore, the Administration was proceeding to reduce the armed forces that would be needed if it were to intervene in Indochina. Some other course

which meant neither the loss of Indochina nor armed American intervention was badly needed.

The French Government meanwhile had put the United States on notice that it could not continue in Indochina unless the United States bore a much heavier share of the costs there. The long struggle for Indochina had become an intense and central political issue within France, and new difficulties in North Africa added to the tensions. The concern now was less that weakness within France might bring a Communist regime there than that France might abandon Indochina under fire, to leave the problem there to the United States. The \$400 million to defray French costs in Indochina and additional military assistance were provided less out of firm belief that France would succeed than out of conviction that otherwise the United States would be forced very soon to choose between armed intervention and the loss of Indochina.

The United States pressed France to declare the "independence" of the Associated States of Vietnam, Laos, and Cambodia in the hope that this would give the local populace greater stake in the defense of their countries. Then in the summer of 1953 General Navarre, the French commander in Indochina, set forth a new "plan" stressing more flexible counter guerrilla tactics and increased forces drawn from the "independent states." It held out some hope and was expensive. In September, the United States announced that it would add \$385 million to the \$400 million already allocated. The Eisenhower Administration cautiously noted that the United States was now paying more than half of the French costs in Indochina. The French government, with a different political constituency, set the figure at 80 percent. 3/

The mounting battle for Indochina made the United States concerned about the security of Thailand. After a Vietminh probe deep into Laos in April 1953, additional military assistance was rushed to Thailand. In Burma, on the other hand, the United States had become embroiled in a situation that led Burma to terminate American aid.

Several thousand Kuomintang troops had fled from China into Burma in late 1949. Burma sought to disarm them, could not, and became convinced, not without reason, that they were being supplied from Formosa with the active if covert support of the United States. After many repre-

sentations to the United States, Burma took the issue to the United Nations in March 1953 and notified the United States that its aid program must end. Not until 1956 would the United States find an opportunity to begin its aid to Burma anew.

The United States was prepared to make a major contribution to Korean reconstruction. The need for relief, reconstruction and defense support was estimated at \$1 billion over three to four years. ^{4/} Then the vigor of Syngman Rhee's opposition to an armistice threatened to disrupt delicate negotiations with the Communists. A promise of \$1 billion in economic assistance, further military assistance, and a Mutual Defense Pact was made to help secure Rhee's acquiescence. Thus an estimate of what Korean reconstruction might cost became a formal promise of aid. In the years to come, the United States would have more difficulty with Rhee over the use and abuse of aid, but would find itself in a poor position to set further conditions.

On the day the armistice was signed, July 27, 1953, President Eisenhower asked the Congress for authority, quickly granted, to use \$200 million already appropriated for military operations in Korea on programs of relief and reconstruction. This was a most convenient way to get the first installment on the \$1 billion from the Congress. An additional \$66 million from the wartime Civilian Relief in Korea program and \$37 million already available to the United Nations Korean Reconstruction Agency brought total American economic aid in Korea during fiscal 1954 to over \$300 million. The next installments on the \$1 billion, however, would have to be sought from the Congress as part of the sum for "foreign aid."

It was not only in Asia that the Administration found increasing need for aid. In August 1953, Mossadegh was overthrown in Iran, in part through covert American activity. ^{5/} The United States offered the new Iranian Government \$45 million in budgetary support, and the aid mission director delivered a \$10 million check, the quickest, if not otherwise the most advantageous way of generating the rials with which the new Iranian Government might pay its expenses. By the end of the fiscal year, June 1954, the United States had provided \$20 million in cash for budget support, \$51.5 million in commodity imports to generate rials for budget support, \$11 million in "development assistance," and

\$12.9 million through the Point Four program. It supported the ordinary Iranian budget at the rate of \$5 million a month, and such funds as were available for economic development projects came almost entirely from American aid. The intent was to support and tide over the precarious, anti-Communist Iranian Government until oil revenues would resume.

A revolution in Bolivia during 1952 established a new regime, the Movimiento Nacionalista Revolucionario (MNR), precarious and dependent on armed, Marxist-oriented miners. The Eisenhower Administration became much worried about "leftist tendencies" when the MNR nationalized the tin mines in early 1953. World tin prices fell at the end of the Korean War, the MNR sought to meet the demands of the miners, and labor discipline collapsed. A hasty land reform sharpened the decline in agricultural production.

The Administration feared that the worsening economic situation would bring a Communist government to power in Bolivia, but it was loathe to enter into special economic assistance in Latin America especially for a "leftist" government that had nationalized tin mines. However, the World Bank declined to lend to Bolivia on the grounds that it had not settled its external debt. An effort was made to buy Bolivian tin at a special price, but this became entangled in the legal requirements governing American "stockpile" purchases. An emergency wheat grant of \$8 million was made under "Famine Relief" legislation. 6/ Then the Point Four program was increased almost three-fold to \$3.1 million, \$4.4 million in "development assistance" was provided, 7/ and the Export-Import Bank made a \$2.4 million loan. American aid to Bolivia in the year ending in June 1953 had consisted of a \$1.3 million Point Four program. Aid of all kinds rose to \$18.2 million in the next fiscal year and to \$31.7 million in the following year.

In March 1953, the Arbenz government of Guatemala expropriated lands owned by the United Fruit Company. As United Fruit was an American company, this set off a storm within the United States. The Eisenhower Administration decided that, unlike the MNR in Bolivia, the Arbenz government was beyond the pale, and by October 1953 official statements treated it as a government dominated by international Communism.

"One American nation has succumbed to communist infiltration," Milton Eisenhower reported after his tour of Latin America. "Highly disciplined groups of communists are busy, night and day, illegally or openly, in the American republics . . . While many persons may now think of Latin America as not being in the line of attack in the modern world struggle, success by the communists in these nations could quickly change all the maps . . ." 8/ Such comment set the tone. There was talk of the need to do more in Latin America, but the Eisenhower Administration chose not to do much more with aid there. After the Arbenz government was toppled in June 1954, with covert American support, aid was provided to the new Guatemalan government in an effort to support it. But on the whole, the new perils lurking in Latin America seemed dwarfed by comparison to those in Asia, and the Administration held firmly to the proposition that ample resources were available for Latin American development if Latins would set their own affairs in order. Aid was to be reduced, not enlarged by new ventures throughout Latin America.

Problems in the Administration of Aid

The Eisenhower Administration also undertook to reorganize the aid agency. The Mutual Security Agency became the Foreign Operations Administration (FOA), with Point Four (or TCA) made part of FOA. Much of public and congressional irritation with foreign aid had come to be focused on aid officials and the aid agency. The new Administration adopted this view.

On the whole, the reorganization was based on the idea that aid was to be reduced. A general reduction in personnel was ordered in the aid agency as in most other government agencies, and the aid agency was no less affected than other foreign affairs agencies by the intense excitement, in what has come to be called the "McCarthy era," over internal security. In an episode peculiar to the aid agency, its staff was required to pass intelligence and aptitude tests. Some failed and were discharged; some of these had to be rehired almost immediately as no one else, in the government or out, knew how to do their complex jobs, and the intent was not to bring aid to a halt. Amid the up-

roar of such proceedings, the need for more effective administration of aid became lost from sight, and this need had become sharp.

Many aid officials were not particularly competent for the tasks now before them, which is not to say that they had low intelligence quotients or that more competent men were available elsewhere. The aid agency had grown fast and had been staffed in a hurry. The experience of Americans with the administration of aid was limited, and much of it was experience with programs in Europe or with very modest technical assistance in Latin America. The problems now at hand were both different and more difficult.

Under the Marshall Plan, American officials had been able to rely on a corps of competent European officials, men more competent than Americans in the affairs of their own countries. Americans had been able to work out plans, procedures, and specifications with Europeans well-equipped to know what was needed. In a European country, for example, both the need for sawmill machinery and suitable technical specifications would have been worked out by Europeans. Americans would have approved the European plans and dealt with the procedures to secure the proper machinery.

In underdeveloped countries, Americans found quite a different sort of official--too often a Minister of Agriculture with no ministry to speak of, limited knowledge of agriculture, and perhaps less interest in it. Virtually every aspect of planning, procedures, and specifications fell to American officials. When it was thought that a sawmill might be useful in Iran, for example, Iranian officials had only some idea about how this was to fit into their economy and little notion about technical specifications. Americans were in much the same position, save that they knew the proper technical specifications for a sawmill in the United States or in Europe. The sawmill, when sent, proved unsuited to Iranian conditions and could not be made effective for some time.

So far as the purpose was to promote economic development over the years, the United States could afford the six months or a year that might be required to have a specialist investigate what might be suitable. Such was not the case in Iran, nor was it the more general case. Foreign policy officials pressed for quick action with aid, and, if they were

right that economic assistance indeed was urgently required, to spend a year investigating the proper form of assistance was likely to prove self-defeating. Only very experienced men could hope to act both quickly and wisely in this complex realm, if indeed even they could hope to do so. Experienced officials were in short supply in the aid agency, and the Administration could not secure more. It got rid of some, and others, despairing of the turmoil and insecurity of their position, decided that it was sensible to seek a rewarding career elsewhere and left. In this fashion, the United States launched an ever more difficult and complex endeavor, and simultaneously undermined its own ability to act effectively.

In early 1954, the Administration again had to make the annual journey to the Congress for new aid authority and funds. It was an awkward time. The Congress, in an election year, was determined to cut foreign aid, and the Administration's commitment to "economy" had not diminished. Yet events abroad, notably the impending French military defeat in Indochina, presaged the need for more, not less aid.

The Administration again proposed an overall reduction by reducing new funds for military assistance for NATO. It sought \$3.5 billion for fiscal 1955, or \$1 billion less than appropriated for the preceding year, with funds for NATO cut from \$1.8 billion to \$800 million. ^{9/} President Eisenhower stressed that some 79 percent of the new funds were for "programs essentially of a military nature." ^{10/} These programs were primarily in underdeveloped countries. New funds for Europe, military and economic, were \$975 million, while \$1.1 billion was for Indochina.

The Administration had made what it considered, in a phrase of later vintage, a "bare bones" request. To its distress, the Congress insisted on cutting the \$3.5 billion total to \$2.8 billion, largely at the expense of funds for NATO but also through a rough 10 percent cut in funds for underdeveloped countries. Furthermore, the Senate Foreign Relations Committee amended the legislation to put a specific terminal date, June 30, 1955, on the aid agency. While the legal import of this provision was small, ^{11/} its political import was substantial. Many Congressmen voted for it as a way of expressing their desire that foreign aid be terminated.

The Administration now was able to foresee the time when the repeated cuts in new funds for NATO would force a reduction in military assistance there. Cuts in aid for underdeveloped countries coupled with the general congressional attitude toward aid were a forecast of reduction in this area as well.

Agricultural Surplus as a New Form of Aid

Amid these developments, the United States discovered a new and to some a superior form of "aid" to underdeveloped countries in PL 480, the Agricultural Trade and Development Act of 1954. PL 480 was first espoused by those who sought to dispose of agricultural surpluses abroad in order to ease the domestic agricultural tangle. But it was the idea that PL 480 was not just a disposal program but a supplement to, and indeed a superior substitute for, "money" aid as well that made it so attractive to many Americans.

The use of surplus agricultural commodities was not new to the aid program. The Congress in 1953 had required that between \$100 and \$250 million of the funds appropriated under the Mutual Security Act be spent, if at all, on such commodities. This had not imposed a great burden on aid as there was a "normal" requirement for such commodities in some aid programs, and there was opportunity for substitution in Europe. Great Britain took \$20 million in surplus tobacco as defense support. This freed British dollar holdings, otherwise perhaps used to purchase American tobacco, for purchase of commodities which might have been financed as defense support aid. But as economic aid to Europe was reduced, these opportunities for substitution shrank, and they were not open on the same scale in underdeveloped countries. In a country whose trade with the United States was small and which did not have substantial dollar holdings to be freed, the substitution of wheat for machinery meant that the country would have wheat but not machinery.

PL 480 proposed to dispose of \$1 billion in surplus commodities over three years. The greater part, \$700 million under Title I, was to be sold for local currency, not dollars. The local currency then was to be loaned or

granted to support those activities toward which aid was directed, and in smaller part, to pay U. S. expenses in the country. Other provisions, Title II and Title III, provided for grants for emergency relief and authorized the release of surplus commodities to private American voluntary agencies engaged in relief programs abroad.

Almost every American could find something attractive here. To those who represented the farmer, it offered to reduce the large government stockpiles. To those intent on "economy" in government, it was aid free of "cost." The government had already paid for the commodities. It would save expensive storage costs, finance some of its expenses abroad, and reduce the need for funds for foreign aid. For many Americans, surplus food and fiber was a peculiarly appealing form of aid for their nation to extend: aid for the hungry, ill-clothed, unfortunate people of underdeveloped countries as against "money" aid for their unfortunate governments. Aid officials saw merit in PL 480, for they had hope that with this new program the Congress would cease to require that their funds be used for surplus disposal. The opposition, not very vigorous, came from officials of the Department of State charged with relations with other countries, who saw in PL 480 a dangerous possibility of surplus "dumping" in international trade.

Much like the Point Four proposal five years before, so attractive a scheme as PL 480 was not long left to play a modest role. Many of those opposed to foreign aid supported PL 480 as an alternative which would permit other aid to be sharply curtailed. Many of those unhappy with the Cold War, who sought not less aid for underdeveloped countries but a shift to more altruistic objectives, saw precisely such a shift in the transfer of surplus food and fiber. Experience with PL 480 would belie all simple notions about the relation between "food and fiber" aid and "money" aid, but the more immediate impact of PL 480 was to ease many a mind troubled by the ongoing reduction in foreign aid.

Policy Problems in Asia and the Middle East

The impending French defeat in Indochina posed different foreign policy problems. After much agonized consideration of military intervention, the Administration

decided with events at Dienbienphu in May 1954 that the opportunity had passed. It was necessary to negotiate a settlement and to try to keep the consequences from undermining the American position in Asia and elsewhere.

South Vietnam presented a most unpromising situation. Laos and Cambodia had been little touched by the long battle, but South Vietnam was torn, controlled more by armed sects and gangs than by any semblance of government, with morale at an ebb and refugees streaming in from the north. After some hesitation, the United States decided to support Ngo Dinh Diem. It then did so to the hilt with aid. Some \$500 million in emergency economic assistance was provided between June 1954 and June 1956, for support of two-thirds of the government budget, for reconstruction of essential facilities, and for relief and resettlement of a million or more refugees from the north. Stocks of American military equipment left by departing French forces reduced the need for new military assistance, but training of the army and police was extensive.

