

Copy for DIM

PN-AAP-779/62
ISN-34254

HISTORY OF U.S. FOREIGN AID
SINCE THE SECOND WORLD WAR

By
Ruth Logue

Federal Reserve Board

Washington, D.C.

April 24, 1961

HISTORY OF U. S. FOREIGN AID SINCE THE SECOND WORLD WAR

The current practice of foreign aid originated in the United States during the second world war. It was first embodied in the "lend-lease" legislation under which the United States gave aid to the countries engaged in that war that were to become its Allies. The initial phase of postwar U.S. aid culminated in the European Recovery Program and the technical assistance program outlined in President Truman's inaugural message of 1949. Another phase saw the end of assistance for postwar reconstruction but also an expansion of aid for economic development under the Eisenhower Administration. Still another phase may well have started with President Kennedy's first messages to the Congress.

In addition to the United States, international institutions as well as other governments of industrialized countries have granted various forms of international aid.

This paper reviews the four phases of U.S. aid and briefly describes U.S., international, and other national or regional institutions concerned with giving aid to foreign countries outside the Soviet bloc.

I. U.S. aid in the war and immediate postwar period

After the Second World War had become a life-and-death struggle between Nazism and democracy in the spring of 1940, the Roosevelt administration decided to supply the United Kingdom and Canada with a large part of the U.S. production of war materials in spite of the fact that British gold and dollar reserves were nearly exhausted. The "cash and carry" provision of the Neutrality Act of 1939 hampered the granting of ordinary credits; moreover, the administration wanted to avoid the re-emergence of intergovernmental debts, which would be certain to lead to friction and eventual default as in the case of the inter-Allied debts resulting from the First World War. Thus a completely new approach became necessary.

Lend-Lease

The concept of lend-lease and part of the name were first used in September 1940 when President Roosevelt decided to assist the British by transferring to them 50 over-aged United States destroyers in exchange for the right to lease British naval and air bases in the Caribbean. Three months later, in his address on National Security on December 29, 1940, President Roosevelt called upon the nation to become the "great arsenal of democracy" and to extend all possible aid in the form of munitions and supplies to "the defenders who are in the front lines." Legislation embodying the lend-lease proposal was submitted to the Congress on January 10, 1941 in "a bill further to promote the defense of the United States, and for other purposes," ^{1/} which became law on March 11, 1941. The Lend-Lease Act (Public Law 11, 77th Congress), empowered the President of the United States "to sell, transfer title to, exchange, lease, lend, or otherwise dispose of" any defense article to any country whose defense the President deemed vital to the defense of the United States. The term "defense article" was broadly defined to include "agricultural, industrial or other commodity or article for defense."

Lend-lease partook of the characteristics of earlier forms of foreign aid in that it began as a military subsidy to Great Britain and the Commonwealth, who were regarded as defending the Western Hemisphere as well as themselves, and it also served the charitable purpose of mitigating the calamitous effects of war. Lend-lease was, however, the precursor of later aid programs in that it was not a loan repayable in dollars^{2/}, but that repayment was to be within the framework of a mutual effort of postwar

^{1/} House Resolution 1776, Senate bill 275, 77th Congress, 1st session.

^{2/} Annual Message of the President to Congress, January 6, 1941, House Doc. No. 1, 77th Congress, 1st session.

reconstruction. The Lend-Lease Act provided that "the terms and conditions upon which any such foreign government receives any aid . . . shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory." Article VII of the Lend-Lease Agreement with the United Kingdom, signed on February 23, 1942, went much further in providing that "the terms and conditions (of the Lend-Lease settlement) shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations." Article VII goes on to require that the settlement terms "include provisions for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 12, 1941 (Atlantic Charter), by the President of the United States of America and the Prime Minister of the United Kingdom." The Agreement called for early conversations between the two governments with a view to determining the best means of attaining these objectives. ^{2a/} Subsequent Lend-Lease agreements with other countries contained substantially the same provisions. In his opening address to the United Nations Monetary and Financial Conference at Bretton Woods on July 1, 1944, the United States Secretary of the Treasury, Henry Morgenthau, Jr., said that the work of the conference should be viewed as a part of a broader program of agreed action ^{2a/} U.S. Department of State, Bulletin, Vol. VI, pp. 190-192.

among nations to bring about the expansion of production, employment, and trade contemplated in the Atlantic Charter and in Article VII of the mutual-aid (lend-lease) agreements. ^{3/}

In both 1943 and 1944, Article VII was attacked in Congress as an assumption by the executive of legislative powers. Despite the statement by members of the administration that Article VII represented a political rather than a legal commitment, and that legislative powers were not infringed by it, Congress inserted into the Lend-Lease Act of 1944 a proviso to the effect that the Act did not authorize the President in any final settlement to assume or incur any obligations on the part of the United States with respect to postwar economic policy, postwar military policy, or any postwar policy involving international relations except in accordance with established constitutional procedure. Senator Vandenberg, ranking Republican on the Senate Committee on Foreign Relations, expressed the opinion that the foregoing proviso was also intended to confine lend-lease absolutely to the military operation of the war, and that it did not "extend it one minute or \$1 into the postwar." ^{4/}

Accepting the sense of Congress, President Truman announced that lend-lease would be terminated on V-J Day (September 2, 1945), and that such lend-lease goods as were in transit, or had been ordered by recipient countries, became repayable on a cash basis.

The United States extended \$48.6 billion of lend-lease aid to 42 countries through September 2, 1945, and received \$7.8 billion in reverse lend-lease, of which \$6.7 billion came from the British Commonwealth. Goods ordered under lend-lease, but delivered after September 2, 1945 (so-called "pipe-line" goods), amounted to about \$2.3 billion, of which \$778 million

^{3/} United Nations Monetary and Financial Conference, Bretton Woods, New Hampshire, July 1 to July 22, 1944, Final Act and Related Documents, United States Government Printing Office, Washington, D.C. 1944, p. 3.

^{4/} Documents on American Foreign Relations, World Peace Foundation, Boston 1945, Vol. VI, p. 52.

was delivered to China. Of the war-time lend-lease aid, the British Commonwealth received \$32 billion, the Soviet Union over \$11 billion, and France and her overseas dependencies nearly \$3 billion. Over half of lend-lease goods consisted of munitions and petroleum products, 22 per cent was other industrial products, 13 per cent agricultural products, and the remaining 13 per cent represented services and costs. ^{5/}

By the end of 1960, lend-lease settlement agreements had been negotiated with most of the recipient countries, the exceptions being the Soviet Union, China, Greece, and Saudi Arabia. In most cases the settlement included payment for war surplus property of the United States taken over by recipient countries.

The total amount owed the United States initially under lend-lease settlement agreements and for "pipe-line" lend-lease goods by those countries that have not signed settlement agreements amounted to \$1,578 million. ^{6/} As of December 31, 1959, \$466 million of principal and \$236 million of interest had been paid on lend-lease agreements.

The first lend-lease settlement agreement was negotiated with Great Britain in the fall of 1945 and made public on December 6 of that year. The settlement of lend-lease and related claims was one of three agreements that came out of several months of discussions of the major problems affecting the basic economic and financial relations between the two countries. Under the agreement regarding lend-lease reciprocal aid, surplus war property, and claims, the United Kingdom agreed to pay the United States \$650 million, plus interest at 2 per cent per annum, in final settlement of all financial

^{5/} U.S. Foreign Aid, U.S. Library of Congress, Legislative Reference Service, House Document No. 116, 86th Congress, 1st Session, U.S. Government Printing Office, Washington 1959, pp. 13-14.

^{6/} Forty-first Report to Congress on Lend-Lease Operations, U.S. Government Printing Office, Washington 1960, p. 8.

claims arising out of the war. In the agreement, lend-lease goods and services consumed in the war were written off without compensation (other than the common war effort and the willingness of the partners to collaborate in constructing the peace). The \$680 million obligation assumed by the United Kingdom covered mainly payment for lend-lease inventory in the United Kingdom, plus lend-lease "pipeline" goods and war surplus property. The subsequent lend-lease settlements with other countries were negotiated on essentially the same basis.

