

**Survey  
of**

**UNITED STATES  
FOREIGN ECONOMIC  
COOPERATION**

**by**  
**David**  
**Cushman**  
**Coyle**

*BEST AVAILABLE COPY*

**since  
1945**

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**a brief survey of**

**UNITED STATES**

**FOREIGN**

**ECONOMIC**

**COOPERATION**

**since 1945**

**David Cushman Coyle**

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## ABOUT THE AUTHOR

DAVID CUSHMAN COYLE, an engineer by training, has been writing on public affairs for the past twenty years. His recent book, *The United States Political System*, has been translated into ten languages and is being used throughout Asia by the U.S. Government. He is also the author of the popular handbook, *The United Nations and How It Works*.

# I. Foreign Aid Through 1945

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The present American policies of foreign economic co-operation have roots in the earliest history of the Republic; but their more important characteristics have been derived from the sense of world responsibility and mutual interests growing out of experiences since 1914.

The constitutional right of the Federal Government to use tax money for the benefit of foreigners is now questioned only by eccentrics. It was debated and decided in 1794, when Congress voted \$15,000 for the relief of Haitian refugees. From then on Congress has assumed the power to give relief to victims of disaster abroad, with no more tangible benefit to the general welfare of the American people than to satisfy their feelings of compassion. The motives for modern "aid" programs, on the other hand, include many elements of national self-interest, more or less enlightened; and the moral aspects of public support of such programs are affected by judgments about these motives, their validity and their effect on those who receive the aid.

In particular, Americans are beginning to learn that any expectation of subservience to American policies out of gratitude for charitable benefits will arouse resentment and lose friends. The failure of many Americans to recognize this principle of human nature underlies many of the controversies about foreign aid policies in public discussion and especially in Congress.

The assistance programs of the period after 1945 began to take on most of their present characteristics soon after the beginning of World War II.

By September, 1939, The U.S. Department of State had begun to investigate postwar economic problems, and on January 1, 1940, Secretary Hull stated that we must "make our appropriate contribution toward helping the world as a whole to seek and find the road to peace and progress."

Before Pearl Harbor in 1941, the State Department was already studying the needs that would have to be met when European territory was liberated. In September, 1943, all civilian agencies dealing with foreign economic problems were coordinated under the Foreign Economic Administration.

In the meantime the nations fighting the Axis had established a committee in September, 1941, to accumulate supplies and hold them in readiness for the relief of liberated peoples. The British had refused to allow relief to be sent by the Friends and other charitable groups to the populations in occupied territories on the ground that it was impossible to prevent the Nazis from taking full advantage of any addition to the available supplies. There was much objection to this decision from the churches, but the United States Government, when it came into the war, took the same position as the British.

#### **Relief and Rehabilitation**

In November, 1942, the Office of Foreign Relief and Rehabilitation Operations (OFRRO) was set up in the State Department to work on the problems of postwar relief. Ten months later the Allies organized the United Nations Relief and Rehabilitation Administration, to which the United States transferred its efforts. For the first year each member nation contributed one percent of its national income for the year ending June 30, 1943. The United States contribution was \$1,350 million.

UNRRA involved the United States in multilateral relief and development activities, foreshadowing various United Nations programs in which the United States would take a leading part. UNRRA also provided that countries receiving supplies would sell them to their citizens whenever possible and use the money for internal rehabilitation projects—the "counterpart funds" that were to be so important a part of the Marshall Plan later on. The principles of UNRRA definitely looked toward rebuilding shattered economic systems, not merely to feeding the hungry with daily soup.

Another foretaste of postwar policies came in the Mutual Aid Agreement on lend-lease with the United Kingdom,

signed in February, 1942. Article VII provided that the return benefits to the United States "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." This principle derived directly from the Atlantic Charter. Its attitude of enlightened self-interest had been enlightened in large part by the unfortunate experiences with war debts after World War I. The United States was here committing itself to the proposition that the betterment of world-wide economic relationships would be a vital element in the interests of this country, overriding such considerations as money payments for supplies used in the war.

#### **Latin American Assistance**

Assistance to Latin America, which beginning before World War I had been largely devoted to military training, turned strongly toward economic aid and cultural exchange after the rise of the Hitler threat, and especially after 1938. The declared object was to help Latin-American countries resist Nazi and communist infiltration. Most of the assistance took the form of loans by the Export-Import Bank and the Reconstruction Finance Corporation. In 1942 two other Government corporations were created specially to work in Latin America, the Institute of Inter-American Affairs and the Inter-American Educational Foundation, to promote health and sanitation, education, and increased production. These wartime institutions were continued after the war and later merged into Point Four.