By 1956, this effort in South Vietnam was a considerable and unexpected success. Diem was in firm control, although not so firm that either he or the United States wished to risk the nationwide elections which the Geneva Conference of 1954 had scheduled for this time. The need for emergency aid was dwindling. "The stage was set for the next major step--preparing a longer term program to solidify the gains. . . and to lay a foundation for a progressively stronger economy leading to the goal of self-support." 12/

South Vietnam was only one part of the problem in 1954. The Eisenhower Administration was much concerned lest others see the pattern of future American action in its willingness to accept military defeat and negotiation in Indochina rather than intervene with military force. The danger was that the Soviet and Chinese leaders would take this view and press other enterprises similar to that in Indochina in the expectation of the same outcome, while the peoples thus imperiled would assume that since the United States would not go to the defense of Indochina, it would not come to their defense. If the defense of South Korea had demonstrated American will, Indochina threatened to leave quite an opposite impression.

A year before, in 1953, Secretary Dulles had begun

to give serious thought to a military pact in the Middle East. He had been impressed, on a trip through the area, with the military virtues of the Pakistani. Then the overthrow of Mossadegh in Iran, and the consequent pro-American government there, opened the possibility of a "Northern Tier" joining Turkey, Iran, and Pakistan. The Baghdad Pact was under negotiation when the Geneva settlements in Indochina took place. Dulles turned to a similar pact, the Southeast Asia Treaty Organization. Such a pact had not been considered promising in this area of the world, but it was needed now to give some demonstration of American will.

It was hard to find Asian members for SEATO. Under the Geneva accords, Vietnam, Laos, and Cambodia could not join. India, Burma, and Indonesia were hostile to the idea. Thailand was willing and the Philippines could be persuaded. The "Western" members which Dulles felt essential, Great Britain, France, Australia, and New Zealand, were unwilling to enter any pact that committed them to the defense of Chiang on Formosa or Rhee in South Korea. This left Thailand and the Philippines, rather too thin an Asian contingent for Dulles' purposes. Pakistan was invited to join on the ostensible basis that it would provide the link between the Baghdad and SEATO pacts.

Thailand and the Philippines received more aid as a consequence of SEATO, but the dramatic change was for Pakistan. Pakistan was declared eligible for military assistance in February 1954 shortly before a Turkish-Pakistani treaty, the first link in the Baghdad Pact, was announced. Then in October, with Pakistan to enter SEATO, Prime Minister Mohammed Ali visited Washington. On the occasion, the United States announced a three-fold increase, to \$105 million, in its economic assistance to Pakistan. Pakistan for the first time was scheduled to receive more American economic assistance than India.

The United States and Pakistan had rather different interests in these pacts and in the military assistance connected with them. For the United States, the pacts were directed against a Cold War threat; the military assistance was thought necessary to create the pacts and was to build Pakistani forces against possible Communist aggression. Pakistan had been bitterly disappointed in its early hopes for leadership of some Islamic world and for success in its quarrel with India. It was looking for a new, more

important role in the world and for support against India. The pacts in alliance with the United States offered this. Pakistan tried to have the SEATO pact directed against aggression from any quarter, that is, Indian or Communist, but was rebuffed by the United States. Nevertheless military assistance (and economic as well) did support Pakistan's hand against the much larger India.

The magnitude of the aid was a major political coup for Mohammed Ali, the Prime Minister. It also was determined with an eye to supporting his government, or at least the announcement was timed with his visit to the United States for this reason. He had been Ambassador to the United States, was considered pro-American, and relations with his government were very good. Finally, the United States saw a future need, later made public in the course of the U-2 affair in 1960, for the use of a secure airfield on the Soviet periphery.

The Baghdad Pact affected aid to Iran in a rather different way. There was no real reason to doubt that the Iranian Government would adhere to the pact--its open objection was that the pact offered too imprecise an American commitment. But it delayed until October 1955 when Turkey, Iraq, and Pakistan had adhered and the continued absence of Iran made the "Northern Tier" awkwardly incomplete. The delay was a bargaining gambit.

There were domestic reasons for Iran to decline to adhere. Iran's historic foreign policy sought to play the Great Powers off against one another and to avoid alignment that would inhibit this. For an unpopular government closely identified with the United States to break with this tradition to enter the Baghdad Pact would result in domestic reaction. But more important, American budget support for the Iranian Government was due to end as oil revenues resumed. They were resuming, and the government had no intention of parting with budget support.

The Eisenhower Administration was divided on the matter of continued budget support for Iran. Some insisted that it must end, and others feared that termination would imperil the already precarious government. Iranian delay on the Baghdad Pact, or the need for Iran's adherence, provided the additional argument that tipped the scales in favor of those who wanted to continue budget support. Iran received \$50 million in budget support during the year ending

in June 1955, with \$30 million of this a loan against future oil revenues. In the next year, with the strategem of the Baghdad Pact played and oil revenues again flowing on a substantial scale, Iran received roughly the same amount with the loan portion reduced to \$12 million. 13/

Iraq's adherence to the Baghdad Pact flowed from the course of events in the Arab world set in motion by the 1952 military coup in Egypt and the emergence of Nasser. The United States encouraged Iraq to adhere because Dulles hoped for a broad Arab membership to convert the "Northern Tier" into an inclusive Middle Eastern pact. Iraq, on the other hand, came to see the Baghdad Pact and alignment with the United States as a mechanism of defense against the new Egyptian leadership.

Egypt was again the key. Early American estimates of the new Egyptian leadership were optimistic, and it was thought that once a settlement between Egypt and Great Britain over the Suez base and the Sudan was reached, Egypt would prove cooperative with the West. In this spirit, the United States undertook to promote such a settlement, pressing Britain and holding out the prospect of economic and military assistance before Egypt. With the settlement in the fall of 1954, the United States immediately announced that it would provide \$40 million in "development assistance" to Egypt. Military assistance remained under discussion. The American conditions--assurances that military assistance would not be used against Israel and Egyptian adherence to some military alignment such as the Baghdad Pact--could not be reconciled with Nasser's desire for military assistance for use in the quarrel with Israel and with his distaste for any alignment with the West.

As negotiations with Egypt over military assistance bogged down, those with Iraq went forward. The Egyptian quiet refusal soon became an angry verbal attack on anyone, Iraq in particular, who betrayed the Arab cause by entering an alignment with the West. As Nasser had wide appeal within Iraq as elsewhere in the Arab world, this was most dangerous to the Iraqi regime. It had solicited United States military assistance in March 1953 largely to lessen the political identification with Great Britain, the existing supplier. For it to back away from American military assistance and the Baghdad Pact might hand Nasser a major political victory within Iraq as well as in the international

sphere. Only with a "strongman," Nuri es-Said, established in office was the Iraqi Government prepared to take the internal political risks of adherence to the Baghdad Pact, and the Pact, for the Iraqi regime, was directed more against Egyptian "indirect aggression" than Communist aggression.

Military assistance to Iraq was kept modest: \$5.4 million in fiscal 1955. Political support, not quantity of military assistance, was the central concern of the Iraqi regime. Military assistance in quantity also posed problems for the American position in the Arab-Israeli conflict. Economic assistance was kept even more modest for reasons that provide an interesting contrast with those in neighboring Iran. Both countries had substantial oil revenues, but as those of Iraq had not been cut off, there was no particular reason to begin massive budget support. While the United States continued massive budget support in Iran as its oil revenues resumed, in Iraq, it provided technical assistance to help put oil revenues to effective use.

Amid these events in the Arab world, the United States also began a special aid relationship with Libya. American forces had used Wheelus Air Base in Libya since World War II under an agreement with Great Britain, but Libyan independence in 1951 made a new arrangement necessary. As the Libyan Government desired to draw in the United States to balance its heavy dependence on British subsidy, 14/ the issue was one of terms, not whether the United States could continue at Wheelus. After negotiations had gone forward, the American Ambassador, in June 1954, presented a \$1 million check "for economic development" and a pledge of 6,000 tons of wheat. A Libyan delegation proceeded to Washington to sign an agreement pledging the United States to \$7 million plus 24,000 tons of wheat during fiscal 1955, \$6 million annually for the next six years, and \$1 million a year for eleven years thereafter. The British-Libyan treaty of 1953 called for a somewhat larger sum in the years immediately ahead, but in time British aid would diminish and that of the United States would rise.

A New Approach to Aid

In all, the diverse uses for aid were expanding, a fact which was troublesome as the Administration turned again to the Congress. However, the 1954 elections had brought Democratic control of the Congress, a sharp political defeat for the Republican Administration but one which meant a Congress somewhat more favorable to foreign aid. The termination of FOA required by the last Congress also was useful now. FOA was transformed into ICA, the International Cooperation Administration, and much was made of a new approach to foreign aid. The Administration sought the same overall sum it had the year before, and the Congress appropriated what it had the year before, less \$100 million. One hesitates to call this a victory, but measured by the previous downward trend and prospects, it was that. In effect, many men in the Administration and in the Congress had come to accept that foreign aid, whatever its merits, was here to stay.

One otherwise minor new proposal, a President's Fund for Asian Economic Development, had considerable significance for the kinds of foreign aid the Congress might accept and what course the United States might follow with aid in the future. The Administration proposed a fund of \$200 million to be available for three years for sound economic development projects of benefit to more than one Asian country or in which more than one cooperated. Aid officials had urged this proposal because they wanted a shift to greater emphasis on economic development and because they thought the Congress would accept it in this form. The Congress for some years had urged the Executive to find a way to apply to Asia the principle of regional economic cooperation so successful in Europe.

The Congress accepted the Asian Economic Development Fund virtually intact, 15/ including the three-year authorization, a sharp break from past insistence that the temporary aid program could be authorized for one year only. The Administration had secured "development assistance" funds from the Congress in previous years, including increasing funds for India, 16/ but the justification stressed the "Soviet threat." This note was missing in the justification

for the Asian Economic Development Fund. It was aid to be extended only for sound projects of promise to long-term economic development and extended only if such projects could be found.

The flaw was that projects in which more than one Asian nation would cooperate were very difficult to find. Aid officials, on the basis of the presentation made to the Congress, managed for a year to resist pressure from other officials to put the funds to short-term, political uses, with the consequence that at the end of the fiscal year in June 1956, none of the funds had been obligated. But if it was very difficult to put aid for long-term economic development to work in this particular fashion, the episode demonstrated that the Congress was not so averse to substantial development assistance as had been thought after the abortive experience with aid to India in 1952.

Soviet Competition in Aid

Soviet entrance onto the field of foreign aid as a competitor of the United States was startling and worrisome for many American officials. Soviet arms to Guatemala in 1954 had offered a forecast, but the United States had been able to check this situation with relative ease. American conviction that the Soviet Union could not compete in the field of aid was little shaken. Soviet ideology and subversion were thought the dangerous problem, Soviet trade policy a potentially serious problem. That the Soviet Union could not back up its ideological claims with substantial aid was thought a major Soviet weakness. It might even be advantageous for a few underdeveloped countries to turn to the Soviet Union for aid, to discover for themselves the incapacity that lay behind the glitter of ideology.

The Czech-Egyptian arms deal of September 1955 was quite another matter. The United States had no ready way to stop this, it threatened to demonstrate that those who chose to defy the United States could get the arms they desired elsewhere, and Americans feared that the Soviet Union would seize the opportunity to gain control of Egypt's armed forces, hence of Egypt. Then in December 1955, Khrushchev and Bulganin traveled across Asia leaving promises of substantial economic aid in their wake. American

officials retained, and voiced, doubt that the Soviet Union had the economic capacity to perform on such promises, but they also feared that economic capacity might prove largely irrelevant. Soviet promises alone might disrupt alignments with the United States and Soviet performance might suffice to gain the access necessary to infiltrate, then to control, the recipients. Soviet aid might prove the handmaiden to Soviet ideology necessary for Soviet success.

This fear of political potency in Soviet aid stemmed in no small part from the vision many Americans held of their own aid. If American aid could keep precarious governments in office, draw countries into alignment, and shape the attitudes of peoples and nations in the Cold War, might not Soviet aid prove equally potent in the same respects? Furthermore, the totalitarian government of the Soviet Union, it was said, could be more flexible in such uses of aid. Khrushchev did not have to defend his aid actions before a hostile Congress. Although the United States might have a decisive advantage in aid for economic development over the long-term, Soviet competition came on the short-term political objectives that were the prime American concern and Soviet success here would foreclose the American advantage in long-term development.

Competition with the Soviet Union soon became a new and important corollary of American aid. The United States sought, so far as it could, to pre-empt the field, to offer aid so that the recipient would have no reason to turn to the Soviet Bloc or to persuade recipients that any Soviet aid was dangerous and would be taken very badly by the United States. Where this was not possible, the United States sought to respond with its own aid to any prospect of Soviet aid, lest the Soviet Union have the field to itself.

Afghanistan was a striking case. During the late 1940's, it was American policy to avoid involvement in remote and inaccessible Afghanistan. An Export-Import Bank loan was extended in 1949, at Afghan request, for a dam complex in the Helmand Valley, but this was not supposed to bring an American responsibility for other Afghan affairs. However, the Helmand Valley was at the center of Afghan prospects for economic improvement. When it began to prove an outstanding failure, due to bad planning and many other mishaps, it was a prominent failure for the United States. A small Point Four program begun in 1952 was en-

larged to provide the technical assistance which might bail out the floundering dam project. Then, in 1954, the Export-Import Bank made another loan to cover the major oversight of its first loan, the development of the Helmand Valley. The United States had become entangled in an increasingly expensive affair, and it resisted Afghan requests for further aid to build roads, pave streets, provide air communications. Until the Helmand Valley could be put in order, to start new projects was judged foolish.

Khrushchev entered in December 1955 to offer a \$100 million credit for the projects which the United States had rejected. The United States changed its mind and increased its aid program from \$2 million for technical cooperation to an \$18.3 million total for fiscal 1956. Of this, \$15.3 million was "development assistance," largely for air transport facilities. The Soviet Union moved to grasp the opportunity offered by Afghan dissatisfaction with American aid, and the United States, dissatisfied with Afghan performance and interested in a way out of aid there, felt compelled to compete.

Soviet competition closed American argument over whether foreign aid might be terminated or radically curtailed. To point to the consequences should the United States withdraw and leave the field to the Soviet Union became the most effective single argument for continuing American aid. Thus Soviet aid both added a new Cold War use for American aid and gave it a new political lease on life.