The U.K. and French Loans

As mentioned above, the lend-lease settlement agreement with Britain was one of three interrelated agreements. The first of them concerned commercial policy: the two governments agreed to call an international conference on trade and employment, and accepted as a basis for discussion certain American proposals for the relaxation of trade barriers; the International Trade Organization (still-born) and the General Agreement on Tariffs and Trade (very much alive) grew out of this agreement. The keystone of the structure was, however, the financial agreement, under which the government-owned Export-Import Bank of Washington would extend a line of credit to the United Kingdom of \$3,750 million, to be available for a transitional period lasting until the end of 1951. The credit, to the extent drawn upon, bore an interest charge of 2 per cent per year, and was repayable in 50 annual installments, payment of both interest and principal beginning on December 31, 1951. The interest charge had to be waived if the United Kingdom requested it on grounds of serious balance-of-payments difficulties on current account. The purpose of the loan was to enable Britain to meet transitional postwar deficits in its current balance of payments, to maintain adequate reserves, and to assume certain obligations of multilateral trade. On its side, the United Kingdom undertook, in effect, to remove

exchange restrictions upon current transactions with all countries and to eliminate the so-called dollar pool of the sterling-area countries within one year of the effective date of the agreement. Both countries agreed not to impose or maintain discriminatory import restrictions. ^{7/}

The three agreements were approved by the British Parliament before the end of the year but were not approved by the Congress of the United States until July 1946. ^{8/} Opposition to the agreements was considerable on both sides of the Atlantic. In Britain, the provisions of the financial agreement requiring dismantling of foreign exchange and trade controls were widely regarded as a high price to pay for the badly needed dollar loan, especially because Britain's plight was the result of the losses sustained in the common struggle against the axis powers. ^{9/} In the United States, on the other hand, there were demands for further concessions. The National Advisory Council on Foreign Economic Monetary and Financial Problems (NAC), which had been established in July 1945 by the Bretton Woods Agreement Act, justified the loan to the United Kingdom to Congress on the grounds that Britain's position in world trade was such that the elimination of exchange restrictions and other barriers to trade and investment could be achieved only after the solution of Britain's financial problems.

The National Advisory Council said that the British case was unique and that the loan would not be a precedent for credits to any other country. ^{10/}

^{7/} Anglo-American Trade and Financial Negotiations, Federal Reserve Bulletin, January 1946, Vol. 32, No. 1, p. 14-20.

^{8/} W. A. Brown, Jr. and Redvers Opie, American Foreign Assistance, The Brookings Institution, Washington, D.C. 1953, p. 104.

^{9/} Raymond F. Mikesell, United States Economic Policy and International Relations, McGraw-Hill, New York 1952, p. 172.

^{10/} Report of the National Advisory Council on International and Financial Problems (NAC), U.S. House of Representatives Document No. 497, 79th Congress, 2nd Session (March 1946), p. 47.

In May 1946, however, France received an analogous loan of \$650 million in connection with the lend-lease settlement agreement. France undertook to pay \$420 million for lend-lease goods and services and \$300 million for surplus property, the total \$720 million payable in 30 annual installments beginning September 30, 1951, with interest at 2 per cent beginning July 1, 1947. ^{11/}

UNRRA and Post-UNRRA Relief

The United Nations Relief and Rehabilitation Administration (UNRRA) was created by 44 allied governments in November 1943 for the purpose of providing immediate relief and emergency rehabilitation supplies to countries liberated from control of the Axis powers. The United States had taken the lead in urging the expansion of the Interallied Postwar Requirements Committee, a group set up in 1941 by Britain and the governments-in-exile, into an international organization. The funds for UNRRA were provided by contributions from member countries that had not been invaded in the war, and in amounts approximately equal to 1 per cent of their national income for the fiscal year 1943. UNRRA undertook to provide relief supplies and services only to governments that requested aid and that lacked sufficient foreign exchange to buy what they needed.

The recipient governments were put in charge of the distribution of relief supplies, and were advised by UNRRA to sell them mainly through normal commercial channels, reserving, however, some supplies to be distributed free of charge. Whenever possible, UNRRA supplies were to be clearly marked, and receiving governments were prohibited from using UNRRA aid for political purposes or to discriminate in its distribution on the basis of race, religion or political affiliation. The Congress of the United States, before it approved accession to UNRRA, added further stipulations to the

^{11/} Brown and Opie, op. cit., p. 106.

effect that the organization was not to undertake the general rehabilitation and economic development of those countries to which it extended assistance, and that it was not to do more for exiles and prisoners of war than provide emergency care and help them return home.

Relief supplies were distributed by UNRRA mainly to southern and eastern Europe, including the Ukrainian and Byelorussian Soviet Republics, China, and Korea. Former enemy countries were initially not eligible to receive UNRRA relief supplies, but Austria and Italy were later declared eligible by the UNRRA Council. UNRRA's program to assist displaced persons centered in Germany, where most of such people were found at the end of the war.

Most of the actual operations of UNRRA took place over the two-year period from mid-1945 through mid-1947. Of the \$3,661 million received by UNRRA from member governments, the United States contributed \$2,668 million, 72 per cent. ^{12/} Only two other countries, the United Kingdom and Canada, made contributions to UNRRA in excess of \$100 million. When UNRRA was finally liquidated on September 30, 1948, its remaining funds, amounting to about \$1,135 million, were transferred to other organizations of the United Nations, principally the Food and Agriculture Organization and the Children's Emergency Fund. ^{13/}

The actual operations of UNRRA were terminated in mid-1947 (except for the program in China) largely because disagreements between the United States and the Soviet Union over the administration of UNRRA operations in

^{12/} George Woodridge, UNRRA, The History of the United Nations Relief and Rehabilitation Administration, Columbia University Press, New York, 1950, Vol. III, p. 500.

^{13/} U.S. Foreign Aid, House Document No. 116, op. cit., p. 28.

Soviet-occupied areas had caused the United States to withdraw its financial support in August 1946 at the Fifth Session of the UNRRA Council. ^{14/}

It was apparent, however, that the need for emergency relief would still be acute in some countries following the termination of UNRRA operations. The General Assembly of the United Nations on December 13, 1946, adopted a resolution urging that following the termination of the UNRRA residual relief needs be met in the ensuing year through the development of the respective relief programs of all members of the United Nations. ^{15/} The post-UNRRA relief program of the United States was presented to the Congress on February 21, 1947, in the form of a joint resolution asking for \$350 million for "Relief Assistance to the People of Countries Devasted by War." The \$350 million authorized by this resolution, which became law on May 31, 1947, was limited to the provision of relief supplies in the form of food, medical supplies, processed and unprocessed materials for clothing, fuel, fertilizer, pesticides, and seed, except that the President could contribute up to \$40 million to the U.N. Children's Emergency Fund. The funds were also limited to the provision of relief supplies mainly to the following areas: Austria, Greece, Hungary, Italy, Poland, Trieste and China. The law required that the distribution of relief supplies be supervised and controlled by American personnel.

Apart from UNRRA, the most important multilateral aid program in which the United States participated in the early period was the International Refugee Organization (IRO), a specialized agency of the United

^{14/} U.S. Foreign Aid, House Document No. 116, op. cit., p. 26, Woodbridge, op. cit., Vol. I, p. 302-303.

^{15/} House Report No. 239, 80th Congress, 1st Session, p.2.

Nations Economic and Social Council founded in December 1946. IRO was terminated on January 31, 1952. During its five years of existence, IRO spent \$430 million, of which the United States contributed \$237 million. ^{16/}

Aid Furnished by the U.S. Armed Forces

In addition to the postwar relief supplies provided through United Nations agencies, mainly to countries liberated from Axis occupation, the United States provided civilian relief supplies on a bilateral basis to areas occupied by the U.S. armed forces. The U.S. Government declared that such aid was required by humanitarian considerations and international law, and was necessary to maintain public order. At first the funds for civilian supplies in the liberated and occupied areas came out of regular Army appropriations. Beginning with the fiscal year 1947, however, the major portion of aid to the civilian populations in occupied territories was financed by appropriations for "Government and Relief in Occupied Areas" (GARIOA), initials that came to designate all aid to civilian populations in areas occupied by U.S. military forces.

Altogether, aid furnished by the U.S. armed forces to civilian populations during the Second World War and up to June 30, 1951, amounted to \$6.1 billion, of which about one-fifth was provided before the end of hostilities. ^{17/} Such aid was about equally divided between Europe and Asia.

Under the London Debt Agreement of February 27, 1953, the United States claim against Germany for aid furnished during World War II and up to June 30, 1951 of \$3 billion (\$1.7 billion by the armed forces and \$1.3 billion by the Marshall Plan) was reduced to \$1 billion. ^{18/} The United States claim against Japan for GARIOA aid of \$1.8 billion has not yet been settled.

^{16/} Brown and Opie, op. cit., p. 95.

^{17/} Foreign Aid by the United States Government, 1940-1951, A supplement to the Survey of Current Business, U.S. Department of Commerce, Washington 1952, p. 38.

^{18/} Agreements with the Federal Republic of Germany, Executives, D,E,F and G, U.S. Senate, 83rd Congress, 1st Session, p. 135, 224.

II. The Heroic Age of U.S. Aid

The four forms of aid previously discussed all originated during the war. The following programs reflected the changes in the international climate, where the "cold war" with communism rather than the struggle against Nazism became the main concern of the free world.

The Truman Doctrine

During the war and early postwar period, American policy makers expected that, apart from relief supplies provided through UNRRA, GARICA, and sales of surplus property, postwar reconstruction and development would be financed mainly by private capital; those essential projects for which private capital could not be found on reasonable terms, would be financed mainly by the International Bank for Reconstruction and Development, and pending the establishment of that Bank, through loans from the Export-Import Bank of Washington. Exclusive of the loan to the United Kingdom, the most urgent minimum needs for Export-Import Bank loans during the transition period were estimated at a total of \$3,250 million.