During the war the Latin countries shipped great quantities of supplies to the United States, and at the same time were unable to buy many desired goods because of wartime restrictions. By 1945, therefore, they had plenty of dollars, some of which they invested in the development of their own industries. At the end of the war the United States undertook to help the other American nations to cushion the shock of transition from war to peacetime trade, by stockpiling some materials and by making development loans through the Export-Import Bank.

### **Total U.S. Contributions, 1940-1945**

Altogether, from 1940 to 1945, the United States gave military and economic assistance to other countries, mainly through lend-lease, amounting to over \$49 billion, and received aid, mainly reverse lend-lease, of over \$8 billion. The distinction between military and civilian assistance during this war period is not definable in practical terms.

While actual assistance was being directed to winning the war, the United States was also promoting the organization of postwar institutions to meet foreseeable needs. In addition to UNRRA, in 1943 the United States proposed the Hot Springs Conference on Food and Agriculture, which led to the establishment of the UN Food and Agriculture Organization (FAO). In the same year, the United States and United Kingdom led in a discussion of international finance at Bretton Woods, N. H., resulting in the founding of the International Monetary Fund and the International Bank for Reconstruction and Development. Under the quota systems adopted for these institutions the United States was, of course, the principal subscriber.

Finally in the San Francisco Conference of June, 1945, the United Nations was established, with the United States as a leading member and subscriber, in marked contrast with the failure of this country to join the League of Nations in 1919.

## 2. The Early Postwar Period

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The first major form of assistance given by the United States after the end of the war was in connection with the winding up of lend-lease. Several billion dollars worth of material that could be put to peacetime use was in the lend-lease pipelines. This material was offered for sale to the recipient countries on favorable terms. So also were trucks, buildings, and supplies in the hands of the U.S. forces that could not economically be brought home. Payments were aided by Export-Import Bank loans.

The lend-lease settlement with Britain involved agreements by both countries to work toward reduction of trade barriers, under Article VII of the Mutual Aid Agreement of 1942.

In July, 1946, after many months of not always good-tempered negotiations, the United States lent Britain \$3.75 billion at two percent interest to piece out her trade deficits until she could rebuild her factories and her export trade.

The United States contributed to the support of the people of occupied territories, mainly by supplementary food supplies administered by the Army. This program ended with the peace treaties that ended the occupation.

UNRRA went into operation with the liberation of European lands from Axis control toward the end of the war. Altogether the United States contributed over 70 percent of the total subscriptions to UNRRA. The program was limited by Congressional insistence that it must not be used for reconstruction or development. Congress also was deeply suspicious of the Soviet satellites because they refused to give a clear accounting for UNRRA aid and apparently were using it to build Communist Party strength. Another source of contention was the Soviet insistence on forcing the return of refugees to communist countries, for the United States demanded that UNRRA should aid refugees even if they re-

fused to return home. The UNRRA program was closed out in 1947. It had shipped about \$3 billion worth of food, textiles, and other supplies. By 1947 it had begun to be plain that technical assistance and economic development, rather than merely relief and restoration of devastated areas to their prewar condition, would be the principal future needs even in Europe.

#### From 1945 to April, 1948

During this postwar period the United States gave direct aid to Korea through the Army of about \$137 million worth of civilian supplies. Direct U.S. assistance to China amounted to about a billion dollars, but it failed to prevent the collapse of the Chinese Republic on the mainland. There was a successful rehabilitation program in the Philippines that cost the United States about \$130 million. Aid to Greece and Turkey took \$165 million, and interim aid to Italy, France, and Austria in advance of the Marshall Plan amounted to \$312 million.

Altogether, from 1945 to the adoption of the Marshall Plan in April, 1948, the total of American foreign aid added up to grants of \$6.7 billion and loans of \$8.5 billion.

During this transition period between 1945 and the Marshall Plan, the United States was gradually taught by hard experience that world recovery would be a more difficult process than had at first been supposed. Great Britain, for instance, was unable to rebuild its trade as fast as it had hoped to do, and by 1947 was evidently going to come to the end of its American and Canadian dollar loans before reaching a balance between exports and imports.