If aid had a new lease on life, it also had become a complex enterprise indeed and one baffling for most Americans, including many aid and policy officials and most congressmen. Aid for Afghanistan was "development assistance," but it was hard for aid officials to see how they could put it to effective use on development projects there. It was hard for other Americans to see why their country should undertake a major effort to promote economic development in Afghanistan, or why it must make a greater effort because Afghanistan accepted Soviet aid while Egyptian acceptance of Soviet aid led, for the time being, to American condemnation. There were now so many different uses of aid, in so many different places, under so many different labels, that the aid program was very confusing.

ICA and State Department officials increasingly were at loggerheads. Aid officials wanted economic aid turned to long-term economic development, which they thought it could secure, and away from short-term problems of Cold War on which they thought it wasted. Policy officials charged with responsibility for Cold War problems wanted aid pressed into service here, and wanted aid officials to conduct their programs in a way that would prove effective in this respect. The power of decision over where aid would go, for what reason, and in what amount, lay generally with policy officials, or more accurately with their superior, Secretary of State John Foster Dulles. Responsibility for the conduct of the resulting programs, and for explaining and defending them to the Congress and the public, fell generally to aid officials. Aid officials sometimes found themselves trying to conduct and explain programs which they had opposed from the beginning and found impractical. Their explanations did not often add to public understanding or congressional satisfaction.

The argument over whether foreign aid was to continue faded, only to be replaced by new argument over what the United States should be doing with it. Aid was to continue, but continuing, somehow had to be fitted into a more orderly framework.

IV. A QUALIFIED SHIFT TO ECONOMIC DEVELOPMENT

Aid was to be put in order, but men held different views on what order might be. The obvious, striking alternative to the focus on pressing Cold War problems of recent years was long-term economic development. Some insisted on a shift in this direction, but policy officials on the whole held that continued emphasis on Cold War problems of recent years was essential. An ostensible shift toward aid for economic development took place over the years 1956-60, but it was in large part a shift to greater use of such aid to meet short-term Cold War problems.

The Eisenhower Administration in early 1956 had some difficult decisions to make about foreign aid. It was a Presidential election year, the Congress was controlled by the opposition party, and the repeated past "reductions" in foreign aid at the expense of the military assistance "pipeline" required that the Administration seek a major increase. A reduction in military assistance, particularly for NATO, loomed up unless the "pipeline" were replenished with major new funds. The large military assistance appropriations secured by Truman in 1950-51 had served the Eisenhower Administration well during 1953-55, but the end was at hand.

Democrats in control of the Congress were not slow to note that the vaunted "economy" of the Republican Administration had run its course, nor slow to seek to regain the initiative from the Administration in shaping foreign aid. The Congress focused its cuts on the new funds sought for military assistance, while funds for underdeveloped countries came through unscathed, indeed somewhat increased by the Congress. 1/ But the Congress proved resistant to Administration views on where and how these funds should be used.

The Congress accepted the Administration's proposals for "defense support" in underdeveloped countries, but insisted on adding a provision for "defense support" in Latin America which the Administration had not sought. 2/ An amendment sponsored by Senator Smathers provided that

these "defense support" funds were to be used for projects, preferably in the fields of health, education, and sanitation or land resettlement, in Latin America as a whole or among groups of countries. It was in some respects an extension to Latin America of the approach adopted a year before in the Asian Economic Development Fund.

The Administration proposed to continue aid for economic development in much the same amounts--\$100 million for "development assistance," \$142 million for technical assistance, the second \$100 million for the Asian Economic Development Fund--and to make one major change. It asked authority for the President to commit the United States to aid the development of any country for a period up to ten years, with total commitments not to exceed \$100 million a year. This would not legally bind the Congress to provide the funds at some later date, but the United States would be in an awkward position if the President had committed it to provide aid and the Congress then declined to provide the funds. The proposal was modest in terms of the funds involved, but posed a major change in the previous year-by-year approach to aid.

The project immediately in mind was the Aswan Dam in Egypt. 3/ A tentative agreement on Aswan had been reached with Egypt in December 1955, some months after the Czech-Egyptian arms deal. The United States was to provide \$56 million, Great Britain \$14 million, and the World Bank \$200 million toward the first stage, with ultimate completion expected to take ten years and cost some \$1.3 billion. Aswan was Egypt's bright hope for economic improvement, and Egypt was Dulles' pressing Cold War problem in the Middle East. It was hoped that aid for Aswan would overshadow Soviet arms aid to Egypt, check Soviet influence there, and render Egypt a less disruptive actor within the Middle East.

Much of the Congress and the public was hostile to Egypt, and it was thought wise not to make aid for Aswan a direct legislative issue. But by entwining the broad question of long-term aid for economic development with aid for Aswan, the Administration secured a sharp "no" from the Congress, first a "no" to aid for Egypt and also a "no" to long-term commitments in general. In short, it made much the same mistake that Ambassador Bowles had made with respect to aid for India in 1952 and secured much the same result.

As a substitute of sorts for the long-term authority the Administration sought, the Congress adopted a new "Statement of Policy" for the Mutual Security Act that was the first formal statement that aid would not end with the close of the fiscal year. Aid would continue "as long as the (Soviet) threat to the peace of the world and to the security of the United States persists." Then, having thus stressed the Cold War purpose of foreign aid, the Congress accepted an amendment, offered by Senator Humphrey, expressing the "sense of Congress" that the President should pay greater attention to economic development in future aid proposals. ^{4/} A more accurate statement of the "sense of Congress" might have been that, while it accepted that foreign aid must continue, it was less willing for that reason to vote whatever aid program the Administration chose to send up to it. There was as yet no agreement on the changes, but studies and inquiries, committees and commissions on foreign aid proliferated in the months ahead.

Crisis in the Middle East

The Suez crisis burst before this "reappraisal" got properly underway. The Senate Appropriations Committee in July reported the aid bill with a proviso which, if enacted, would have prohibited aid for Aswan. Three days later an Egyptian emissary called on Secretary Dulles to confirm the arrangements for Aswan, which were now in doubt. Dulles, before he knew whether the prohibition would be enacted, chose to tell the Egyptian official that the United States had decided not to proceed due to lack of confidence in Egypt's capacity to carry out so vast a project. This explanation made the abrupt rejection insulting, for Aswan had been investigated and considered since 1954. In effect, Dulles decided against the effort to use aid to secure a more amenable Egypt and in favor of dramatic denial of aid in the effort to undermine Nasser.

Nasser turned immediately to the Soviet Union only to be disappointed. He was put in a most difficult political position and, to extricate himself, moved to nationalize the Suez Canal, ostensibly to provide funds for Aswan. If Dulles calculated correctly that the Soviet Union would not commit itself to so vast and extended an undertaking as Aswan, he

clearly miscalculated how far Nasser might go to save his political position.

The Suez crisis need not be reviewed here. But as perhaps the nadir of American diplomacy in the postwar era, it left a residue of most difficult problems, some of which bore on the use of foreign aid.

The United States, having set out to undermine Nasser, found him greatly strengthened. The role of Great Britain and France in the Middle East was thoroughly undermined and would now fall to the United States. The United States furthermore had managed to convey as clearly as possible, by its actions amid crisis, the impression that it would not use force itself or tolerate the use of force by its major allies, an impression reinforcing and carrying a step further that given by its unwillingness to use force in support of France in Vietnam two years before. Americans had been inclined to assume that the Soviet leaders would not accept substantial risks for the stakes involved in underdeveloped countries. They now, to the discomfort of the Eisenhower Administration, had given Soviet and Chinese leaders substantial reason to believe that the United States was, in the Chinese phrase, a "paper tiger." The Eisenhower Doctrine was an effort to counter, by proclamation, this impression given by actions.

The nub of the Doctrine was advance congressional approval of the use of American forces in the Middle East against aggression by any state controlled by "international Communism." This was neither particularly necessary in constitutional practice, nor a particularly strong way to indicate that these forces might indeed be used. Consequently, it was felt very important that the Doctrine be formally accepted as widely as possible by Middle Eastern governments. Unfortunately, this acceptance was difficult to secure and the Congress was asked to approve of the use of \$200 million in aid funds already appropriated to "further" the Doctrine. A major congressional objection, that Dulles did not know what he wanted to do with this aid, was not quite fair. What Dulles did not know was whether certain countries would accept the aid and the Doctrine that went along with it.

James Richards, former Democratic Chairman of the House Foreign Affairs Committee, was sent to the Middle East in April 1957 to distribute aid among those willing to accept the Doctrine. Egypt and Syria declined to receive

him. The Baghdad Pact countries issued statements which Richards could construe as acceptance. They were willing to let the United States finance a \$12 million telecommunications system among them. The Saudis took a position which was not rejection. Ethiopia accepted the Doctrine, and the United States added economic assistance to its military and technical assistance there. Although Libya asserted that its acceptance of the Doctrine was not to be interpreted as a quid pro quo for aid, its 1953 treaty with Great Britain and its British subsidy were about to expire. An opportunity to increase the American subsidy came at the right moment. The Lebanese Government accepted the Doctrine warmly and, in doing so, rent the fabric of Lebanese politics to begin a course of events that would produce the Lebanese crisis of 1958.

By July, the Administration could report with considerable enthusiasm that Richards had found takers for some \$119 million, roughly half economic assistance, half military. Considering the cold reception of the Eisenhower Doctrine in the Middle East, this was no mean accomplishment.

Jordan was the immediate difficulty. In early 1956, the United States and Great Britain had attempted to bring Jordan into the Baghdad Pact. Their efforts helped to precipitate a political crisis in that country, which led in turn to the dismissal of the British commander of the Arab Legion, the effective Jordanian Army and mainstay of the throne. This placed British subsidy for the Legion in jeopardy. Then, with the Suez crisis, Jordan entered an alignment with Egypt, Syria, and Saudi Arabia ^{5/} and announced, in January 1957, that its subsidy henceforth would come from its new Arab partners.

The prospect that King Hussein might receive Richards and consider the Eisenhower Doctrine helped to precipitate a new and major political crisis, checked only by Hussein's personal appearance before the Arab Legion. Hussein felt that he would not receive the promised Arab subsidy or, if he did, that it would be used to turn the Arab Legion against him, that he could not accept the Eisenhower Doctrine and survive, and that he must have funds to pay the Arab Legion. The United States announced in April that it would provide a \$10 million grant to Jordan outside the Doctrine. By June, it had taken over the task of providing an annual subsidy of

more than \$30 million. In this fashion, Jordan came to receive more American aid outside the Doctrine than any country received under it.

New Emphasis on Economic Development

Foreign aid was again before the Congress in 1957 as Richards went off to the Middle East. This year the Administration asked only slightly more than the Congress had appropriated the year before, but major changes were proposed. ^{6/} "Defense Assistance," that is, military assistance and defense support, was to be separated from economic and technical assistance and appropriated directly to the Department of Defense, while aid for economic development henceforth was to consist of technical assistance and loans for sound development projects made by a new Development Loan Fund (DLF).

Two billion dollars for three years was asked for the DLF, but the Congress was to appropriate only the first \$500 million. The DLF was to have authority to borrow \$750 million a year from the Treasury in each of the next two years, a procedure used for Export-Import Bank funds and hardly new but one designed to by-pass congressional hostility to substantial funds for economic development.

These proposals came as no surprise to the Congress. They were, in substance, what the minority of congressmen who actively supported foreign aid demanded of the Administration and what the various committees and commissions had recommended. The Administration put them forward perhaps first of all to mollify this minority in the Congress lest it withdraw its support and major cuts or other unacceptable changes ensue. The DLF, however, was not proposed solely for the reason of expediency. Hard experience with crisis after crisis in underdeveloped countries had turned men to look anew at aid for economic development. "This help toward economic development," the President said in proposing the DLF, "is a means to forestall...crises," by no means a new idea but one with new force.

The DLF indeed was another of the ingenious devices, like Point Four and PL 480, that men could support for opposing reasons. To some, it meant a shift away from em-

phasis on Cold War crises to emphasis on long-term economic development. For this, the \$2 billion was a major increase indeed, but lest this disturb others, the Administration pointed out that the \$500 million to be appropriated for the first year was only \$100 million more than the sum of projects in the current fiscal year, under "defense support" and "development assistance," which might have been financed by DLF loans. 7/ To other officials, the DLF meant an opportunity outside of the annual congressional appropriation process to get substantial aid funds which, although ostensibly for economic development, could be tapped for Cold War uses.

Elements in the Congress and in the Administration long had insisted with some success that if aid were to continue, it must be put on a "business-like" basis, which boiled down concretely to loans instead of grants, those infamous "give-aways." The DLF could be seen as a way to put aid for economic development on a "business-like" basis. However, DLF loans could be "soft," that is, repayable over long terms in currencies other than the dollars lent. Most underdeveloped countries were short of "hard" currencies, the prospects for improvement were poor save in the most distant future, and hence there were severe limits on the "hard" loans that could be made if repayment were taken seriously. "Soft" loans mitigated this problem and indeed, as many pointed out, had much the same practical effect as grants. Those who sought greater emphasis on economic development saw in the DLF an ingenious way around what they thought to be a short-sighted emphasis on "business-like" lending.

The Congress reacted badly to those aspects of the proposal which touched on its prerogatives. Many congressmen felt that the Administration sought most of all to free foreign aid from congressional control, which was not entirely inaccurate. The three-year authorization for DLF was reduced to two, 8/ and the Treasury borrowing provision, attacked as "back-door financing," was eliminated.

Only \$300 million, rather than \$500 million, was appropriated for the first year of the DLF. Although this was treated as a major cut, it made little practical differ-

ence as the DLF took some time to get under way. When the Administration returned to the Congress in 1958, for the \$625 million authorized for the second year, the DLF had yet to announce its first loan. By the end of the fiscal year in June, completed loan agreements stood at \$102 million. ^{9/} Indeed, because a new lending institution takes time to get under way, one immediate effect of the establishment of the DLF was to constrict the flow of new American aid for economic development during its first fiscal year. ^{10/}

Aid for India

One view of the DLF was that its prime purpose was to "hide aid to India from the Congress." This is rather an exaggeration, but one of the prime effects of the establishment of the DLF was on aid to India.

India became the DLF's major client, much as India had been the major recipient of "development assistance" in previous years. Of the \$1 billion in DLF loan agreements by June 1960, over a quarter, \$274 million, were with India. ^{11/} Economic assistance for India during the first three fiscal years of DLF, 1958-60, was over \$100 million a year compared with about \$60 million a year during the four fiscal years 1954-57. It is quite possible that this increase would not have been secured from the Congress had it continued to reconsider aid for India each year rather than vote on a total sum for DLF loans in all countries.