These estimates were embodied in a statement by the National Advisory Council on International Monetary and Financial Problems, endorsed by President Truman on March 1, 1946.^{1/} Less than a year later, it was apparent that they had been over optimistic. The difficulties of the transition period were greater than had been anticipated; and, more important, it was realized that the Soviet Union intended to pursue an aggressive expansionary foreign policy, taking every possible advantage of social unrest caused by economic distress.

^{1/} Report of the National Advisory Council on International Monetary and Financial Problems, 79th Congress, House of Representatives, Document No. 497, March 1, 1946, p. 16-22.

The announcement of the Truman Doctrine on March 12, 1947 marked the shift in American foreign policy to one of active defense on both the military and economic fronts against the cold-war tactics of the Soviet Union. The action that immediately precipitated this change in policy was the receipt on February 24, 1947, of two notes in which the British government indicated that after March 31, because of increasing financial difficulties, it would be unable to extend further financial assistance to Greece and Turkey. The notes recalled that previous exchanges of views had resulted in the mutual understanding that, for military and strategic reasons, Greece and Turkey should not be allowed to fall under Soviet control, and that the two countries had informally agreed the previous summer to share the burden of aiding the two countries, with the British being mainly responsible for military aid and the United States for economic aid. ^{2/} Largely as a result of a spreading civil war, Greece was on the verge of economic collapse. The communist-dominated Greek resistance movement, which had refused to lay down their arms and was conducting guerrilla warfare against the National Government at Athens, was increasing in strength and was supported by the neighboring communist countries (Yugoslavia, Bulgaria, Albania). In Turkey, the economic situation was not so grave; but the financial burden of supporting a military force capable of resisting the mounting Soviet pressures, in addition to financing economic development, posed a threat to financial stability.

On March 3, 1947 the Greek government delivered a note to the U.S. Secretary of State appealing for further assistance without delay. On March 12, 1947, President Truman went before the Congress and asked for authority to provide assistance to Greece and Turkey in the amount of \$400 million for

^{2/} Joseph M. Jones, The Fifteen Weeks (February 21-June 5, 1947), The Viking Press, New York, 1955, p. 5.

the period ending June 30, 1948. In his message he said that "it must be the policy of the United States to support free peoples who are resisting attempted subjugation by armed minorities or by outside pressures," and that such help should be "primarily through economic and financial aid which is essential to economic stability and orderly political processes." ^{3/}

The Greek-Turkish aid bill was approved on May 15 by the Congress although the Congress was controlled by Republicans and had as late as January drastically cut President Truman's budget, and especially the funds requested for relief in occupied areas. ^{4/} As finally amended, the Greek-Turkish aid bill provided for \$300 million in aid to Greece and \$100 million for Turkey. It was expected that the aid to Greece would be about equally divided between supporting the Greek armed forces and providing the minimum civilian reconstruction necessary for stability. The Turkish share was to be used solely for strengthening the military forces. The bill provided for aid in the form of loans or grants and for U.S. civilian and military advisers to help the Governments of Greece and Turkey in making effective use of aid.

The following year, Congress appropriated \$275 million to be used only for military aid to Greece and Turkey. By this time the economic aid program had been taken over by the European Recovery Program (see below). The complete rout of the guerrilla forces was achieved in 1949 partly as a result of U.S. military aid, which gave the Greek army a definite superiority in weapons, but partly as a result of the Yugoslav break with the Soviet Union, which closed off the guerrilla's principal source of supply.

^{3/} Documents on American Foreign Relations, Vol. IX, January 1 - December 31, 1947, Princeton University Press, 1949, p. 649.

^{4/} Joseph M. Jones, The Fifteen Weeks, (February 21 - June 5, 1947), Viking Press, New York, 1955, p. 91.

The European Recovery Program

Origins

The inability of Great Britain to continue aid to Greece and Turkey was symptomatic of the economic dislocation of all of Europe. In every country of Europe there were severe shortages of food, fuel, raw materials and consumers goods.

Extraordinarily bad weather had augmented the physical destruction and economic dislocation caused by the war. In two successive years, severe droughts had cut down on food production in Europe, and the winter of 1946-47 was one of the worst on record. Farmers were not moving what food they had to market because they could buy very little with the money they received. Inflation was accelerating. Exports were at a very low level, and European countries were expending their foreign exchange reserves and American loans at a rate that would exhaust them by 1948. ^{Under} Secretary of State Dean Acheson on March 5, 1947 initiated inter-departmental studies of situations in the world that might require aid similar to that extended to Greece and Turkey. ^{5/} On May 8, 1947, before the Delta Council in Cleveland, Mississippi, Acheson delivered a major foreign policy address that was in the nature of a "trial balloon." ^{6/} After describing the low level of economic activity in most countries of Europe and Asia, and the gravity of their balance-of-payments difficulties, he said, "the facts of international life also mean that the United States is going to have to undertake further emergency financing of foreign purchases if foreign countries are to continue to buy in 1948 and 1949 the commodities they need to sustain life and at the same time rebuild their economies." ^{7/}

^{5/} Jones, op. cit., p. 199.

^{6/} Jones, op. cit., p. 211.

^{7/} Jones, op. cit., p. 279.

Acheson's speech laid the ground work for public and congressional understanding and acceptance of Secretary of State George Marshall's proposal for an European Recovery Program at the Harvard commencement exercises on June 5, 1947. Marshall had probably not intended to make his proposal so soon, however. When Senator Vandenberg, the Republican leader, had become alarmed at the costly implications of Acheson's Delta speech, Marshall had assured him that he had no intention of presenting any further legislative requests at that session of Congress, but went on to explain why the United States would sooner or later have to undertake a very much expanded foreign aid program. ^{8/} The pressure of events in Europe caused Marshall to advance the timing of his proposal. Very probably it was the vivid report of the deteriorating economic situation in Europe presented by Assistant Secretary of State for Economic Affairs, William Clayton, on May 27 that influenced Secretary Marshall to take the next favorable opportunity to launch his proposal. ^{2/}

At Harvard, Marshall said that "Europe's requirements for the next three or four years of foreign food and other essential products -- principally from America -- are so much greater than her present ability to pay that she must have substantial additional help, or face economic, social and political deterioration of a very grave character." Marshall went on to say that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, but that such assistance should not be on a piecemeal basis. There must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect

^{8/} Jones, op. cit., p. 236.

^{9/} U.S. Foreign Aid, House Document No. 116, 86th Congress, op. cit., p. 35.

to whatever action might be taken by the United States Government. The initiative must come from Europe. ^{10/}

The United States Contribution

Although President Truman, Secretary Marshall and other members of the administration were convinced of the necessity of providing the large scale aid to Europe called for by the Marshall Plan, it was by no means certain that the Congress would be equally convinced. With a view to providing information that would be needed in drawing up an aid program and meeting congressional objections, President Truman on June 22 asked three committees to make studies along the following lines: the principles and policies that should guide the conduct of an aid program, the volume of assistance required, and its relation to the American economy in terms of physical resources, domestic demand, export demand and problems of finance and administration. In addition to the Presidential study groups, the House of Representatives appointed its own "Select Committee" to investigate the need for foreign aid. This Committee, under the leadership of Representative Herter of Massachusetts (later to be Secretary of State in the Eisenhower Administration) spent two months in Western Europe, and issued a number of reports on its findings and recommendations.

While these studies were going on, however, conditions in Europe were growing worse. A summer of drought had aggravated the already acute food shortage, and fuel supplies were also below minimum needs. On September 29, after a meeting with congressional leaders, the President stated that the longer-range Marshall Plan could not be realized unless the United States provided food and fuel to help France and Italy "survive this

10/ Documents on American Foreign Policy, Vol. IX, op. cit., pp. 9-12.

critical winter as free and independent nations." ^{11/} A special session of Congress was called for November 17, 1947 for "two compelling reasons -- the continued rise in prices in the United States, and the crisis in Western Europe." At that session Congress appropriated \$522 million for Interim Aid to France, Italy and Austria, and \$18 million for China. An additional \$55 million of interim aid funds was appropriated by the Congress in March 1948.

President Truman's proposal for a European Recovery Program was sent to Congress on December 19, 1947 during the Special Session; public hearings on the proposal were opened by the appropriate committees of the House and Senate on January 8, 1948. All three of the Presidential study groups concluded that Western Europe required long-term aid from the United States, that the American economy could stand the strain, and that if long-term aid were not provided free institutions everywhere, including those in the United States, would be in jeopardy. ^{12/} The Herter Committee arrived at similar conclusions. After extensive hearings and debate, the Foreign Assistance Act of 1948 became law on April 3, 1948. Title I of that Act, the Economic Cooperation Act of 1948 embodied the European Recovery program. ^{13/} The widespread acceptance of the Marshall Plan in the United

^{11/} As quoted in, Harry B. Price, The Marshall Plan and Its Meaning, Cornell University Press, Ithaca, New York, 1955, p. 47.

^{12/} U. S. Library of Congress, U.S. Foreign Aid, op. cit., p. 37.

^{13/} The other titles of the Foreign Assistance Act of 1948 dealt with the International Childrens Emergency Fund (Title II); the Greek-Turkish Aid Act of 1948 (Title III), and the China Aid Act of 1948 (Title IV).