The World Bank, with strong American encouragement, increased its lending to India during 1958-60 to roughly the same level as the new DLF lending of the United States. Although World Bank decisions were perhaps two steps removed from the United States Congress, the Congress on the whole highly approved of the World Bank, and this approval was very important to the Bank's expanded lending. When the Bank sought to increase its authorized capital from \$10 to \$21 billion in 1958-59, the Congress raised no major objection. Had it refused or reduced the American share, the Bank perforce would have had to go much slower with respect to loans for India as well as to many another country.

Congressional approval of the Bank in part reflected the reputation as sound and "hard-headed" which the Bank had carefully and successfully nurtured. It also stemmed

from an American inclination to include the World Bank as part of the "Free World" arsenal in the Cold War, and the Bank's lending to India as effective "Free World" competition with Soviet aid there.

The most dramatic Soviet project in India, a nationalized steel plant at Bilhai, increased American irritation with India as much as it spurred the United States to compete with the Soviet Union. Indian socialism was irritating to Americans, and socialism in housing or grain storage somehow seemed a lesser evil than socialism in steel, a proper bulwark of private enterprise.

The World Bank undertook to support an expansion of India's private steel industry. The United States might have supplied such support through its own aid funds, but because the project met the World Bank's standards and the Bank was not restricted to procurement in the United States, American aid was turned to less choice projects.

It was PL 480, however, rather than DLF or World Bank loans, that permitted the dramatic increase in aid to India. India's first Five-Year Plan had given too little emphasis to improvement in agriculture. A series of good crop years brought exceptional harvests to obscure this and the second Five-Year Plan continued the same underemphasis. Then a series of normal to poor crop years followed, and India had an unplanned need for a major increase in wheat imports for which foreign exchange was not available. PL 480 in India had consisted largely of voluntary agency shipments, but the first government sales agreement in 1957 brought the total to \$300 million. In the four fiscal years 1957 through 1960, the total reached \$1,330 million with \$564 million of this in fiscal 1960.

The Administration was not forced to turn to the Congress for "foreign aid" funds on this scale for India, and to explain that they were needed in part because of serious error in Indian economic planning. Instead the Department of Agriculture, pressed by the Congress, was seeking to dispose of surplus wheat in the greatest possible quantity and encountering much difficulty. India's massive need came as a "Godsend" to surplus disposal, and PL 480 became a "Godsend" to those concerned with India's economic development.

More Crises

As the Congress again turned to foreign aid in the spring and summer of 1958, it seemed a poor moment to deny the President the funds he declared essential to meet or avoid the many crises. Vice-President Nixon's "good will" visit to Latin America ended amid hostile mobs. The festering Algerian war had become a major crisis within France as well as in Africa. Revolt had broken out against the pro-Western government of Lebanon and, when the pro-Western regime in Iraq was overthrown in July, United States troops were sent to Lebanon. Indonesia had picked a new quarrel with the Netherlands, Laos was in peril, guerrilla warfare was mounting in Vietnam. Tension with China rose, to lead shortly to the Quemoy crisis.

The Administration sought much the same total for fiscal year 1959 that it had asked the year before, and the Congress made by far the smallest cut in years. ^{12/} Indeed, the Senate Foreign Relations Committee first voted the request intact, but then recovered its equilibrium to make some modest cuts.

Events in the Middle East led to an end of military assistance to Iraq, and to new aid for Lebanon, Iran, and Turkey. The new regime in Iraq withdrew from the Baghdad Pact and turned to the Soviet Union for aid. Iraq soon was a country of deep concern to the United States. In Lebanon, events provided one new reason after another for aid.

The Lebanese Government of President Chamoun had adhered to the Eisenhower Doctrine more to secure American support for its political position within Lebanon than to secure aid for Lebanon. In doing so, it violated an important unwritten rule of Lebanese politics that neither Christian nor Muslim would draw powerful outsiders into internal quarrels. Shortly, Chamoun announced that he meant to seek a constitutional amendment to allow him another term in office. This brought open Muslim rebellion against Chamoun in early 1958. Aid had been given as part of the Eisenhower Doctrine. Now further aid to support Chamoun in the face of rebellion seemed necessary.

Chamoun asked for American troops under the Eisenhower Doctrine. The United States stalled, but with

the coup in Iraq felt compelled to act somewhere in the Middle East. It sent troops to Lebanon, and their presence brought the crisis there to a head. If they were used on behalf of Chamoun's government, the political compromise which had made Lebanon possible probably would be irrevocably broken, and United States forces might have to remain indefinitely, suppressing the Muslim population on behalf of Chamoun. To restore the political compromise required that the United States press for the departure of Chamoun and others who had supported him. When a new compromise government was secured, and was as yet unsure of success, it seemed necessary and wise to provide aid to bolster its prospects.

The coup against the King of Iraq worried the Shah of Iran and heightened American concern for the future of his regime. The Shah now sought a precise United States commitment to defend his regime, and received a new commitment to defend his country. He also sought more aid to enlarge his army and solidify its loyalty. Military assistance was increased, but the United States was reluctant to increase defense or budgetary support. Only a year before, it had insisted that budgetary support be sharply reduced. Oil revenues now were available in quantity.

The Iranian Government dealt with this reluctance in two ways. It toyed in public with the idea of Soviet aid if American aid were not forthcoming. And it quietly indicated to American officials that in any case it was going to be necessary to shift oil revenues from the Development Plan to the ordinary budget to meet increased defense costs. The United States did not supply increased "defense support." Instead Iran did shift oil revenues away from the Development Plan and the United States chose to see a highly promising case for large DLF loans to the Development Plan. By this process of substitution, DLF loans allowed the United States to avoid a renewal of direct budgetary support and yet accomplished much the same effect as budgetary support.

Turkey was a special underdeveloped country for the United States. Military assistance there was tied to Turkey's role in NATO--that is, to more serious planning for external defense than in other underdeveloped countries. Economic aid, for the most part called "defense support," was designed to support this role in NATO, to support the "democratic" government of Adnan Menderes, and to support Turkish economic development under its auspices.

Unfortunately, the Menderes government was in chronic financial difficulties, in part because it looked to American aid to bail it out of such difficulties. During the negotiations leading to the Baghdad Pact in 1954, Menderes was in the midst of a fiscal crisis. He visited the United States and was sent home with an additional \$30 million in "direct forces support." 13/ In 1958, when the United States sought Turkish support for its troubled Middle Eastern policy, Menderes was again in fiscal difficulty. A conference had been called among Turkey's major creditors to settle on the financial reforms Turkey would have to institute in return for new credits and the extension of old. The American desire to force harsh choices on Menderes was rather weak. Special "facilities" of \$359 million were agreed upon, with the United States to supply \$234 million of this. 14/

The Quemoy crisis led to more military assistance, including more advanced weapons, for Taiwan. But at heart, the crisis was less military than political; a challenge to American will to support the Kuomintang and a challenge to Kuomintang morale. This led to more "defense support."

The United States had begun, in 1950, with emergency budget support for Taiwan. It soon turned toward emphasis on reconstruction, then to economic development in recognition that building the economic viability of the island was the only way out of emergency budget support and the only feasible way to support the Kuomintang over the long run. Considerable economic progress had been made by 1955. "Defense support" was reduced from a peak of \$135 million in that year, during the earlier off-shore islands crisis, to a \$70-80 million level in fiscal 1956 and 1957. With projects shifted to the DLF, "defense support" as such stood at \$57 million in fiscal 1958. Taiwan was able to support a greater portion of the cost of its own defense.

As part of its "unleashing" of Chiang in 1953, the Administration had encouraged him to strengthen his forces on Quemoy and Matsu. Then the first "off-shore" islands crisis of 1954-55 ended in abandonment of the lesser Tachen islands and in a Mutual Defense Pact which, much against Chiang's will, left United States commitment to defend Quemoy and Matsu ambiguous. Chiang proceeded to place a high proportion of his more effective forces on these islands. Their defeat or evacuation under pressure in 1958

would have meant a sharp jolt indeed to Kuomintang morale, notably to its central idea of eventual "return to the mainland." It was for morale as well as broader reasons that the United States was determined to defend Quemoy and Matsu, and American officials judged it a poor moment to deny Chiang any lesser indication of support. Chiang wanted increased "defense support," although nothing in the economic situation had changed for the worse. "Defense support" was increased.

The United States had come on unexpected success in South Vietnam during 1954-56 by backing Diem. Amid the many crises pressing elsewhere after 1956, including one in Laos, policy officials were most disinclined to consider "rocking the boat" in South Vietnam by any alteration in the successful policy of backing Diem.

Unfortunately, Diem's government was not popular, particularly in the countryside, and the favor shown to the cities over the villages as well as favor to Catholics over Buddhists helped to provide the edge of dissatisfaction which Communist cadres, trained in the north, needed to resume guerrilla tactics. With the guerrilla challenge mounting again after 1957, Diem resorted to vigorous police action in an effort to root out the last vestige of any opposition to his rule, which produced new dissatisfaction. Diem wanted to resettle people in "agrovilles" in the highlands to improve security there. American aid officials objected that the proposed settlements would not provide people with a satisfactory living, but they were overruled. The "agrovilles" proved an economic, political, and security failure, in perhaps that order. Diem wanted a large army, with all the prestigious paraphernalia of modernity which also was the only sort of army most American officers thought appropriate or were prepared to train. With United States assistance, South Vietnam gained an army trained to meet massive assault from the north in the style of the Korean War, but ill-prepared to meet the mounting guerrilla challenge.

The emphasis of United States economic aid, after 1956, on development projects brought some significant economic progress, overshadowed after 1959 by the re-emerging political and security crisis. During 1956-58, American officials had not wanted to rock a boat so recently righted. Then, with Diem under mounting and

serious Communist challenge, it seemed no moment for the United States to withdraw support from him.

Laos once had seemed a less acute problem than Vietnam, if by no means a promising situation. It had little resembling a modern government while two remote provinces, bordering on North Vietnam, were controlled by the Communist Pathet Lao.

France, with United States aid, had built a 32,000-man Laotian Army. If this was a larger force than seemed needed to meet the Pathet Lao, it offered to become the dominant political factor in the absence of a modern government. The United States provided \$135 million to Laos during 1955-57, most of which, \$84 million, was to pay all of the costs of the army. Laos had paid none of the costs of this army under France; it paid none now that it was independent. Another portion of the aid was budget support for other functions of the Laotian Government. Some \$10-\$14 million was directed toward economic development during the three years.

In 1957, a neutralist Premier, Souvanna Phouma, brought the Pathet Lao into the government. The Pathet Lao became a "political party," disbanded its main guerrilla forces and relinquished control of the northern provinces. Two Pathet Lao battalions were to be integrated into or dispersed within the much larger Laotian army. 15/ The Pathet Lao then won the special 1958 elections, with the head of the Pathet Lao leading the poll in the capital, in a campaign stressing the corruption of pro-Western politicians and their close identification with the United States. It appeared that the Pathet Lao might be elected to power in Laos in the coming general elections.

Pro-Western politicians, with the encouragement of the United States, moved to force Souvanna Phouma out of office and to establish a pro-Western government. When the army moved against the Pathet Lao battalions in April 1959, the Pathet Lao again gathered its main guerrilla forces and, in July, had considerable success against the much larger Laotian army. The United States now found itself supporting a pro-Western government against both neutralists and the Pathet Lao, and unsuccessfully so on the field of battle. In 1959, Laos seemed a more acute problem than South Vietnam.

Problems in Latin America

The United States was occupied with problems in the Middle East and Asia when hostile mobs greeted Vice-President Nixon in Peru and Venezuela. It was clear that all was not well within the Western Hemisphere. For years there had been talk of the need to do more here, and to have less to do with various Latin dictators, but Latin America had presented few of the Cold War crises so compelling elsewhere.

Whether the United States had "neglected" Latin America was open to dispute. Economic and technical assistance under the Mutual Security Program over the six fiscal years 1953-58 was \$331 million, a rather modest sum for all of Latin America when compared with aid for India. The Eisenhower Administration stressed private American investments and loans through the Export-Import Bank and the World Bank as the proper route to Latin American economic development. The Export-Import Bank provided \$1,435 million in loans to Latin America over the years 1953-58, considerably more than to any other underdeveloped area, and it stood ready to lend for virtually any "sound" Latin development project with good prospects for repayment. The prevailing American judgment--that if Latins would only manage their own affairs properly, they had access to resources ample for successful development--had some basis in fact.

The immediate American reaction to the attacks on Nixon contained a strong element of anger. There was as much feeling that the United States must become more "hard-headed" about Latin America as that it ought to increase aid there. On the other hand, military assistance attracted much hostile attention among those especially concerned with Latin American affairs. Although military assistance amounted to only \$200 million over the years 1953-58, the external defense argument for it always had been weak, and the Congress remained skeptical of it. Furthermore, military assistance had become identified in the public mind as the form of aid which supported dictators, and United States support for Latin American dictators in turn was said to be a major source of Latin hostility to the United States.

The Administration did not ask any increase in aid for Latin America, and the Congress amended the Mutual Security legislation to assert that "Internal security requirements shall not normally be the basis for military assistance programs to American Republics."

However, the United States did announce, on August 12, 1958, that it was willing to reconsider its standing objection to Latin proposals for a hemispheric development lending institution. The immediate reason for this announcement was that President Eisenhower on the next day was to appear before the United Nations to speak on the Middle East crisis. In an effort to strike some positive note here, he would propose an Arab development bank. Officials concerned with Latin American affairs were quick to object that such a proposal for the Arabs, long rejected when pressed by Latins, would infuriate Latin American leaders whose support was needed, among other places, in the United Nations on the Middle East crisis.

The Arabs shrugged off Eisenhower's proposal, and there was no significant support for it within the United States. The Latin Americans took the announcement directed at them more seriously, for here, unlike the Arab world, it was clear that the United States would be the major contributor. ^{16/} It was precisely for this reason that Latin Americans long had pressed the idea.

Americans who felt that their country must do more in Latin America welcomed the idea of an Inter-American Development Bank (IADB), and it was acceptable to the Congress. The "capital" of the IADB was to be \$1 billion, which sounded like a major new contribution to Latin development. Yet, although the United States was by far the largest contributor, the Congress was asked to appropriate only \$250 million, and that sum to be spread across three years. ^{17/}

One of the standing American arguments against a new multilateral lending institution for Latin America had been that it would take a long time to get under way, and this proved only too true. The IADB was not able to open its doors for business until October 1960 or to undertake substantial lending until, under the Kennedy Administration, attitudes toward the urgency of further aid for Latin America had changed.