States, reflected in the large majorities received by the Foreign Assistance Act in the Congress (69 to 17 in the Senate, 329 to 74 in the House of Representatives), was due mainly to the fact that it was regarded as both a humanitarian measure and as a weapon against communism. The Communist coup in Czechoslovakia in February 1948 contributed to the early passage of the bill.

The Economic Cooperation Act of 1948 authorized a four-year program of aid to Europe with a terminal date of June 30, 1952. Although the Administration asked for an authorization to spend \$17 billion during that period, Congress would agree only to yearly appropriations. The Act authorized \$5.3 billion for the first year, and in addition provided that unexpended appropriations for the Interim Aid and Post-UNRRA programs be merged with the funds made available to Economic Cooperation Administration, (ECA) which was set up to administer the Act. Assistance could be either in the form of grants or loans, but the latter were limited in the Act of 1948 to \$1 billion, which was allocated to the Export-Import Bank.

In general, goods and services for the aid program could be obtained from any sources, but private trade channels were to be used as much as possible. Payment of transportation charges was authorized, but 50 per cent of all aid goods were to be delivered in American ships. The ECA was also required to restrict the procurement of goods in short supply in the United States and to encourage the use of surplus goods. As far as possible, petroleum was to come from non-American sources, while all agricultural products in surplus in the United States were to be procured there. Private American investment in the receiving countries was to be stimulated by providing funds to guarantee such investments against inconvertibility. According to a decision of the U.S. National Advisory Council in March 1949, the further depletion of European reserve funds

should not be a condition for aid, but allocations by the European Cooperation Administration should not be made for the specific purpose of building up foreign exchange reserves. ^{14/}

Under the terms of the Economic Cooperation Act of 1948, aid was to be provided on the basis of bilateral agreements between the United States and the receiving governments, which pledged themselves to increase production, establish monetary stability, and to cooperate with other countries in reducing trade barriers. The receiving countries agreed to use 95 per cent of the local currency counterpart of the value of grant aid received for local investment projects approved by the ECA. The remaining 5 per cent of counterpart funds was reserved to help meet American administrative expenses and procurement costs.

The problem of what countries to include in the aid program was solved by making eligible any country that was willing to adhere to the purposes of the Economic Cooperation Act. By the end of October 1948, the bilateral agreements required by the Economic Cooperation Act were ratified by fifteen European countries, the French Zone and the Bizonal (U.S.-U.K.) Area of Germany, and by Trieste, which was occupied by the United States and the United Kingdom. ^{15/} Switzerland never concluded an agreement with ECA because, on the one hand, its commercial and financial position was so strong that it did not need aid, and on the other hand, it was reluctant to accept the stipulations of the proposed agreement. ^{16/} A bilateral agreement under the Act was also negotiated with Korea, but it did not join the Organization for European Economic Cooperation (see below). Marshall Plan

^{14/} National Advisory Council on International Monetary and Financial Problems, Semiannual Report to the President and Congress for the period, Oct. 1, 1948-March 31, 1949, U.S. Government Printing Office, Washington 1949, p. 16.

^{15/} Documents on American Foreign Relations, Vol. X, Raymond Dennett and Robert K. Turner, ed., Princeton University Press, 1950, p. 242.

^{16/} Ibid. p. 229.

aid was made contingent upon "the continuous effort of the participating countries to accomplish a joint recovery program through multilateral undertakings and the establishment of a continuing organization for this purpose." ^{17/}

From 1948 through June 1952, total appropriations by the Congress of the United States for the operation of the European Recovery Program amounted to \$13.15 billion. Aid was provided mainly in the form of commodities, which were distributed as follows: ^{18/}

	<u>Per cent</u>
Raw materials, and semi-finished products	33
Food, feed, and fertilizer	29
Machinery and vehicles	17
Fuel	16
Other commodities	5

Nearly 70 per cent of these commodities came from the United States, about 12 per cent came from Canada, 8 per cent from Latin America, 5 per cent from participating countries of Europe and the remainder from other countries, mostly in the Middle East.

European Cooperation

The Europeans were not slow to take the initiative suggested by Secretary Marshall. Following preliminary discussions between the British and the French, the Soviet Union accepted an invitation to participate in a three-power conference in Paris on June 27, 1947, to formulate a response to the Marshall proposals. On July 2, the Soviet Union withdrew from the discussions because it was unwilling to participate in the cooperative approach to developing a recovery program espoused by the British and French in response to Secretary Marshall's explicit suggestion that the program

^{17/} As quoted in U.S. Foreign Aid, House Document No. 116, 86th Congress, op. cit., p. 38.

^{18/} Ibid., p. 41.

"should be a joint one, agreed to by a number, if not all, European nations."

On the following day, the foreign ministers of Great Britain and France issued a joint communique inviting twenty-two other European nations to send representatives to Paris to consider a recovery plan. Sixteen nations sent representatives to the Conference that convened in Paris on July 12. The countries in the Soviet orbit did not attend, and Spain was not invited. The participant countries were Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and the United Kingdom. The Conference began by setting up an interim Committee of European Economic Cooperation (CEECE) to gather information on European resources and requirements, including those of Western Germany. Four technical subcommittees were set up to deal with food and agriculture, iron and steel, fuel and power, and transport. A report outlining a four-year recovery program was completed by the CEECE at the end of August. The report estimated that the total balance of payments deficit of the participating countries, their dependent territories and Western Germany with the United States and other Western Hemisphere countries would decline from \$8.0 billion in 1948 to \$3.3 billion in 1951, and total \$29 billion for the four years.

The initial report of the CEECE was criticized in the United States on a number of grounds, the principal ones being that the deficit was too large, that insufficient use was made of other sources of financing, and that there was too little commitment to cooperation and the restoration of stability. To correct these deficiencies the Department of State laid down six conditions that were necessary to make the European program acceptable to the United States: (1) participants in the recovery program should give specific commitments regarding the fulfillment of the major production programs; (2) they should take immediate steps to create internal

monetary and financial stability; (3) they should express more definite determination to reduce trade barriers in conformity with the principles of the proposed International Trade Organization; (4) they should consider other possible sources of dollar credits, such as the International Bank, as a means of reducing the request for American assistance; (5) they should give formal recognition to their common responsibility for attaining them; (6) to implement the program, they should establish an international organization to act as a coordinating agency. ^{19/} The revised report, which was submitted to the American government before the end of September 1947 took account of all of these suggestions. The amount of assistance required from all sources was put at \$22 billion, of which about \$3 billion was to be sought from the International Bank or other sources. The Committee was converted into a continuing Organization for European Economic Cooperation (OEEC).

The American requirement that the Europeans coordinate their recovery programs and arrive at a collective recommendation for allocating aid had a twofold purpose: on the one hand, the integration of planning was intended to produce a more economical and realistic estimate of needs than "shopping lists" prepared by each country; and on the other hand, the collective allocation of aid removed the onus of that task from the United States. The OEEC at first attempted to accomplish the tasks for which it was set up by measuring the needs for assistance by the prospective dollar deficits of each country with nonparticipating countries. This system had two principal disadvantages: (1) prospective deficits were difficult to estimate; and (2) aid became an incentive to increase rather than decrease deficits. Basing aid on dollar, rather than total, balance of payments deficits also made it necessary for the OEEC to cope with the problem of

^{19/} Brown and Opie, op. cit., pp. 135-136.

imbalance in intra-European payments in a situation where currencies were not convertible and trade was based on bilateral agreements. An Agreement for Intra-European Payments and Compensation was signed by OEEC countries in October 1948, under which countries that were expected to be net creditors in intra-European trade were to be given dollar grants equivalent to the expected credit balances, on condition that in return they would provide their national currencies to debtors in the form of "drawing rights" in amounts sufficient to exhaust the surpluses. ^{20/}

By mid-September 1948 the Council of the OEEC was able to make the following recommendations for the allocation of aid for 1948-49. ^{21/}

<u>Country</u>	<u>Unconditional Aid</u>	<u>Conditional Aid</u>	<u>Drawing Rights</u>
	(In millions of dollars)		
Austria	217.0	--	63.5
Belgium-Luxembourg	43.5	207.5	--
Denmark	110.0	--	6.8
France	989.0	--	323.3
Greece	146.0	--	66.8
Ireland	79.0	--	--
Iceland	11.0	--	--
Italy	580.3	20.3	--
Netherlands	496.0	--	71.7
Norway	84.0	--	31.8
United Kingdom	981.0	282.0	--
Sweden	22.0	25.0	--
Trieste	18.0	--	--
Turkey	30.3	19.7	--
Bizone of Germany	403.8	10.2	--
French Zone of Germany	100.0	--	.8
Total	4,310.9	564.7	564.7

^{20/} Brown and Opie, op. cit., p. 182.

^{21/} OEEC Report to the Economic Cooperation Administration on the First Programme, July 1, 1948 - June 30, 1949, pp. 14-15, as quoted in Brown and Opie, op. cit., p. 200.

These recommendations were accepted by all member countries except Greece and Turkey, but some member countries can be said to have accepted them only under duress. One country had declared its intention to negotiate its allocation directly with Washington, but Washington replied with a "judgment of Solomon" to the effect that aid to all countries was contingent upon their cooperation with the OEEC. ^{22/} The task of mutually evaluating the trade forecasts of countries in different stages of economic development, with differing degrees of planning and controls had proved extremely difficult, and was finally completed by a special committee of "four wise men." ^{23/} In 1949 the second allocation of aid funds proved even more difficult, and a deadlock in the discussions was again resolved by a small committee. Thereafter, both the OEEC and the ECA abandoned the idea that aid should be allocated on the basis of integrated national plans involving detailed estimates of trade deficits. The OEEC Council, on the basis of the recommendations of the Snoy-Marjolin Committee, decided that American assistance for the third year should be divided in the proportions established by the second allocation. ^{24/}

The original process of allocating American aid by the OEEC resulted in a "confrontation of plans" rather than an integration of plans, but it proved nevertheless a useful exercise that pointed the way to other more fruitful means of cooperation. At first, the coordination of trade plans was dropped in favor of greater emphasis upon the coordination of investment, but later this gave way to favoring reliance upon the automatic coordination of investment through market forces. For this approach to work, market forces had to be allowed to work more freely. In mid-1949 OEEC began to place

^{22/} Price, op. cit., p. 84.

^{23/} Price, op. cit., p. 84.

^{24/} Brown and Opie, op. cit., page 206.

greater emphasis on the elimination of barriers to intra-European trade and payments. An attack was begun on quantitative restrictions of trade that resulted in the adoption of a "Code of Liberalization" in August 1950, under which the member countries obligated themselves to a step-by-step removal of quotas on private (as opposed to state-traded) imports.

Concurrently, financial technicians of OEEC were working on plans for making intra-European payments more multilateral. The final result was the setting up of the European Payments Union (EPU) in September 1950. The EPU had several advantages over the former Payments and Compensation Agreement, principally that "drawing rights" became transferable, and incentives to reduce deficits and surpluses were incorporated into the arrangement.

Although progress in both trade liberalization and in the achievement of a truly multilateral payments system was slower than originally anticipated, both efforts were eventually crowned by considerable success. Most member countries gradually eliminated quotas on virtually all industrial products and raw materials, though making less progress toward freeing trade in agricultural products. At the end of 1958, with the establishment of non-resident convertibility, the EPU was abolished and replaced by the European Monetary Agreement.

A further and related way in which the OEEC pursued European cooperation was by examining the measures taken by member countries to insure internal financial stability. The retreat from liberalization of trade that occurred in 1951 and 1952 accompanying the deterioration in financial stability and in the balance of payments of some member countries induced the Council of the OEEC in the spring of 1952 to ask a small group of independent experts to examine the internal financial situation of member

and associated countries. ^{25/} The Report of the group emphasized the importance of adequate fiscal and monetary policies to restrain inflation as a condition for optimum growth, and affirmed the conviction that the fulfillment of the objectives of monetary policy would be facilitated by the re-establishment of convertibility in the sense of the Statutes of the International Monetary Fund. ^{26/} On the basis of the Report, the Council of the OEEC decided to consider each year the internal financial situation of member and associated countries in connection with its Annual Survey. ^{27/} This systematic review has led to better understanding and more widespread acceptance of the importance of internal financial stability.

Point Four

Although in adhering to the Atlantic Charter, the United Nations, the International Bank, and other international institutions, the Government of the United States had pledged itself to promote economic development, the first formulation of an American policy of continuous bilateral assistance to promote economic development was Point Four of President Truman's inaugural address in January 1949. In outlining the American program for peace and freedom in the coming years, the President said: "Fourth, we must embark on a whole new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. More than half of the people of the world are living in conditions of misery. . . . For the first time in history, humanity

^{25/} The group included C. Bresciani-Turroni (Italy), E.R. Lindahl (Sweden), A. W. Marget (U.S.A.), M. Masoin (Belgium), L.C. Robbins (U.K.), J. Rueff (France), and E. Schneider (Germany).

^{26/} The Internal Financial Situation in Member and Associated Countries, OEEC, Paris, 1952, p. 38-39.

^{27/} OEEC, Council, "Minutes of the 186th Meeting," Paris, restricted document C/M (52)(Prov.), Paris, 11th August 1952; OEEC, "Report of the Temporary Committee of Ministers on Internal Financial Stability," restricted document C (52)215, Paris, 19th July 1952.

possesses the knowledge and the skill to relieve the suffering of these people. The United States is pre-eminent among nations in the development of industrial and scientific techniques. The material resources which we can afford to use for the assistance of other peoples are limited. But our imponderable resources in technical knowledge are constantly growing and are inexhaustible. I believe that we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life. And, in cooperation with other nations, we should foster capital investment in areas needing development. ^{28/}

Two bills embodying the two aspects of the "Point Four" proposals -- technical assistance and the promotion of investment in underdeveloped countries -- were presented to the Congress in the summer of 1949. The measure to foster foreign investment failed to pass the Congress; the technical assistance measure was approved in May 1950 as the Act for International Development (Title IV of the Foreign Assistance Act of 1950). It authorized \$35 million for the new program, of which about \$12 million was allotted to the United Nations. The funds could be used for technical assistance projects either directly by the Government of the United States, or indirectly through international organizations and private agencies and persons, but the Act stipulated that participation of private agencies should be sought "to the greatest extent possible." ^{29/} A Technical Cooperation Administration (TCA) was set up within the Department of State to administer the program.

^{28/} Documents on American Foreign Relations, Vol. XI, ed. Robert Dennett and Robert K. Turner, Princeton University Press, 1950, p. 10.

^{29/} Brown and Opie, op. cit., p. 396.

The Period of Consolidation

Korea and Defense Support

The invasion of Korea in June 1950 brought about a reassessment of the foreign aid policy of the United States, and in general a subordination of foreign assistance operations to considerations of security. The United States was already providing a substantial amount of military assistance to foreign countries. Prior to 1949, military assistance of various kinds had been supplied to the Philippines, China, Korea, Latin American countries, Iran, Greece and Turkey. In 1949, following the ratification of the North Atlantic Treaty, Congress passed the Mutual Defense Assistance Act of 1949, which authorized a Mutual Defense Assistance Program to provide military assistance to signers of the Treaty and to certain other countries. Like the European Recovery Program, military assistance was provided on the basis of bilateral agreements between the United States and the recipient countries, but the amount and kind of assistance to each country was to be determined on the basis of an integrated defense system.

Following the outbreak of the Korean war, resistance to Communist military aggression became a principal objective of American foreign policy, and it therefore became essential to coordinate and modify existing foreign assistance programs in support of the defense effort. Accordingly, the Mutual Security Act of 1951 put military and economic aid and technical assistance under one legislative authorization. The functions of the Economic Cooperation Administration were transferred to a newly established Mutual Security Agency, but the administration of technical assistance was left under the State Department and military aid under the Defense Department. A Director of Mutual Security was given the responsibility of coordinating the various aid programs, as well as administering economic aid. The

Mutual Security Act of 1951 stressed military aid: out of \$8.5 billion authorized for aid to all countries for the fiscal year 1951-52, \$7 billion was for military aid and \$1.5 billion for economic aid and technical assistance. Moreover, economic aid included assistance to further European military production. The President was empowered, however, to transfer up to 10 per cent of the funds between economic and military categories. In appropriating funds for the Mutual Security Act of 1951, Congress cut about \$1.2 billion from the authorized amount.

Agricultural Distress and P.L. 480

The agricultural surplus disposal programs of the United States attempt to use surplus stocks of agricultural commodities acquired by the government in the process of supporting agricultural prices for foreign aid. Both the lend-lease and Marshall Plan legislation required that some portion of the funds appropriated for those programs be used to acquire surplus agricultural products in the United States. Section 550 of the Mutual Security Act of 1951 had a similar provision. It was in 1954, however, with the passage of Public Law 480 and Section 402 of the Mutual Security Act of 1954 that the disposal of agricultural surpluses became an important part of the American foreign aid program.

The agricultural Trade Development and Assistance Act of 1954 (Public Law 480) has three "titles" under which the United States Government, through the Commodity Credit Corporation, makes available surplus agricultural commodities or their products to foreign countries as a form of aid.^{30/} Title III provides for the donation of surplus foods to international organizations and nonprofit voluntary agencies for distribution in the United States or abroad. Title II provides for the free distribution of surplus commodities to friendly peoples to meet famine or other relief requirements.

^{30/} U.S. Foreign Aid, House Document No. 116, 86th Congress, op. cit., pp. 78-83.

Title I (and Section 402 of the Mutual Security Act) provides for the sale at world market prices of surplus commodities to foreign governments in return for local currencies, which become the property of the United States. The local currencies acquired under Title I can be used for 16 different purposes by more than half a dozen Government departments and agencies; the use of local currencies generated under Section 402 are restricted to the purposes of the Mutual Security Act. In no case can the local currencies be used for conversion into foreign currencies or for the acquisition of goods for export.