While the IADB was being considered, negotiated, and organized, the United States did provide some additional

emergency economic assistance in a few instances in Latin America. Notably, it put together a \$329 million "package" of stabilization and "development" loans for Argentina in 1958. ^{18/} An elected civilian government there, following the mélange of military rule that had replaced Peron, faced an accumulation of financial woes. A lesser \$158 million balance of payments "package" was also arranged for Brazil. But it was Castro who jolted the United States into a more sweeping re-examination of its policies toward Latin America.

Aid to Cuba under Batista had been small, sugar quotas excluded, and as Castro's challenge to Batista rose, the United States suspended further arms deliveries to the Batista government. It had already embargoed arms sales to Castro. This was not the usual American reaction to a situation in which an anti-Communist government was imperiled by a group that some Americans portrayed as Communist. The idea that the United States must cease its support for Latin military tyrants, and stop seeing communism behind all opposition to them, was put into practice here. When Castro came to power in January 1959, he was well, although not warmly, received by the United States Government. Not for some months did the predominant American judgment change, and the possibility of Castro-style governments elsewhere come to haunt United States views of Latin America.

Development vs. Cold War Uses of United States Aid

In its aid request made in February 1959, the Administration again asked for the same sum, \$3.9 billion, for the third year in a row, and the Congress in the end appropriated only slightly less than it had a year before. But in the process, the Administration managed to exasperate some of the congressmen who had actively supported foreign aid in the past.

The Administration asked for long-term authorization for military assistance ^{19/} but not for DLF. Although the two-year DLF authorization was due to expire, the Administration asked for only one additional year and stated that further long-term authorization for DLF would be sought next year, an inauspicious time as it would be a Presidential election year.

The issue was not the magnitude of funds for development lending as such. The Administration, with congressional approval, had committed the United States to a major expansion of funds for development lending outside DLF or the "foreign aid" program. The capital of the Export-Import Bank was increased by \$2 billion in 1958. An expansion of the capital of the World Bank from \$10 to \$21 billion had been approved, and the \$3.4 billion subscription of the United States was before the Congress. The Inter-American Development Bank was being organized, and an International Development Association was proposed by the United States as an affiliate of the World Bank to permit loans on "softer" terms than those of the Bank.

The issue concerned the proper role for the United States "foreign aid," or Mutual Security, program now that greater funds were to be available for development loans from other sources. The Administration in effect took the position that the American program henceforth would give somewhat greater emphasis to short-term Cold War concerns, particularly through military assistance. The congressmen who had insisted in 1957 on a shift in the opposite direction, and thought that they had secured it, were not pleased.

Senator Fulbright offered an amendment providing authority for the DLF to borrow \$1.5 billion a year for five years from the Treasury, an enlargement of the proposal made by the Administration in 1957. The President, when pressed for his endorsement, offered lukewarm approval of a long-term authorization and opposed the Treasury borrowing he had sought and failed to get in 1957. 20/ In the end, the Congress provided a new two-year authorization for the DLF, or authorization for the remainder of the Eisenhower Administration.

Little had been resolved, but something had been lost. The passage of the annual foreign aid legislation, ever unpopular, depended heavily on a small minority of congressmen, those willing to support the bill actively, often at some personal political cost. The Administration had come to terms with these congressmen in 1957, the DLF being the major outcome. But the DLF had proved as much a seeming as a real shift to greater emphasis on long-term economic development because so many of its loans, such as those to Iran and Argentina, clearly rose out of short-

term policy considerations. In 1958, the DLF had been removed from the Department of State and made a quasi-autonomous government corporation, in part to satisfy those congressmen who wanted development lending removed from the short-term policy concerns of the department. However, the Under Secretary of State for Economic Affairs was made the chairman of the Board of Directors of the new DLF. The department had no less influence over DLF lending, only less clear responsibility for it.

The Administration made it clear that it intended no greater emphasis on long-term development. It did not seek to come to terms anew with the congressmen who had actively supported foreign aid but, if anything, to back away from the terms reached in 1957. The congressmen also backed away from active support of the foreign aid program.

Of the many reasons for the expansion of funds for development lending outside the "foreign aid" program, the deep concern of the Eisenhower Administration with the worsening balance of payments was of particular import. DLF loans were "tied" to the purchase of American goods in 1959 to ease this situation. At the same time, there was an increase in funds supplied by the United States and other countries for lending through multilateral institutions. Purchases made from these funds were not tied to the countries supplying the funds, but the increase did permit more aid for economic development through a broader sharing of the responsibility.

The United States looked with new interest to the now prosperous countries of Western Europe as a source of increased aid for underdeveloped countries. In January 1960, the United States proposed a Development Assistance Group as one of the changes to be made in the Organization for European Economic Cooperation. 21/ While the Development Assistance Group was not a fund or source of economic aid but a consultative and coordinating body, consultation and coordination was a process in which various countries sought to justify the magnitude of their aid. It produced pressures for increases.

The International Development Association grew out of two additional sets of pressures. In 1956, Senator Monroney had proposed a new multilateral institution to put "excess" local currency generated by United States aid in one country to work in others. This appealing idea was quickly knocked down by the Administration on sound grounds

that very little "excess" local currency existed, true enough in 1956, and that the United States was not free to transfer it from one country to another. But Monroney persisted stubbornly, accepted an amendment to his scheme to include "soft" loans such as those of DLF, and in 1958 secured a Senate resolution requesting the Administration to "consider" the matter.

Meanwhile the Administration was under pressure from underdeveloped countries to abandon the long-standing American opposition to a Special United Nations Fund for Economic Development. SUNFED had been pressed since early in the 1950's as a means to secure substantial capital on much softer terms than offered by the World Bank, and on less strict standards, to be set in large part by underdeveloped countries. To fend off mounting pressure for SUNFED, the United States in 1957 proposed a U.N. Special Fund, not to exceed \$100 million, to undertake "pre-investment" assistance. The Special Fund was established, but it failed to dull demands for SUNFED.

Thus caught between pressure in the United Nations and in the Congress, the Administration at the 1959 meeting of the World Bank, proposed an International Development Association to have capital resources of \$1 billion. IDA loans would be "soft" loans, repayable in the currency lent but over long terms at low interest, while operations would be kept within the weighted voting procedures and established conservative policies of the World Bank.

In 1960, the United States was supplying more funds for economic development in various ways than it had in 1956, and far more than it had contemplated when, with Point Four, it adopted economic development as an official objective. But it had become no less concerned with aid for urgent problems of Cold War, and its own "foreign aid" program continued to be heavily focused on these problems.

American frustration with aid had grown. If aid was to forestall crises and trouble, neither had waned after years of aid. Furthermore, a growing list of governments--in Iraq, Lebanon, Pakistan, Cuba, Turkey, South Korea--supported by American aid, or thought to be by many Americans, had been turned out of office as unpopular. This dramatic "evidence" did much to shape public conviction that all was not well with aid. The new Administration in 1961 would face a strong demand that foreign aid be re-appraised and re-organized.

V. THE "DECADE OF DEVELOPMENT"

The Kennedy Administration, like the Eisenhower Administration in 1953, strove for a "new look" when it took office in 1961. President Kennedy asserted as a "fact" that "existing foreign aid programs and concepts are largely unsatisfactory and unsuited to our needs and for the needs of underdeveloped countries." ^{1/} This was acceptable to congressmen unhappy with aid and to others who believed that the United States had been too concerned with short-term problems and crises.

A "Decade of Development" was heralded. Aid in existing crisis situations such as Vietnam perforce would have to continue for the time being, but only until these crises could be resolved. The United States was to help transform underdeveloped countries into developed "self-reliant" nations which, presumably, would present few and lesser crises.

The Alliance for Progress

This "new look" seemed appropriate to the crisis in Latin America, which had been exciting Americans for more than a year as Castro took Cuba into alignment with the Soviet Bloc and his efforts to promote revolution in his image elsewhere in the hemisphere showed signs of success. The first American reaction, under President Eisenhower, had been to try to alert the Latin Americans to their peril and to secure a united front against Castro. But Latins were less worried about Castro than excited by his challenge to the United States, and a meaningful common front was not to be found.

Major economic, social, and political changes or reforms within Latin American countries seemed essential to meet the threat. The Eisenhower Administration in 1960 had sponsored a Social Progress Trust Fund of \$500 million to "add the new dimension of social development in a conscious and determined effort to further social justice in our

hemisphere." 2/ Kennedy then proposed, or proclaimed, an Alliance for Progress with massive new aid. It was hoped that the prospect of such aid would galvanize Latin Americans into the reforms that seemed essential.

Aid under the Alliance was to be provided "if the countries of Latin America are ready to do their part." The implied negative--that aid would not be given to those who failed to do "their part"--was very important, for the prospect of aid could hardly be expected to galvanize Latin Americans into difficult reforms if aid were given alike to those who undertook these reforms and to those who did not. This meant, of course, that the United States would have to be prepared to deny aid in some instances of Cold War crisis--precisely what it had not been prepared to do in the past.

In Iran during the late 1940's and in the Philippines during 1950-51, the United States had withheld aid pending major reforms akin to those now sought in Latin America. But on the whole, where Cold War crisis loomed during the 1950's, as it now seemed to do in Latin America, American policy officials had been most reluctant to withhold aid because a country was not doing its part to make the aid effective. On occasion, the United States had threatened to withhold aid, or actually had done so, to secure specific and limited changes, such as alteration in a currency exchange rate, clearly necessary if aid were not to be wasted. The need for broad reforms had been a constant theme and in many instances, Americans had hoped that the aid they provided would help to promote these reforms. In general, the experience had been unsatisfactory, and a conviction had grown that the reforms somehow had to be brought about if the Cold War threat was to be met, aid prove effective, and economic development succeed.

The stronger Latin American governments with public support presumably would be the least threatened and the most able and willing to introduce reforms--indeed to do so whether the reforms were a condition of American aid. Aid would flow to these governments under the new Alliance and presumably be put to good use, thus to further reduce the threat. But those Latin American governments without public support presumably would be the most exposed to revolutionary challenge, the likely points of crisis, and also the least able or willing to undertake the desired reforms.

Presumably, they were to be denied aid until they did "their part," Cold War crisis or not.

It was important that the Alliance be gotten off to as prompt, sweeping, and successful a start as possible. The threat posed by Castro was thought real and urgent, and the galvanizing effect of the Alliance surely would be lost if it withered and lagged month after month. Further, as the Alliance was a major item of the Kennedy Administration's "new look" in foreign policy, it could not be allowed to wither or lag for domestic political reasons.

The effort to get the Alliance going led the Administration to press aid into service in much the pattern of past emergency aid elsewhere. The idea that aid was to be denied those who failed to do "their part" was virtually abandoned in practice.

In his message to the conference establishing the Alliance in August 1961, Kennedy set the tone by asserting that "during the year which began on March 13 with his proposal of the Alliance the United States will allocate more than \$1 billion in development assistance to Latin America." ^{3/} This was a three-fold increase and meant a crash program in which scant regard could be given to economic development criteria, to say nothing of regard for whether Latin countries had begun, in actuality, to do "their part." The American delegation also let it be known that the United States would have ample funds for any who happened on crisis, presumably in their efforts toward reform. Latin Americans were put on notice, in effect, that far from aid being withheld pending evidence of concrete performance on their part, it was to come in massive new quantity.

The marked feature of aid to Latin America in fiscal 1962, the first for which Kennedy had full responsibility, was that \$319 million of the \$477 million administered by the aid agency was handled by cash transfer. ^{4/} This procedure, long used for budget support in Jordan and Laos, was the quickest and simplest way to pump dollars into another country, and perhaps the way in which the United States retained the least control over how these dollars would be used.

"Development lending" rose if one accepts \$50 million for emergency balance-of-payments support in Brazil and a \$25 million loan in Chile, both handled by cash transfer,

as development lending. DLF, whatever its extensive involvement in past emergency aid, has avoided cash transfer as too blatant a violation of its official development function. If one does not accept the loans to Brazil and Chile as development loans, development lending in Latin America fell in the first year of the Alliance. Further, aid for Latin America for the first time became the largest single claim on the President's Contingency Fund for unforeseen emergencies.

Past aid to Bolivia was often cited as an example of what had been wrong and was not to continue under the new Alliance. Aid officials had fought long and hard to reduce the political support program there and to impose economic development criteria, with some success toward the end of the Eisenhower Administration. Aid shrank from \$20 million in fiscal 1959 to \$15 million in fiscal 1960 as the cash transfer budget support portion was cut by \$5 million. Aid for fiscal 1961, begun by Eisenhower and ending with Kennedy, was scheduled to remain at the same \$15 million level, but late in 1960 another of the recurrent Bolivian crises broke, and the Soviet Union entered the picture with a reported \$150 million loan offer. The usual American crisis response this time was more relaxed, perhaps because officials had been through crises in Bolivia before. The new Inter-American Development Bank was encouraged to make a \$10 million loan, and West German aid was drawn into the picture, but budget support was not immediately restored to its previous level.

Then the Kennedy Administration, new in office, sent off a special mission in March 1961 to find a way to get aid to Bolivia on a new track. The mission, after a few weeks in Bolivia, recommended a sharp increase, including a number of the projects which aid officials had successfully resisted as uneconomic in 1959 and 1960. By June 1961, aid to Bolivia had jumped to \$27 million. The new American Ambassador sent to Bolivia in July saw the crisis as urgent. Aid in fiscal 1962 rose to \$29 million with the cash transfer portion now at a new high of \$15 million. For Bolivia, the new "Alliance" first brought a reversal of the American reluctance in the immediately preceding years to continue crisis aid and budget support.

New Legislation

When Kennedy turned to the Congress in early 1961, members reasonably satisfied with aid were most difficult to find. The Democratic majority had grown increasingly dissatisfied with the conduct of aid under Eisenhower, and many Republicans had voted for it only to support the President of their party. With a Democrat in office, they could vote against aid. Furthermore, while a majority of Democrats from the South had voted for aid in the late 1940's and through the early years of the Eisenhower Administration, in the late 1950's a majority of Southern Democrats had voted against aid. This would continue with a Democrat in office.

Major changes were called for if the Congress were to be satisfied. They were proposed. The Administration also was intent that it should not be outshone by its predecessor in the realm of "economy" in government, but the massive new aid it proposed for Latin America made this difficult.

Kennedy first announced that his aid request would stay within the \$4 billion in the budget drawn by the outgoing Eisenhower Administration (which reduced aid from the \$4.2 billion sought in 1960), with "funds sharply shifted in terms of their use and purpose." ^{5/} The main direction of the shift, presumably, was to be toward the proclaimed "Decade of Development." When the request was sent to Capitol Hill, the sum had risen to \$4.8 billion with military assistance increased slightly and \$1,187 million rather than \$700 million asked for development loans.

The Mutual Security Act, which had served with endless amendment since 1951, was replaced by new legislation and the aid agency was reorganized once more, now to be called the Agency for International Development (AID). The most substantive change proposed was new emphasis on long-term development lending.

Kennedy asked that the DLF, now to be part of AID, be given authority to borrow \$7.3 billion from the Treasury over five years and that it receive another \$1.5 billion in repayments anticipated from previous foreign aid loans, repayments that otherwise would revert to the Treasury.

In all, the DLF was to have \$8.8 billion over five years, a major increase, with none of it appropriated by the Congress. While this was unlikely to please many congressmen, it was essentially what Senator Fulbright had proposed and Eisenhower had not supported in 1959.

Kennedy also proposed that the DLF shift from loans repayable in soft currencies to those repayable in dollars. The new loans would not be exactly "hard," as there was to be a ten-year "grace period" with no repayments, and repayments could be stretched over as much as forty years; in effect what would amount to grants for a decade and then become "hard" loans on very easy terms. Nonetheless, many congressmen and others felt that, if there had to be more development lending, loans repayable in dollars were a move in the right, "business-like," direction.

Aid Problems of 1961-62

The intent to shift toward a "Decade of Development" proved difficult to transform into action during the first eighteen months or two years of the Kennedy Administration. The situations in Asia which had called for urgent aid did not disappear. The crisis in Vietnam deepened and the Administration sought to meet it with new vigor. In Laos, the Administration thought it necessary to try to negotiate a return to the neutralist government of Souvanna Phouma, upset in 1957, and this undertaking called no less for aid. A new Ambassador to Iran, much as in Bolivia, saw the recurrent crisis there with fresh eyes, called for new emergency aid, and got it. New African states were coming into being and the Administration felt compelled to greet the independence of each with an aid program of sorts. The crisis in the Congo brought a need for substantial emergency aid in Africa, South of the Sahara for the first time.

The combination of as many urgent problems as ever (or more than ever) with the new crash program in Latin America made fiscal 1962, the first of the "Decade of Development," perhaps the year in the history of aid to underdeveloped countries most marked by the use of economic aid in response to one or another form of emergency. Such a comparison among years cannot be made strictly, as too many labels, reporting procedures and uses of aid

changed. But cash transfers, the most obvious index, stood at a peak. In fiscal 1960, the last full year of the Eisenhower Administration, cash transfers were \$96 million (\$83 million of which was for three countries, Laos, Jordan, and Morocco), or about 5 percent of all economic aid. They rose steadily through fiscal 1961 to \$485 million in fiscal 1962, or to almost 20 percent of all economic aid. Only in fiscal 1954, did cash transfers stand at a higher level, 6/ and then due to one patently emergency use--\$745 million to help defray French costs in the battle for Indochina.

Development loans also rose and, understandably, the Administration chose to point in public to this rather than to cash transfers. But, just as a considerable portion of "defense support" once had been aid for economic development in substance, so now a significant portion of "development loans" in substance was crisis aid.

The Administration adapted an old technique, "program aid," commonly used in the Marshall Plan to new use in aid to underdeveloped countries. A "program" loan helps to finance the general import requirements of another country. Previously, DLF loans and most other aid for economic development had been for specific projects--a dam, factory, or road complex. In the Marshall Plan, Americans felt that Europeans knew how to, and would, put their aid to best use in promoting economic recovery. Quite a different situation prevailed in underdeveloped countries, and project aid was favored as a means of controlling how aid would be used.

Over time, however, a need for "program" aid to underdeveloped countries had arisen, as some gained capacity to manage their development efforts more effectively and as earlier aid projects were completed. Where completed factories would not operate at full capacity unless foreign exchange were made available for imported raw material and spare parts, "program" aid to help supply these needs made more sense than further project aid to build more factories. The largest new DLF loan, a \$200 million "program" loan for India, was aid for economic development, because India needed such non-project imports in order to move ahead with its development, and because American officials were satisfied that the Indians managed their economy and would manage aid in a fashion

designed to promote development.

If "program" loans met an economic development need, they also were a handy device with which to shape DLF funds to meet crisis needs. Emergency balance-of-payments aid such as the DLF loan to Brazil previously was given most often as "defense support," "special assistance," or under some other category of the aid legislation that allowed the funds to be transferred with no particular pretense that they were for long-term economic development projects. To provide such aid as a DLF loan was possible but cumbersome, and so long as the greater part of available aid funds had been in such categories as "defense support," the need to resort to DLF in such circumstances was limited. But now that the new Administration, in the name of a "Decade of Development," had secured a major shift of funds to development loans, it was short of funds in emergency categories while it had ample funds available for development. A DLF "program loan" handled by cash transfer met Brazil's balance-of-payments problem as quickly and directly as would funds allocated from the "special assistance" category or the Contingency Fund. Indeed, a "program" loan was suitable to almost any emergency use of aid.

The Brazilian balance-of-payments crisis arose largely from Brazilian fiscal mismanagement, and aid was provided to fend off the political and economic consequences. The DLF "program" loan was aid for economic development only in the sense that Brazil had to get over its immediate crisis, as Iran and the Congo had to get over their crises, in order to move ahead with economic development. Since the aid had been provided out of DLF funds, it seemed necessary to report it as "development lending," and it was also advantageous to report it so, as an integral part of the new Alliance for Progress, rather than as another instance of emergency aid.

Surely at no time was the gap so large between what was said about aid and what was done with it as in 1961-62. Intractable problems of foreign policy would not be banished or reduced by proclamation, and the new officials responsible for these problems found them a good deal more baffling and urgent than they had when such problems were the responsibility of others.

The Kennedy reorganization of the aid agency also

made a contribution to this gap between what was proclaimed and what was done. During the Eisenhower Administration aid officials had been an obstruction to emergency uses of aid. They had had little success in shifting the emphasis in the direction they sought--to long-term economic development--but they had obstructed many an Ambassador or official of the Department of State who wanted aid pressed into emergency use. Or they had managed to reduce the size of such emergency programs, or to insist that the program conform to some extent to the requirements for economic development. The Kennedy reorganization, ostensibly to equip the aid agency for the "Decade of Development," so disrupted it for almost two years, from early 1961 until late 1962, that this obstructionist role was no longer played by aid officials. No one else played it.

The reorganization was launched first of all to satisfy the Congress but, once launched, the tone and direction were shaped by the Administration's attitude toward "existing aid programs and concepts" and existing aid officials. It was announced that the employment of all aid officials would terminate with ICA, so that the new AID could begin free of the burden of the past, and a "turn-around in aid policy" was loudly proclaimed. For some months the only concrete meaning of the "turn-around" was that whatever had been done in the past was not to be done now or in the future. The reorganization also was the most sweeping of all to which the aid agency had been exposed. Old organizational lines changed, and the new arrangements were uncertain for months. Experienced aid officials had to turn to their new and inexperienced superiors for guidance as to what was to be done. The new top officials perforce had to turn to their more experienced subordinates for guidance as to what needed to be done, and this guidance could be offered only out of the past or on the basis of past criteria officially discredited by the "turn-around."

When ambassadors sought emergency aid, as for Brazil, Bolivia, and Iran, aid officials could say why the DLF had avoided cash transfers in the past or give the reasons they had resisted emergency aid to Iran and Bolivia in the past. It was not too difficult for ambassadors to see that the White House overrode such arguments based on discredited criteria. Not until AID thrashed out some new criteria, which turned out to be not so very different from

the old criteria, would it be in a position to resist such pressures.

Kennedy intended to shift in one direction and found the shift actually taking place in the other. This was awkward when he had to return to the Congress for funds in 1962. New proposals, new faces, and a reorganization had served to mollify the Congress in 1961. Congressmen now had a sense that for all the "new look," there was as much wrong with foreign aid as ever.

The Congress in 1962 made the sharpest cut since 1957. Military assistance (\$1.5 billion) was cut by 10 percent and economic assistance (\$3.4 billion) cut by 25 percent. Kennedy salvaged development loans by introducing a separate, additional category for Alliance-for-Progress development loans. Only \$975 million was appropriated of the \$1.5 billion authorized for development loans, but Kennedy asked for another \$600 million for Alliance-for-Progress loans and received \$525 million--in effect to make a total appropriation of \$1.5 billion for all development lending. The success of this particular gambit, however, did not really relieve the disaster on Capitol Hill or alter the portents of more trouble to come.

A Shift Toward Long-term Economic Development

Kennedy moved to replace the new Administrator of AID. The appointment of David Bell began a shift in earnest toward emphasis on long-term economic development. By the time Bell entered the scene in late 1962, AID had worked its way out of the worst of its disruption. This made some difference but, more important, Bell had been Budget Director and his move to AID, at the request of the President, was a move from a very powerful position to one men were inclined to shun. It was, to all appearances, a move made on assurance that he would have the full support of the President.

Any dispute which could not be settled between lower level aid and policy officials moved up to the Secretary of State and his subordinate, the head of AID. Technically, the Secretary had the power to decide the matter. In practice, discussion was carried out with the knowledge that Bell as well as Secretary of State Dean Rusk had access to

the White House where the real power of decision lay. This was a major change in the situation that had existed for many years.

In Marshall Plan and early Mutual Security days, Paul Hoffman and Averell Harriman had been powerful men in Washington, and in practice there was much concord between aid officials and those of the Department of State. Harold Stassen as the first head of FOA had been a prominent Republican but not one with much influence on Eisenhower. Stassen was in a position to press a dispute to the White House, but Eisenhower depended on John Foster Dulles. Then Eisenhower made it clear that any dispute between aid and policy officials was to be resolved by Dulles or brought to him only with the approval of Dulles. The men who subsequently headed the aid agency were neither politicians of Stassen's prominence nor particularly powerful in Washington in any other way. They had only the faintest hope of ever winning a dispute with Dulles and less hope of getting the President to overrule him. Major decisions about the use of foreign aid fell to the Secretary of State and his immediate policy subordinates, or, in the first year of the Kennedy Administration, to the White House.

Now, although the forms remained the same, the political substance was changed. Aid officials began to gain a degree of control, through Bell, over the major decisions about the use of aid. Bell, an economist by training with experience in development planning, was interested in economic development. This general trait was shared by the new men he brought into the aid agency and by officials who had been there for a long time. Given somewhat more control over aid, AID officials shifted the focus to long-term economic development.

Aid officials for years had wanted to get out of the program in Lebanon. It was ended in fiscal 1964. Aid to Iran was reduced from \$54 million in fiscal 1962 (\$50 million of this cash transfer) to \$5 million in fiscal 1964, by far the lowest point since 1951. All cash transfers returned to the level of the Eisenhower years, \$118 million in fiscal 1964. Supporting assistance, the new name for defense support and special assistance, was reduced even though funds for Vietnam grew. In all, much of the shift Kennedy had proposed in 1961 took place in 1963-64.

The stress on "self-help" in the Alliance for Progress was difficult to act upon, now that it was taken more seriously. The United States, already in crash programs in Latin America, could not suddenly say that aid would be withheld pending performance on "self-help" measures. It had to try to produce the desired changes within on-going aid programs. Furthermore, the United States was not really prepared to say precisely what sort of tax or land reform, what political procedures or measures of "social justice," another country must adopt to qualify for aid. Performance was difficult to measure unless the United States could say precisely what was wanted. Statements of intent therefore often substituted for performance, and the effort to produce the desired changes with aid often was substituted for the possibly more promising initial intent to make aid conditional on these changes.

An effort was made to deny aid in cases of blatant violation of the "Alliance." When the military aborted constitutional election processes in Peru, Kennedy spoke of a "serious setback" for the Alliance, and aid was cut off. Within the month aid was resumed. In the face of recurrent fiscal crisis in Brazil, further aid was to be doled out bit by bit, contingent on changed fiscal policies. However, the United States soon became increasingly concerned about the "leftist" tendencies of the Brazilian Government. When it was ousted by the military, the United States Ambassador urged massive aid in a hurry to support the new government. He prevailed.

As it was difficult to get a firm grip on many aspects of "self-help," development planning became the one quite firm "self-help" requirement. Aid officials were inclined to think of development planning less as "self-help" than as an essential prerequisite to successful development. Presumably, every country, especially the poorer, needed an elaborated vision of what resources it had and how it proposed to use these resources together with the aid available. In sharp contrast to measures of "social justice," the preparation of a development plan was essentially a technical undertaking, accomplished in a finite span of time which could be asked of another country. It was a task for which economists influential in AID had special enthusiasm and skills.

Aid for Africa

Aid for Africa raised the old problem of proliferation of aid programs. It had become acute by 1963. The United States had welcomed the independence of African countries but not the idea of a whole new continent of potential claimants on its aid. The United States wished Africans well in their efforts toward economic development and hoped to leave the main responsibility to the former European metropolises, confining itself to a role of "junior partner." Americans also hoped, at least prior to the Congo crisis, that Africa might be kept out of the Cold War, as Africans insisted it must be, and that European nations could deal with such lesser crises as might arise.

With the independence of Ghana in 1958, the first of the wave to come, the United States thought it necessary to offer aid for economic development. It was providing aid to Liberia, Ethiopia, across North Africa, and elsewhere in the world. To fail to offer aid to Ghana could be taken as a mark of American disinterest or antagonism. The same essential reasons were brought to bear when the next country became independent, and the next, until by 1963 the United States had begun in 27 new African nations and saw no easy way to stop. There was a broad official position within the Department of State that this was not to happen--that the independence of a new country was not itself a sufficient reason for aid. But case by case, officials responsible for policy toward Africa felt that this broad position could not be applied to their particular, present problem.

French African territories moved toward independence in close cooperation with France. Here, if anywhere, the need for the United States to make an additional contribution was small. But as the independence of these countries from France was challenged by other Africans, Americans felt it essential that the United States not lend support to this charge by failing to extend some aid. Guinea broke with France and was denied French aid. It, of all the French African territories, did have need for American aid. The United States hesitated, out of concern for France, only

to see the Soviet Union come forward. This soon ended the hesitation.

Most programs in Africa were quite small and came to be called, with unusual frankness, "presence" programs; that is, necessary to give the United States Ambassador proper access to and influence with local officials. This was not new or special to Africa. Foreign aid steadily had become a substitute for, or necessary supplement to, the lavish diplomatic "entertainments" once essential to the smooth and effective conduct of diplomacy. American Ambassadors reported to Washington that either some foreign aid must be forthcoming or their diplomatic function would be impaired--how seriously was a matter of judgment. But if the old "entertainments" placed serious demands on the constitution of a diplomat, they ended by midnight. "Aid for economic development," however small, carried a strong implication of United States commitment to the successful development of the recipient country. There was no easy way to tell the government or the populace that this "entertainment" ended at midnight when the coach turned back into a pumpkin. On the contrary, an ever larger program often seemed required to maintain the "presence" effect.