There has been a pronounced tendency for the accumulation of these currencies to outrun disbursements. Under Title I, about half of the disbursed counterpart funds have been used for loans to local governments for economic developments that are again repayable in local currency. About a quarter has been used to pay for U.S. agency uses. Under the so-called Cooley amendment to P.L. 480 of August 13, 1957, up to 25 per cent of the local currency proceeds are made available through the Export-Import Bank for loans to United States business firms or their affiliates for business development and trade expansion in the recipient countries, or to foreign firms for increasing the market for United States surplus agricultural products. ^{31/} Under section 402, most counterpart funds have been used for defense support projects.

From mid-1952 through June 30, 1960, exports of United States surplus agricultural products under all aid programs amounted to more than \$9 billion, of which \$5.4 billion represented sales for local currency, \$2.4 billion grants and donations, and \$1.2 billion barter transactions. ^{32/}

^{31/} Public Law No. 128, 85th Congress (August 13, 1957); "To extend the Agricultural Trade Development and Assistance Act of 1954, and for other purposes."

^{32/} U.S. Department of Agriculture, Foreign Agriculture Service, Foreign Agricultural Trade Outlook Charts, 1961, U.S. Government Printing Office, Washington, D. C., Nov. 1960, Table 5, p. 46.

The Mutual Security Act of 1954

From a high of \$7.6 billion for the fiscal year 1951, appropriations under the Mutual Security Act declined sharply to \$2.7 billion for fiscal 1956. Actual expenditures of aid funds (gross grants and credits utilized) rose to a high of \$7 billion in 1953, and dropped to a low of \$4.7 billion in 1959. ^{33/} The lag between appropriations and expenditures was one of the reasons for the drop in appropriations, because Congress usually takes unexpended balances into consideration when making appropriations. Other events and circumstances that contributed to the decline in aid appropriations from 1951 to 1956 included the end of the reconstruction period in Europe; the Korean Armistice; the death of Stalin and subsequent relaxation of East-West tensions; and in the United States, the election of Dwight D. Eisenhower as President on the basis of the Republican party's platform stressing economy and the application of business methods in government.

Although appropriations declined, the United States foreign aid program was consolidated during the 1950's. The first step in this consolidation was the Mutual Security Act of 1954, approved on August 26, 1954. Prior to the passage of this act, during the first 18 months of the Eisenhower Administration, the foreign aid program of the United States went through a period of reassessment and administrative turmoil. A bipartisan Commission on Foreign Economic Policy, headed by Clarence B. Randall, was appointed to study all aspects of American foreign economic policy, including foreign aid. Its report, which was presented to the President and Congress in January 1954, well epitomized attitudes toward foreign aid prevailing at that time. The Commission saw no need for further

^{33/} National Advisory Council on International Monetary and Financial Problems, Semiannual Reports to the President and Congress, July-December 1958 and 1959.

grants of economic aid except for "defense support," that is, aid directly related to military efforts connected with the security of the United States.

On aid to underdeveloped countries the Commission report said:

"At present, as the need for economic aid for postwar recovery disappears, demands are increasing for general economic aid unconnected with recovery from war or preparation for defense. Underdeveloped areas are claiming a right to economic aid from the United States, in proposals in the United Nations and the Interparliamentary Union. We recognize no such right." ^{34/}

The Commission did, however, recommend an expansion of the technical assistance program, especially that of the United Nations, but recommended that the relative size of the U.S. contribution to the U.N. for that purpose be reduced. It put considerable emphasis on increasing the flow of private U.S. investment abroad, and recommended the adoption of certain tax incentives to foreign investment and a program of guarantees against expropriation, inconvertibility, and risks of war or revolution. ^{35/} The Commission was against agreements to stabilize raw material prices and recommended instead general liberalization of trade and investment policies. In spirit, the report endorsed the "trade not aid" slogan, which had been coined in the summer of 1952 by the British Chancellor of the Exchequer, R.A. Butler.

Before the Commission presented its report, Congress passed the Mutual Security Act of 1953, which provided that economic aid was to end within 24 months and military aid within 36 months. The Act replaced the Mutual Security Agency by a special agency directly responsible to the President, the Foreign Operations Administration, which also took over the administration of technical assistance from the Department of State.

^{34/} Commission on Foreign Economic Policy, Report to the President and the Congress, Washington, January 23, 1954, p. 9.

^{35/} Ibid., p. 23.

In contrast, the Mutual Security Act of 1954^{36/} permitted the President to continue aid beyond the previously set deadlines; it also provided that, if continued, economic aid should be administered by a permanent government agency, rather than a special agency, and returned technical assistance to the jurisdiction of the State Department. The Act replaced the geographical organization of the 1951 Act by a functional arrangement which provided for Mutual Defense Assistance (Title I), Development Assistance (Title II), Technical Cooperation (Title III), and Other Programs (Title IV). "Mutual defense assistance" included military assistance and defense support, which was defined as "the provision of economic aid to an allied country which is supporting a defense effort greater than its own resources permit."^{36/} The other sections of the Act included aid to nations that were not participating in the defense programs. "Development Assistance" was for the first time given a separate status in the U.S. aid program; aid of this type had previously been financed as "demonstration projects" out of funds appropriated for technical assistance. Development assistance was authorized for the fiscal year 1955 for the Near East, Africa, India, and Bolivia. Technical assistance was intended to be used mainly for training technicians abroad; a small amount was for United Nations Technical Assistance. Under Title IV were included authorizations for a special Presidential fund for emergency situations, plus funds to continue a number of aid programs already in existence, such as economic assistance to occupied areas, the movement of migrants and refugees, the United Nations Children's Fund, the United Nations Relief and Works Agency, the escapee program, and surplus food sales.

^{36/} Mutual Security Act of 1954, Report of the Committee on Foreign Affairs, 83rd Congress, Report 1924, Part 1, p. 5.

In general the Mutual Security Act of 1954 set the legislative pattern and administrative framework for the U.S. foreign aid program through 1960. In accordance with its stipulation, a permanent government agency, the semi-autonomous International Cooperation Administration (ICA) was set up within the Department of State in 1955 to administer non-military aid. In 1957, a separate Development/^{Loan}Fund was established as an independent agency, outside of both ICA and the Department of State; the appropriations, for the Development Loan Fund continued to be made under the annual Mutual Security acts.

The Mutual Security Act of 1954, in envisaging the continuation of foreign aid, explicitly recognizing the importance of development aid, and providing for a permanent agency to administer aid, marked the turning point where foreign aid changed from a series of ad hoc measures to cope with immediate war and postwar problems to a permanent feature of U.S. foreign policy.

NEW FRONTIERS

The Second Eisenhower Administration

During the second Eisenhower administration (1956-1960), the philosophy and content of American foreign aid programs gradually changed in several ways. First, the idea of development aid (as contrasted to defense support) gained in acceptance; second, there was a shift from grant aid to greater use of loans, including those repayable in local currencies; third, aid was mainly concentrated in a few countries rather than widely dispersed; and fourth, more attention was given to the use of international and regional agencies and to international cooperation on development aid. ^{37/}

The concept of a continuing program of economic aid to underdeveloped countries gained in acceptance, even though each annual enactment of the Mutual Security Act provoked a storm of criticism of the foreign aid programs in the Congress, and the Administration's request for funds always suffered a substantial reduction. In the fall of 1958, the President appointed another high-level committee to study primarily the Military Assistance Program, but also economic aid. This committee, whose Chairman was William H. Draper, Jr., endorsed economic aid in the following terms: "The substantial expenditures made by our Government in recent years for economic assistance are justified on grounds both of enlightened self-interest and of our moral responsibility to ourselves to do what we can to help other peoples realize their legitimate aspirations." ^{38/} A similar metamorphosis took place in the attitude of the House Committee on Foreign Affairs, which justified development assistance in its report on the Mutual Security Act of 1959 as follows:

^{37/} Allan F. Rsu, "Recent Shifts in U.S. Foreign Economic Aid Policy," unpublished paper, June 7, 1960.

^{38/} Composite Report of the President's Committee to Study the United States Military Assistance Program, Vol. I, Washington, D.C., August 17, 1959, p. 60.

"The further development of these areas is distinctly to the advantage of the United States. More than two-thirds of the world's population live in these less-developed regions. Prior to World War II many of these people were resigned to lives of poverty and dependence. But more recently there has been what is aptly called a revolution of rising expectations. The peoples of these areas are determined not only to govern their own destinies and to achieve dignity and self-respect, but also to improve their standards of living, their health, and their education.

"It is to the interest of the United States to help them achieve these goals for a number of reasons. First, the friendship and understanding of these new countries are vital to the well-being of the United States. Second, the development of these areas will inevitably expand world trade with a consequent benefit to the United States. Finally, but not least important, is the firm conviction on our part that the peoples of the world should achieve their aspirations for an improved lot." 39/

In part these statements reflected merely the ideological and literary predilections of a committee dominated by Democrats rather than Republicans; but they also indicated a growing sophistication about aid, which was the product both of experience in coping with its problems and a response to more complex situations. On the one hand, the Soviet Union had declared itself to be in "peaceful competition" for the allegiance of the "uncommitted" nations (see Paul Gekker's paper on Soviet Aid to Less Developed Countries); on the other hand, the number of uncommitted and less-developed nations was increasing rapidly.