Some Americans, including the Assistant Secretary of State for African Affairs, felt that the United States must make a serious, large-scale effort, such as the "Alliance for Progress," to help develop Africa. This posed anew the old and basic question of what the United States must try to do and where. Indeed, it was not Africa alone that posed this question.

The New Divergence Between Aid and Policy

The basic Cold War posture of containment, which called for the United States to respond to crises where and as they arose, remained in force and had come to apply to crises arising in all underdeveloped areas--Africa and Latin America as well as Asia and the Middle East. The "Decade of Development," however, was to be a major alteration in the tactics by which containment was to be pursued. While the United States would continue to respond to crises, it was to make more effort, in aid for economic development, to

get a jump ahead of crises, thus to forestall them. It was clear enough where this new tactic could not be applied--in crisis spots such as Vietnam or the Congo--but far from clear where it was to be applied.

Since action on economic development took time and able, secure government, presumably it might best be applied where clear, calm skies offered a period perhaps of years to get development underway undisturbed by crisis. However, neither the Administration nor the Congress was prepared to consider additional massive aid for countries that posed no particular Cold War problem, and aid officials were far from convinced that the United States could press development forward at a faster pace in any country, or that additional massive aid was needed. They sought to focus on the few countries where conditions for development were favorable, and thought twenty or thirty years more realistic than a "Decade of Development."

To focus on the favorable few was the way to get the most development for the "aid dollar," and possibly the way to get successful development somewhere at the earliest time. But what was to be done about the many where conditions for aid were not promising? To wait until crises arose in these countries was precisely the pattern of the past which the "Decade of Development" was intended to correct.

Of the many efforts to erect a "strategy of development" which would fit within the broader framework of foreign policy, the most influential, first set out in the middle 1950's, 7/ is worth notice. On the basis of the plausible idea that economic growth proceeded by stages, one of which brought a "take-off" into "self-sustaining" growth, the United States was to concentrate its aid on the countries nearest "take-off" so that they would reach "self-sustaining" growth at the earliest moment. They then would have little further need of aid, and the United States could concentrate its efforts on the next most promising set of countries. In this fashion, the United States would focus its aid to achieve development in some countries in the shortest time and eventually help all to develop with the smallest immediate outlay of funds.

This highly attractive scheme influenced the DLF in the late 1950's, influenced the "Decade of Development" pronouncement, and then was made virtually official aid doc-

trine in the early months of the Kennedy Administration. Its major flaw became seriously troublesome only when AID gained sufficient control over its programs to act in some accord with its "doctrine." The idea of stages of economic growth had been a favorite of German economic historians, with much regret, only because, despite decades of heroic scholarly effort, no one had demonstrated to the satisfaction of others that economic growth had proceeded by discernible stages. It was no easier to demonstrate at what stage underdeveloped countries presently stood, although the United States Government put some further effort into the matter.

This flaw provided a certain flexibility, but it was hard to argue that India was approaching "take-off" or that some of the new programs just begun in Latin America were in accord with the "doctrine." It was abandoned as a "doctrine" in favor of a pragmatic compromise between aid officials, who wanted to focus aid where it would most effectively promote development, and policy officials who thought some countries more important than others for reasons other than their promise for economic development. The two agreed on India and compromised in one degree or another on assorted "best bets" for aid.

India, Nigeria, and Brazil regularly appeared at or near the top of various lists of "best bets." Each was the largest country in its area, and the largest could be said to be the most important. Each had the size, perhaps the resources, which seemed necessary for a modern developed country, a characteristic not shared by many underdeveloped countries. India had demonstrated capacity to put aid to effective use for economic development, and Nigeria seemed more promising in this respect than any other African country. Brazil no sooner had been included than it was judged necessary to dole out further aid contingent on fiscal reforms.

This did not mean that the Alliance for Progress effort throughout Latin America was to be reduced. The sense of urgent Cold War crisis in Latin America had faded, 8/ and the Alliance had become less a crisis response and more what it was said to be. The United States proceeded to provide increasing amounts of aid under the Alliance as it got underway, although not out of conviction that it was particularly feasible to promote economic development in Latin America.

By looking only at what was done with aid, ignoring many things that were said, one could see the United States acting as though it had decided on a return to emphasis on a traditional area of special concern, or "sphere of influence," in Latin America. Where aid had been concentrated heavily on Asia in the 1950's, by 1964 the pattern had changed to one of concentration of economic aid on Latin America. If the "Decade of Development," when announced in 1961, had been meant to apply to all underdeveloped areas, the United States had come to apply it especially to Latin America, and its future application to other areas had fallen increasingly in doubt.

In Vietnam, of course, the United States was acting as though the basic policy of containment everywhere was quite as alive as it ever had been. But much of the urgent impulse of earlier years clearly had faded in other areas, and there was much talk of détente with the Soviet Union. When the United States responded to the Indian-Chinese clash with military assistance for India, Pakistan strongly objected and turned to find a new accommodation with China. The United States tried to dissuade Pakistan from this course but failed. There was neither the clamour of dire prediction, nor the emergency response with aid that surely would have marked such an event in the 1950's. Nor was the United States so worried as it long had been about the continuing precariousness of the Iranian Government or about Nasser's activities. Indeed, while Africa had become something of a new crisis area, the Middle East had become, for Americans, an area of relative quiet and, perhaps, "neglect"; a situation probably capable of change on short notice.

Much hinged on the outcome of events in Vietnam. For a full-scale war in Asia, or American withdrawal from Southeast Asia, or an intensified and spreading effort to contain Communist China amid some détente with the Soviet Union, would mean major change in American foreign policy; and major changes in foreign aid would ensue.

VI. CONCLUSION

In January 1950, shortly before the United States launched in earnest on aid to underdeveloped countries, Secretary of State Acheson set out the problem in terms not easy to improve upon some fifteen years later:

American assistance can be effective when it is the missing component in a situation which otherwise might be solved. The United States cannot furnish all the components It cannot furnish determination, it cannot furnish will, and it cannot furnish the loyalty of a people to its government. But if the will and if the determination exists and if the people are behind their government, then, and not always then, is there a very good chance. 1/

The emphasis was on the limits of American power to alter the world and the course of events. In the same speech, Secretary Acheson drew the United States defense perimeter in Asia so as to exclude areas which it was thought the United States could not wisely attempt to defend. Presumably, where aid was not the only "missing component" and there was not a "good chance," by far the more numerous and troublesome situations, it was going to be necessary for the United States to come to terms, however, unpleasant, with the limits of what it could accomplish.

At the same time, however, the Truman Administration was considering a new venture with aid to try to do something about the difficult situation in Southeast Asia, where aid quite clearly did not offer a very good chance. Soon, with the Korean War, this effort to try in unpromising situations, to press beyond the limits of what aid could sensibly be expected to accomplish, became the dominant and enduring theme. Over the years, the United States has tried to do many things with aid, some wise and some not, some suited to aid and some not, in virtually every corner of the underdeveloped world.

If Secretary Acheson set out the sensible limits of aid in 1950, the Alliance for Progress in 1961 perhaps marks the most ambitious effort to transcend these limits. Here the United States undertook not just to provide a "missing component," aid, but to stimulate or bring into being all the other components recognized to be missing and to be essential to the success of aid. Like much else in the experience with aid to underdeveloped countries, the Alliance for Progress has been far from a resounding success and perhaps equally far from an abject failure. The sensible limits by no means have been the true limits of what might be accomplished with aid.

The major reason these limits have proven larger is that with aid the United States never provides a single "missing component." It always provides at least two components, aid and the action of a powerful nation in providing aid. In many instances, this action has been a good deal more potent than the aid itself.

Military assistance could not give Turkey the ability to withstand Soviet military attack in the late 1940's. That the United States stepped in with the concrete action of military assistance, however, at least as much as the assistance itself gave the Turkish Government the added edge of confidence it needed to withstand Soviet intimidation. That the United States would come to the defense of Turkey, if attacked, was most uncertain, but Turkey no longer felt entirely isolated before the vast superiority of the Soviet Union.

Massive aid to the new Diem government in South Vietnam in 1954 helped to meet relief needs, payrolls, and some of the demands for work and for consumer goods, all important but hardly the key to the survival of the Diem government in so difficult a situation. The key perhaps lay in how the Vietnamese calculated the odds that Diem's government would survive. Diem desperately needed cooperation and support, but to cooperate with him and become identified with his government would prove a rash and potentially dangerous act if his government soon fell. The action of the United States in providing massive aid, as a very concrete and unambiguous indication of support for the Diem government, probably changed how men calculated the odds, and contributed more to Diem's early success than the assistance itself. The United States did not just provide aid

but, as the saying goes, threw its weight on the scales.

In a different way, the potency of the Alliance for Progress lies not in the magnitude of aid alone. Because the United States had "neglected" Latin America during the 1950's, the Kennedy Administration had an opportunity to offer massive new aid there in a dramatic fashion designed to spur the changes, the components which the United States could not furnish, necessary to the success of aid. The success of the particular manner in which the United States held out the prospect of aid and the success of aid are inextricable.

The action in providing aid, of course, has not always supported the purpose for which the aid was given. The United States sought to support the Nuri es-Said government in Iraq prior to 1958, and military assistance probably had that effect in and of itself. But the connection between military assistance and the Baghdad Pact, as well as the close identification between Nuri and the United States, undermined his government. The persistent eagerness of the United States to continue aid to Indonesia, in the face of indifference and insult by the Sukarno government, was a consequence of the felt need to maintain access to that government amid a troubled and precarious internal situation. The access was maintained, but the eagerness to maintain it evidenced by continuing aid perhaps destroyed its value. It is less important to have ready access to another government than to be heard with respect, and a Great Power too eager and concerned is easily taken to be frightened and held in contempt.

The fashion in which the action in providing aid and the aid come together, either in mutual support or the one undermining the other, is most important. There is no formula for this. Indeed, it is difficult, save with the wisdom of hindsight, to distinguish between a situation such as that in Iraq and that in South Vietnam. Nuri and Diem were similar men--both tough, able, and none-too-popular politicians in a difficult situation where there were no better alternatives. After the fact, it would seem to have been wise if the United States had not undertaken to try to support Nuri. But before the fact, it would have been easy to have judged that it was wise to support him, as a man who would succeed, and unwise to support Diem, as a man who would fail where no one could succeed. Here, as elsewhere in

foreign policy, shrewd assessment of men and situations, as well as just plain luck, count for much.

It is often said that in its emergency aid to such crisis spots as Bolivia, Iran, and South Vietnam, the United States bought time and failed to put it to good use. There is some truth and some misleading simplification here.

The United States, of course, did not set out to buy time but to surmount a crisis judged real and threatening, and with little reason for confidence that it would indeed be surmounted. Furthermore, in such countries, crises have a way of beginning, or flaring up anew, in a clear enough fashion but of never really coming to an end. There is no alternation between crisis and stability. There are moments when the worst seems about to happen, and times when it has recently been avoided and the elements of new crisis can be seen. These periods of relative quiet in which new crisis seems to be building are never the right moment to cut off emergency aid or to press for major changes which might, on the far horizon, strike at the causes of continuing crisis.

In retrospect, it is easy to conclude that in a number of cases the United States exaggerated how seriously a crisis affected its interests. But these retrospective judgments are too facile. Only in crises which were not surmounted is it demonstrably clear how seriously they affected the interests of the United States. And such retrospective judgment about a past crisis in, say, Bolivia, offers little guidance to the next crisis in, say, the Dominican Republic.

It seems more useful to note that the past inclination to treat emergency aid of various kinds as a peculiarly temporary endeavor has hardly been borne out by experience. Indeed, the existence of a real crisis and the intensity of the difficulties which bring it into being and call for emergency aid point toward a problem likely to be enduring. To hope to find early opportunity here to achieve sweeping changes, to stimulate long-term economic development, or to bring emergency aid to an end, seems illusory. If the United States is not to leave such countries to cope with their own crises, and focus its serious aid efforts elsewhere, some greater effort at long-term crisis "planning" or management seems required, and it is a great deal more difficult than planning for long-term economic development. Periods of relative quiet perhaps should be used to try to secure quite modest changes, in the expectation that there

are more crises and more periods of relative quiet to come for a period of years ahead. Here the relevant question would seem to be what can be done to improve the situation somewhat over a span of years, rather than what can be done to transform it in a brief period of time.

The alignment of underdeveloped countries in the Cold War has been of much concern to the United States for two main reasons. One has been the need, felt strongly at times in the past, for general ideological support from as many countries as possible. This has faded as the United States has gained greater experience and confidence in the Cold War, and with the recent detente with the Soviet Union. Many underdeveloped countries vociferously rejected the idea that aid might be seen as a quid pro quo for such ideological support. The efforts to press aid into service here probably can be summed up as unnecessary and ill-suited indeed to this realm of ideas and emotions.

The second reason has been the need for cooperation, and the give and take which produces it, on a wide variety of issues and problems, notably in the United Nations. This has not faded but grown as more underdeveloped countries have entered the United Nations and the necessary majorities there increasingly have depended on **their votes**. The idea that no quid pro quo should be asked in return for aid has governed here as well, although practice has diverged from it on occasion. But here the idea has a different character--not that ideological support is too gross a return for aid, but any return, even support on an issue in which the underdeveloped country may have little interest, is inappropriate. It seems likely that one of the major questions for the future is whether aid should not be included within the broad process of give and take on concrete issues which produces cooperation among mature, independent, and equal nations.

One characteristic of efforts to promote economic development is that it has been, is now, and is likely to be for some years to come, too soon to tell whether or not they will prove a success. Taiwan and Israel are perhaps the exceptions. Israel was an underdeveloped land on which a highly educated and skilled, largely European people were set down, and which received an enormous influx of aid from the United States and other sources. Taiwan has had an exceptional concentration of educated and skilled

Chinese and a heavy concentration of United States aid, largely as "defense support" in the early years. As exceptions, they tend to show that if the United States could transform the population, skills, and attitudes of underdeveloped countries and give them a heavy influx of aid, development probably would go forward much more rapidly. But to transform the population apparently is to take a generation or more.