As the United States aid programs came to favor economic development more than previously, the share of military assistance declined. For example, for fiscal year 1954, military assistance, not including defense support, amounted to 74 per cent of the funds requested, whereas for fiscal year 1961 (authorized in 1960), military assistance accounted for only 48 per cent. Defense support accounted for about 17 per cent of the appropriation request for both fiscal 1954 and 1961 but, symptomatically, it was

39/ Mutual Security Act of 1959, Report of the Committee on Foreign Affairs, H.R. 7500, 86th Congress, House Report No. 440, p. 23.

included under Title II, "Economic Assistance," in the 1961 appropriation request, whereas in 1954 it had been included under Title I, "Mutual Defense Assistance." Concomitantly, appropriations for development and technical assistance and other programs increased.

Larger appropriations for development assistance and technical cooperation were accompanied by a greater emphasis on loans instead of grants, but the loans were most frequently repayable in local "soft" currencies. The Development Loan Fund, created in 1957, was to make loans for economically sound development projects in foreign countries when the projects are not qualified for loans from private or other governmental sources, ^{40/} and was not authorized to make grants; it gives loans on favorable terms directly to private business as well as to governments.

The challenge from the Soviet Union, whose main economic and propaganda thrust was in Asia, caused U.S. aid, both economic and military, to be directed mainly to Asia. For fiscal year 1953 appropriations for Europe under the Mutual Security Act amounted to 73 per cent of the total, while Asia and the Pacific received 14 per cent, the Near East and Africa 11 per cent, Latin America 1 per cent, and other programs 1 per cent. ^{41/} In 1960, however, Europe received 13 per cent of Mutual Assistance funds, the Far East 33 per cent, the Near East 28 per cent, Africa 5 per cent, Latin America 4 per cent, and undistributed or non-regional programs 15 per cent. ^{42/} The Administration placed special emphasis on economic aid to India, Pakistan, and Taiwan mainly because the rising strength of Communist China made the need to show an accelerated rate of growth in these areas particularly urgent.

^{40/} Public Law 141, 85th Congress, (August 14, 1957), "An Act to amend further the Mutual Security Act of 1954, as amended, and for other purposes."

^{41/} Mutual Security Act of 1953, Senate Report No. 403, 83rd Congress, 1st Session, p. 5.

^{42/} U.S. Department of State, "Report to Congress on the Mutual Security Program for the Fiscal Year 1960," Department of State publication 7,099, p. 11.

In 1957 and 1958, United States support of multilateral aid programs received a strong impetus. The United States, while continuing to oppose the establishment of a large Special United Nations Fund for Economic Development (SUNFED), proposed in 1957 that the United Nations technical assistance program be expanded by the creation of a Special Projects Fund, which was to be used to finance resource surveys, applied research, and vocational and advanced technical training in less-developed areas. ^{43/} The Special Fund's resources of about \$100 million derive from the voluntary contributions of governments.

The United States had long been opposed to regional development banks, on the ground that the International Bank for Reconstruction and Development made them unnecessary; in the summer of 1958, however, the United States agreed to support such institutions in the Middle East and Latin America. The Middle East institution did not come into being, largely because of failure of the prospective members to agree on their contributions. However, a proposal for an Inter-American Development Bank was quickly drafted by a Committee of the Organization of American States, and the Congress authorized United States participation on August 7, 1959. An appropriation of \$450 million, equal to 45 per cent of the Bank's initial total resources, was authorized to pay for the United States share of the Bank's capital and its Fund for Special Operations.

Furthermore, at the annual meeting of the International Bank and Monetary Fund held in New Delhi in 1958, the United States proposed the creation of an International Development Association to be affiliated with the International Bank; this proposal grew out of a resolution of the U.S.

^{43/} U.S. Department of State, Bulletin, Vol. XXXVIII, No. 974, February 24, 1958, p. 310.

Senate, introduced in February 1958 by Senator A.S. Monroney. ^{44/} The International Development Association came into existence on September 24, 1960.

Coordination of bilateral aid programs also began to be stressed. Through the good offices of the International Bank, several countries (principally the United States, Canada, the Federal Republic of Germany, Japan, and the United Kingdom) began in 1958 to coordinate economic aid to India.

With the formation of the Development Assistance Group (DAG) in January 1960, the coordination of bilateral aid programs was put on a formal basis. Nine capital-exporting countries -- Belgium, Canada, France, Italy, Japan, Portugal, Germany, United Kingdom, and United States -- were the original members, but other countries joined subsequently. It is expected that DAG will become a committee of the successor organization to the OEEC, the Organization for Economic Cooperation and Development (OECD), when that organization comes into being in 1961.

The OECD will be a consultative organization that aims to promote economic growth and development throughout the free world, and to contribute to the expansion of world trade on a multilateral non-discriminatory basis. The United States ratified the Convention in March 1961; it will be a full member of the OECD while it was only an associate member of the OEEC.

Operation Pan America

The concentration of U.S. aid on Asia made Latin American countries feel that their development needs were being neglected. The United States responded by increasing the Latin American share of foreign aid, and by

^{44/} National Advisory Council on International Monetary and Financial Problems, Special Report to the President and to the Congress on the Proposed International Development Association, (House. Doc. 345, 86th Congress), U.S. Government Printing Office, Washington, D. C. 1960, p. 3.

agreeing to participate in the creation of an Inter-American Development Bank, a project that had long been espoused by the Latin American countries (see preceding section).

President Kubitschek of Brazil, however, proposed in the summer of 1958 a more comprehensive cooperative inter-American development program, which he called Operation Pan America. The Organization of American States, of which the United States is a member, endorsed President Kubitschek's call for coordinated effort to combat underdevelopment in Latin America, and created a special Committee to Study the Formulation of New Measures for Economic Cooperation. After meetings in Washington toward the end of 1958 and in Buenos Aires in May 1959, the Committee approved a program of detailed country-by-country economic studies. Before the third meeting of the Committee, which was held in September 1960 in Bogota, Colombia, President Eisenhower asked the Congress, which was in special session at the time, to authorize \$500 million "to help our Latin American neighbors accelerate their efforts to strengthen the social and economic structure of their nations and improve the status of their individual citizens," plus \$100 million to provide additional rehabilitation assistance for earthquake-devastated Chile. ^{45/}

The "Act to Provide for Assistance in the Development of Latin America and in the Reconstruction of Chile, and for other purposes" (which was approved by the President on September 8, 1960, while the Bogota meeting was in session) authorized \$500 million "to develop cooperative programs on a bilateral or multilateral basis which will set forth specific plans of

^{45/} "The Bogota Conference," Report of Senators Wayne Morse and Bourke B. Hickenlooper to the Committee on Foreign Relations, United States Senate, p. 5, 87th Congress, 1st Session.

action designed to foster economic progress and improvements in the welfare and level of living of all the peoples of the American Republics on the basis of joint aid, mutual effort, and common sacrifices." ^{46/} Thus assured of United States support, the Conference passed the "Act of Bogota" by a vote of 20 to 1, the negative vote being cast by Cuba, with the Dominican Republic being absent.

The Act of Bogota is a rather detailed statement of agreed policy with respect to qualitative goals and methods of economic development and social improvement. The Act also recommends that the Inter-American Economic and Social Council undertake to organize annual consultative meetings to review the social and economic progress of member countries. It is expected that "Operation Pan America" will be administered by the Inter-American Development Bank.

The 1960's -- A Decade of Development

In his inaugural address on January 20, 1961, President Kennedy pledged the best efforts of the United States to help the newly created nations "break the bonds of mass misery."

The new direction of the United States aid program was spelled out in President Kennedy's message to the Congress on foreign aid of March 22, 1961. In calling for a "decade of development," the President enlarged the area of American self-interest to include the economic development of the whole southern half of the globe, in order to demonstrate that economic growth and political democracy can develop hand in hand. The goal could be grasped, however, only if other industrialized nations joined in a common effort to help the less developed countries, and coordinated aid plans within the framework of long-range goals worked out with the recipient countries.

^{46/} Public Law 86-735, 86th Congress, H.R. 13021, September 8, 1960, Section 1(b)(1).

The foreign aid program of the United States outlined by President Kennedy retains all of the essential features of previous programs, such as development loans, technical assistance, grants for budgetary support, and distribution of agricultural surpluses (renamed Food-for-Peace by the Eisenhower administration), but puts a different emphasis on some aspects of the program. The military assistance budget is to be separated from the economic aid budget, thus returning to the arrangement in force before the Korean war. Another effort is to be made to put all foreign aid activities under a single administrative agency. As much as possible, development loans should not be made repayable in local currency but in dollars with very long term maturities and at very low interest rates. Most help should go to those nations that help themselves by undertaking necessary social and economic reforms and engage in long-range planning. In order to encourage and implement this long-range planning, President Kennedy asked the Congress, like President Eisenhower and Truman before him, for a long-term authorization for foreign aid, and for authority to finance it in part by borrowing from the Treasury, so as to avoid the need for annual appropriations. ^{47/} The new Administration's foreign aid bill asked for the same appropriation for fiscal year 1962 that was requested by the outgoing Administration, namely \$4 billion; but President Kennedy requested an additional borrowing authority of \$1.6 billion.

President Kennedy also asked for the formation of a Peace Corps, which would send technically trained young Americans to less developed countries to work and live among the "common people" of those countries.

^{47/} "Special Message on Foreign Aid," White House Press Release, March 22, 1961.

Like other parts of the program, the Peace Corps is not a completely new idea. In 1960, the Committee on Foreign Affairs of the House of Representatives commented on the success of a Point Four demonstration project in Vietnam staffed by recent graduates of American agricultural colleges, and announced its intention to study the possibility for making a "Point Four Youth Corps" a regular part of the United States foreign aid program. ^{48/}

The importance of the new Administration's approach to the problem of aid thus does not lie in its originality. In fact, the most remarkable lesson to be drawn from the history of postwar U.S. foreign aid is the continuity of aid policy in the face of the basic political differences between the Democratic Administrations of Presidents Truman and Kennedy and the Republican Administration of President Eisenhower. This continuity may be explained by the realization that international political and economic facts, which are independent of elections in the United States, carry greater weight than ideological differences.

Nevertheless, these differences have not been without significance. To some, foreign aid is a necessary evil, a duty grudgingly undertaken; to others, it is an opportunity, a challenge eagerly accepted. The proposals submitted to the Congress by President Kennedy do not differ much from those made by his predecessor; but their spirit recalls the period under President Truman, which in this paper, has been called the heroic age. The United States, and the rest of the world, have heard the words of President Kennedy's inaugural address:

^{48/} Mutual Security Act of 1960, Report of the Committee on Foreign Affairs, (House Report No. 1464, 86th Congress), United States Government Printing Office, Washington, D.C., 1960, p. 28-29.

"Now the trumpet summons us again -- not as a call to bear arms, though arms we need -- not as a call to battle, though embattled we are -- but a call to bear the burden of a long twilight struggle, year in and year out, 'rejoicing in hope, patient in tribulation' -- a struggle against the common enemies of man: tyranny, poverty, disease, and war itself. Can we forge against these enemies a grand and global alliance, North and South, East and West, that can assure a more fruitful life for all mankind? Will you join in the historic effort?"

UNITED STATES GOVERNMENT FOREIGN AID BY PROGRAM:
 FISCAL YEARS 1941-1960 ^{1/}
 (Millions of dollars utilized)

	1941-1948	1949-1952	1953-1956	1957	1958	1959	1960	Total 1941-60
GROSS TOTAL, ALL PROGRAMS ^{2/}	70,318	21,529	23,893	5,472	5,429	6,690	5,077	138,408
NET TOTAL, ALL PROGRAMS ^{2/}	60,946	19,558	21,497	4,759	4,834	5,977	4,155	121,726
Investment in international financial institutions	3,385	--	--	35	--	1,375	80	4,875
GROSS GRANTS	57,167	18,959	20,924	4,142	3,963	3,860	3,654	112,669
Lend-lease	48,672	--	--	--	--	--	--	48,672
UNRRA & related aid ^{3/}	3,473	53	--	--	--	--	--	3,526
Aid to occupied areas	3,591	2,791	270	1	1	2	2	6,658
ERP, MSA, & other economic aid ^{4/}	514	11,778	6,622	1,502	1,244	1,369	1,314	24,343
Farm surplus disposal ^{5/}	--	49	653	281	365	312	314	1,974
NDAP & MSA military aid ^{6/}	--	3,073	13,377	2,358	2,353	2,177	2,023	25,361
Other grants ^{7/}	914	1,214	2	--	--	--	--	2,130
Less: Reverse grants & returns	8,399	665	399	73	75	44	57	9,712
Lend-lease	8,399	108	57	*	--	--	--	8,564
Other (incl. ERP & MSA counterpart ^{8/})	--	557	342	73	75	44	57	1,148
NET GRANTS	48,768	18,294	20,525	4,069	3,888	3,816	3,597	102,957
GROSS CREDITS ^{2/}	9,766	2,570	2,969	1,295	1,466	1,455	1,343	20,864
Lend-lease settlement ^{9/}	2,957	56	--	6	--	--	--	3,019
Export-Import Bk.	2,570	880	1,547	237	760	708	399	7,101
British loan	3,750	--	--	--	--	--	--	3,750
ERP & MSA economic aid	--	1,532	512	106	232	240	315	2,937
Farm surplus ^{2/10/}	--	--	860	937	474	506	629	3,406
Other credits	487	102	49	9	*	*	*	647
Less: Principal collections	973	1,306	1,997	640	520	669	865	6,970
Export-Import Bk.	433	720	1,292	285	320	286	630	3,966
Lend-lease, etc.	102	261	414	266	148	274	118	1,583
Other (incl. British loan)	438	325	288	89	52	109	116	1,417
NET CREDITS ^{2/}	8,793	1,264	972	655	946	786	478	13,894

(See following page for footnotes)

FOOTNOTES:

- */ Less than \$500,000.
- 1/ Fiscal years ending June 30; may not add to totals because of rounding.
- 2/ Includes net accumulation of foreign currency claims deriving from farm surplus disposal programs.
- 3/ Includes post-UNRRA and Interim Aid.
- 4/ ERP - European Recovery Program; MSA - Mutual Security Act; other includes contributions to U.N. agencies, technical assistance to Latin America, Inter-American and related highways, Trust Territory development, Libyan special purpose fund, and other aid.
- 5/ Donations of agricultural products plus dollar equivalent of foreign currency grants deriving from farm surplus disposal.
- 6/ MDAP - Mutual Defense Assistance Program.
- 7/ Greek-Turkish, Chinese stabilization and military aid, Philippine, Korean and other Far East aid.
- 8/ Counterpart funds used by U.S. for its own purposes; not including such funds deriving from farm surplus disposal.
- 9/ Includes "pipe-line" credits, lend-lease and surplus property settlement credits; latter deducted from grants, 1941-50.
- 10/ Dollar equivalent of loans made in foreign currencies deriving from the farm surplus disposal programs, plus the net accumulation of such currencies.

Sources:

U.S. Department of Commerce, Foreign Aid by the United States Government, 1940-1951, U.S. Government Printing Office, 1952, Appendix table B, p. 81;
National Advisory Council on International Monetary and Financial Problems, Semiannual Reports to the President and to the Congress for the Periods, April 1 - Sept. 30, 1951, January - June 1959 and January - June 1960.

Ruth Logue
Washington, D. C.

April 24, 1961.

Albert H. Huntington, Jr.
6621 Gordon Avenue
Falls Church, Va. 22046

Tuesday
Oct. 25, 1983

Miss D. Helen Davidson
AID/PPC/E Office of Development
Information & Utilization
209 State Annex #18

Dear Helen:

A lucky find in some records given to me by another former A.I.D. employee — a good summary history of early aid programs, from Lend-lease in 1940, to March 1961, the beginning of "The Decade of Development".

This 47-page document, entitled "History of U.S. Foreign Aid Since the Second World War", dated April 24, 1961, was written by Ruth Logue, an economist at Federal Reserve Board. I did not know Ruth Logue, but she lives in Washington, D.C., and I have talked to her on the telephone. I told her how valuable I consider her paper to be as a reference document, and an excellent reminder of these early assistance programs.

I recommend that you plan to keep a copy of this paper as part of your permanent collection on foreign aid. It should be an excellent resource for historians, students, and

(2)

researchers examining this 21-year period.

If one were to index key words or subjects in this paper, one could easily select twenty or more "absolutely essential" ones, for example:

Lend-lease

United Nations Relief and Rehabilitation (UNRRA)

Government and Relief in Occupied Areas (GARIOA)

Truman Doctrine

Greek-Turkish Aid

Dean Acheson

Delta Council

Interim Aid

European Cooperation Act of 1948

Marshall Plan

European Payments Union

Point Four

PL 480 / Surplus Agricultural Commodities

Mutual Security Act

Randall Commission

Defense Support

Technical Cooperation

Foreign Operations Administration

(3)

Development Assistance
"Trade, Not Aid"

Draper Committee

International Cooperation Administration

Development Loan Fund

Military Assistance

World Bank

Organization for Economic Cooperation and Development

Act of Bogota

Inter-American Development Bank

Peace Corps

Decade of Development

The list above adds to thirty (and there could be more) — all of them covered, or at least touched on, in Miss Logue's paper. We may need to know more about these subjects in some cases than is presented here, but at least we are reminded of them. I know of no other document that does it as well.

In addition to a very useful factual history, with good sources indicated on each page, Ruth Logue has come to certain conclusions in her

(4)

closing paragraphs, for example:

"The importance of the new Administration's [Kennedy's] approach to the problem of aid thus does not lie in its originality. In fact, the most remarkable lesson to be drawn from the history of postwar U.S. foreign aid is the continuity of aid policy in the face of the basic political differences between . . . Administrations. This continuity may be explained by the realization that international political and economic facts, which are independent of elections in the United States, carry greater weight than ideological differences." Underlining is mine.

I like that insight by Ruth Logue. We are fortunate to have this excellent paper.

Sincerely,
Albert H. Huntington Jr.