In the meantime, the United States without much doubt is going to be faced with immediate problems and crises as usual, among them, it seems clear, the relationship between Taiwan and Communist China, and the relationship between Israel, perhaps with nuclear weapons, and the Arab states. It is, to say the least, far too soon to tell what economic development, if successful in a number of places, is going to mean for the United States. If some part of the hopes placed on it are realized, it will have been very worthwhile. But what it will mean in time is going to depend in very large part on how the United States copes with the flow of more immediate problems and crises that shape the course of events leading into the future.

FOOTNOTES

FOOTNOTES, CHAPTER I

1. Joseph M. Jones, The Fifteen Weeks (Viking Press: 1955), p. 20.
2. William Adams Brown and Redvers Opie, American Foreign Assistance (Brookings Institution, 1953), provides an extensive picture of the Marshall Plan, aid to Greece and Turkey, and other aid activities which are not dealt with in this study.
3. Tang Tsour, America's Failure in China (University of Chicago Press, 1963), pp. 385-89.
4. See the testimony of Dean Acheson, Acting Secretary of State, in Assistance to Greece and Turkey, Hearings before the House Committee on Foreign Affairs, 80 Cong. 1 sess., pp. 14-17.
5. Harry S. Truman, Memoirs, Vol. I, Year of Decisions (Doubleday, 1955), p. 46 and p. 98.
6. Excerpts from this memo will be found in: Military Situation in the Far East, Hearings before the Senate Committee on Armed Services and Committee on Foreign Relations (the "MacArthur hearings"), 82 Cong. 1 sess., Part IV, p. 2847.
7. National Press Club speech, Jan. 12, 1950; U.S. Department of State Bulletin, Jan. 23, 1950, pp. 116-17.
8. U.S. President, Second Semi-Annual Report on the Mutual Defense Assistance Program, April 6, 1950 to Oct. 6, 1950, p. 6.
9. R. Allen Griffin, Director, Far East Programs, ECA, in Mutual Security Act of 1951, Hearings before the Senate Committee on Foreign Relations and Committee on Armed Services, 82 Cong. 1 sess., p. 580.

FOOTNOTES, CHAPTER II

1. The program for Pakistan was set at \$10.6 million. The Congress, after much dispute over Indian "neutrality," also approved a special \$190 million emergency grain loan for India to meet famine conditions. The Administration also found it possible to stretch the "general area of China" to permit a grant of \$4.5 million in grain sorghum for India.
2. Of the \$34.5 million appropriation for 1950-51, \$12 million was earmarked for the United Nations Expanded Technical Assistance Program and \$6 million was allocated to continue existing programs in Latin America. U.S. Department of State, The Point Four Program, Publication 4042, Economic Cooperation Series 25 (1951).
3. R. Allen Griffin, Director, Far East Programs, ECA, in Mutual Security Act of 1951, Hearings before the Senate Committee on Foreign Relations and Committee on Armed Services, 82 Cong. 1 sess., p. 578.

4. Ibid., p. 532.

5. A modest program, largely air force training, was begun in Saudi Arabia as part of a new agreement to extend American rights to the use of Dhahran air field, built by the United States during World War II, ceded to Saudi Arabia, and of new strategic value.

6. Sec. 511. (a) No military, economic, or technical assistance authorized pursuant to this Act (other than assistance provided under section 408 (e) of the Mutual Defense Assistance Act of 1949, as amended) shall be supplied to any nation in order to further military effort unless the President finds that the supplying of such assistance will strengthen the security of the United States and unless the recipient country has agreed to--

(1) join in promoting international understanding and good will, and maintaining world peace;

(2) take such action as may be mutually agreed upon to eliminate causes of international tension;

(3) fulfill the military obligations which it has assumed under multilateral or bilateral agreements or treaties to which the United States is a party;

(4) make, consistent with its political and economic stability, the full contribution permitted by its manpower, resources, facilities, and general economic condition to the development and maintenance of its own defensive strength and the defensive strength of the free world;

(5) take all reasonable measures which may be needed to develop its defense capacities; and

(6) take appropriate steps to insure the effective utilization of the economic and military assistance provided by the United States.

(b) No economic or technical assistance shall be supplied to any other nation unless the President finds that the supplying of such assistance will strengthen the security of the United States and promote world peace, and unless the recipient country has agreed to join in promoting international understanding and good will, and in maintaining world peace, and to take such action as may be mutually agreed upon to eliminate causes of international tension.

7. On this episode with Indonesia, see: The Economist (London), March 1, 1952, p. 518, and April 19, 1952, p. 152. U.S. Department of State Bulletin, March 10, 1952, p. 399 and Feb. 9, 1953, p. 220. New York Times, Feb. 24, 1952, Sec. IV, p. 2.

8. Secretary of State Dean Acheson, Mutual Security Act of 1952, Hearings before the Senate Committee on Foreign Relations, 82 Cong. 2 sess., p. 117.

9. The Marshall Plan included provision for overseas territories. These programs were conducted largely by European officials, but the United States was identified as the source of aid.

10. Mutual Security Act of 1951, Hearings, pp. 654, 659, and 644.

FOOTNOTES, CHAPTER III

1. The Truman budget message of January 1953 called for \$7.6 billion, roughly the same level as the preceding year. Eisenhower sought \$5.1 billion, and the Congress appropriated \$4.5 billion, or an ultimate 40 percent reduction from the Truman proposal.
2. It was both, of course. It allowed the French government to continue its expenditures in Indochina without raising the necessary revenues in France.
3. Ellen J. Hammer, The Struggle for Indochina (Stanford University Press, 1954), p. 313.
4. This substantial estimate was not made public amid the early stress on "economy" and reductions in foreign aid.
5. This has been all but officially admitted. See: Allen W. Dulles, The Craft of Intelligence (Harper, 1963), p. 224; and R. Harkness, "Mysterious Doings of the CIA," Saturday Evening Post, Oct. 30 and Nov. 6 and 13, 1954.
6. P. L. 216 passed in August 1953. This legislation had been requested to give the United States flexibility to meet emergency famine conditions outside the Mutual Security Program.
7. \$3 million of this was commodity imports which had much the same budget support effect as in Iran. \$1.4 million was agricultural machinery.
8. U. S. President, Report to the Congress on the Mutual Security Program for the Six Months ended December 31, 1953 (1954), p. 48.
9. It also asked that \$2.5 billion in military assistance funds not yet obligated be reappropriated. The "pipeline," funds obligated but not yet spent, stood at \$6 billion. U. S. Department of Defense, Military Assistance Facts, May 1, 1963, p. 2. Thus again the effect of the cut was not an immediate reduction of military assistance to NATO.
10. U. S. President, Mutual Security Program, message to the Congress, June 23, 1954.
11. As the authorizing legislation was for one year only, the Congress had only to fail to pass new legislation to terminate aid and the aid agency. Legally, the terminal date was a reiteration.

12. U. S. President, Report to the Congress on the Mutual Security Program, for the six months ended June 30, 1957 (1957), p. 24.

13. Total economic aid to Iran in fiscal 1955, then carrying an overall label "development assistance," was \$65.6 million. Of this \$49.8 million was stated officially to be budget support and probably more should be counted as such. Economic aid in fiscal 1956, labeled "defense support," was \$57.5 million. Of this, \$23 million was a cash transfer and \$34 million was commodity imports, both in effect budget support.

14. Majid Khadduri, Modern Libya: A Study in Political Development (Johns Hopkins Press, 1963), pp. 252ff.

15. It appropriated only \$100 million of the \$200 million request, but on the basis that the Administration could return for the additional funds. This was not a rejection as the Administration readily admitted that it saw no need for the whole \$200 million during the first year.

16. Secretary Dulles' open irritation with India was of help here. When Dulles testified that there was a Cold War need to aid Indian development, it was hard to argue that he was being soft-headed or hiding a personal desire to help out the Indians under a facade of Cold War rationale.

FOOTNOTES, CHAPTER IV

1. The Administration requested a \$4.6 billion total, or almost \$2 billion more than appropriated the year before. The increase sought for military assistance was \$2 billion. The Congress cut this to \$900 million and the overall total to a \$3.7 billion appropriation.

2. \$52 million, of which \$15 million was earmarked for Guatemala. Defense support funds were largely for underdeveloped countries. Of the \$1.6 billion total, \$874 million was for Asia, \$168 million for the Near East and Africa, \$68 million for Europe (\$50 million for Spain), and \$52 million for Latin America.

3. The Administration also asked for a new \$100 million special fund for "nonmilitary" uses in the Near East and Africa, which would have provided funds for Aswan during the year to come.

4. Sec. 14. "It is the sense of Congress that in the preparation of the mutual security program, the President should take fully into account the desirability of affirmatively promoting the economic development of underdeveloped countries, both as a means of effectively counteracting the increased political and economic emphasis of Soviet foreign policy and as a means of promoting fundamental American foreign policy objectives of political and economic self-determination and independence."

5. An agreement to place Jordanian forces under a joint command to be headed by an Egyptian general was the feature of this transitory alignment most disturbing to Americans.
6. A \$4.4 billion request was indicated in the President's January budget message. This was reduced in his May foreign aid message to \$3.8 billion on the basis of anticipated "savings" in military assistance, that is, funds the Administration did not expect to obligate by the end of the fiscal year and asked the Congress to reappropriate, another form of "pipeline" manipulation.
7. Mutual Security Act of 1957, Hearings before the House Committee on Foreign Affairs, 85 Cong. 1 sess., pp. 600 and 1317.
8. A three-year authorization was sought for military assistance and also denied by the Congress.
9. Most of the remainder of the \$300 million was committed or allocated in some preliminary form, but this was done under some pressure to show that there was need for more funds in the immediate future.
10. The constriction would have been sharp had not \$52 million of unobligated fiscal 1957 "development assistance" funds been carried over and obligated in fiscal 1958, after "development assistance" ostensibly had been replaced by DLF.
The constriction of new funds, it should be noted, did not mean an immediate reduction in expenditures. In India, for example, expenditures rose although none of a \$75 million DLF loan was disbursed. These were, by and large, expenditures of funds obligated, or made available, in previous years.
11. Pakistan was second with \$132 million and Iran third with \$78 million. On the basis of aid per capita, India was not a major recipient.
12. A pronounced cut was made in DLF funds, from \$625 million to a \$400 million appropriation, in part because it was hard to argue that the DLF needed all the new funds sought, in part because this was not considered crisis aid.
13. That is, commodities such as food, gasoline, textiles for direct use by the armed forces. "Direct forces support" had much the same effect as "defense support" but was easier to justify as a form of military assistance. "Direct forces support" gasoline meant that the Turkish armed forces need not purchase this gasoline on the market, to reduce supplies there. "Defense support" gasoline increased supplies on the market and permitted the armed forces to purchase there.
14. Part in increased "defense support," part through DLF, and part by the Export-Import Bank.
15. Which meant that the United States presumably was to pay all of

the cost of these Pathet Lao soldiers as part of its support for the Laotian army.

16. Eisenhower made quite clear in his proposal to the Arabs that he was not suggesting a major contribution from the United States but that oil-rich Arab states be the major contributors. The idea of such an Arab institution in which rich states would make funds available to the poor was anything but new in the Arab world, and had been persistently defeated by the disinclination of the rich but weak states to put their wealth under the control of their poor but strong fellows.

Although some Latin American states, notably Venezuela, had oil revenues, none had any marked surplus of wealth, surely not that which marked Kuwait, Bahrein, and Saudi Arabia.

17. The \$1 billion consisted of \$850 million in "ordinary" capital of which \$400 million was to be paid in and \$450 million "callable" or as guarantee backing. A \$150 million Fund for Special Operations, loans when prospects for repayment were not good, made up the balance.

The United States contributed \$100 million to the Fund for Special Operations. Its affirmative vote was required for any loan here. Its contribution to the \$850 million "ordinary" capital was \$150 million paid in and \$250 million "callable."

18. The "package" consisted of \$125 million from the Export-Import Bank, \$50 million from the Department of the Treasury, \$54 million from private U.S. banks, \$25 million from DLF and \$75 million from the International Monetary Fund. This DLF loan was the largest to a Latin American country during this period.

19. It was successful here for the first time. The Congress authorized military assistance for fiscal 1960 and "such sums as may be necessary" in fiscal years 1961 and 1962, which meant that the Administration in these later years had to return for appropriations but not for authorizing legislation. The successful tactic was to have the long-term authorization recommended by a committee of prominent citizens, the Draper Committee or President's Committee to Study the Military Assistance Program, rather than by the Administration itself.

20. See the exchange of letters in: Council on Foreign Relations, Documents on American Foreign Relations, 1957-1959, (Harper, 1960), pp. 134ff.

21. When OEEC became the Organization for Economic Cooperation and Development, the Development Assistance Group became the Development Assistance Committee of the OECD.

FOOTNOTES, CHAPTER V

1. U.S. President, Foreign Aid, message, March 22, 1961.

2. Under Secretary of State Douglas Dillon at Bogota, Sept. 6, 1960, U.S. Department of State Bulletin, Oct. 3, 1960, pp. 533ff. Of the \$500 million, \$394 million was to be administered by the new Inter-American Development Bank, which thus was given a new function at the moment it opened its doors for business. ICA administered another \$100 million and \$6 million was assigned to the Economic and Social Council of the Organization of American States.

3. A figure of \$20 billion over the decade was offered by Douglas Dillon, who led the American delegation, as potential resources from abroad, not just from the United States.

4. These totals include \$100 million for Chilean relief and reconstruction. Lest it seem unfair to include this as political emergency aid, it should be noted that the Chilean earthquake came in 1960. There was then a humanitarian emergency need for commodities and medicines of the right sorts, not for dollars. It was met then as best the United States could. The use of cash transfer in fiscal 1962 (July 1961-June 1962) was chosen for political support reasons; not for those of emergency relief.

5. U.S. President, Budget of the United States Government Fiscal Year 1962: Budget Message and summary budget statements (1961).

6. Cash Transfers--Net Commitments in millions by fiscal years

1955 - \$ 160	1959 - \$ 146
1956 - 77	1960 - 96
1957 - 51	1961 - 227
1958 - 91	1962 - 485

Source: AID, Management Report, Special Issue, Data as of June 30, 1962, p. 6.

7. Max F. Millikan and W.W. Rostow, A Proposal: Key to an Effective Foreign Policy (Harper, 1957); W.W. Rostow, The Stages of Economic Growth (Cambridge University Press, 1960).

8. The Cuban missile crisis of 1962, it should be remembered, was a military crisis between the United States and the Soviet Union, not one over Castro's influence in Latin America.

FOOTNOTES, CHAPTER VI

1. U.S. Department of State Bulletin, Jan. 23, 1950, pp. 116-17.