Germany was not recovering, largely because of Allied policies of repressing German heavy industry and of allowing the Soviets to take reparations by dismantling German factories and carrying them off. The United States discovered that the net effect was that it had to feed the German economic system at one end while the Soviet Union bled it at the other. As a result, American policy changed to one of building up Western Germany, in which it was joined first by Britain and then by France. In May, 1946, dis-

mantling and payment of Soviet reparations from West Germany were stopped, and step by step East and West Germany became separated by a lowering iron curtain.

France's recovery was impeded by communist strikes and opposition to cooperation with the West; and in Italy, despite aid of some \$2 billion, most of it from the United States, living conditions were so bad that there was danger of a communist victory in the elections that were due in April of 1948.

#### **The Truman Doctrine**

The precipitating crisis that drastically changed American policy early in 1947 was the threat of communist success in Greece and Turkey. Greece had been cruelly devastated by the Germans, and had failed to recover either economic or political strength. British troops were stationed there at the request of the Greek Government, but communist guerrillas were in the hills, aided by the Soviet satellites to the north. Turkey was in better shape, but it also depended on military and economic aid from Britain. The Soviets were pressing for concessions, including control of the Dardanelles. Then early in 1947 Britain announced that it could no longer afford to help Greece and Turkey. Unless someone else would step in, the Soviets would break into the Eastern Mediterranean in full force.

On March 12, 1947, President Truman announced the policy that immediately became known as the Truman Doctrine, the policy of helping free countries to resist aggression and to work out their destinies in freedom. Mr. Truman asked from Congress the authority to give military and economic assistance to Greece and Turkey.

Opposition to the Truman Doctrine came mainly from communists, and from what are now called "neutralists," in Europe and the United States, who feared that a too-open defiance of Soviet expansion might lead to war. There was also a fear that American action outside the channels of the United Nations would weaken the UN, and there was a moral objection to supporting reactionary governments in Greece and Turkey. These arguments had much to do with the Progressive Party movement in America in 1948.

Defense of the Truman Doctrine during the Congressional hearings was led by Acting Secretary of State Dean Acheson. He pointed out that to help maintain the independence of Greece did not mean approval of the government then in power, but to reform that government was the business of the Greek people, not of any outsider. As for the United Nations, Acheson pointed out that if the UN ever were to become able to take over, the United States would gladly withdraw. There was no proposal to send American troops to either Greece or Turkey, but rather to supply training and equipment by which they could strengthen their own forces.

#### **Economic and Military Aid**

The net effect of the argument was that both military and economic aid in the defense of national independence as against communist aggression became established in American policy, but the relative weight of the two kinds of aid remained controversial. The moral question of supporting unsatisfactory governments was decided according to the almost unbroken American tradition of favoring the independence of nations even under a home-grown dictator rather than consigning them to the rule of a foreign master. In regard to military aid, Congress in 1947 had to be assured that American soldiers would not have to go to Greece or Turkey, but was not opposed to sending a small training team and considerable amounts of material. In later years, Congress has been far more willing to give military material to build up allied forces than to provide civilian material for building up their economic systems.

### 3. The Marshall Plan

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The Truman Doctrine of American responsibility for the health of the free world led naturally to the Marshall Plan to apply American aid on a comprehensive scale to Europe, which if left to itself was evidently not on the road to recovery. The Plan was based on a memorandum prepared by the Policy Planning Staff of the State Department, headed by George Kennan. It emphasized that the troubles of Europe had not been caused by the communists but by the war, and that we should correct an impression already growing about the Truman Doctrine, that we were primarily fighting the Soviet Union. We should make clear that we were ready to help Europe restore its health and vigor whether there were any communists about or not. It was also necessary to avoid offering a blank check to any country if it merely threatened to yield to communism in case we should refuse to help it. This proposed attitude was later to become a matter of importance in our dealings with Asian countries. It has been difficult for many members of Congress to accept it, with the result that many Asians believe the communist charge that our motive in offering aid is solely to muster allies for a world war against the communist nations.

An important element in the proposed Marshall Plan was that the United States would not make the plans for Europe, but would only provide the necessary dollar supplement to balance a program planned by the Europeans and acceptable to the United States.

The fact that communists were counting on the collapse of Europe to open the way for revolution was recognized, and in France and Italy they were doing what they could to interfere with recovery; but this did not mean that communism was the root cause of the weakness of Europe in general. If the war devastation was the root cause, then it was fair to hope that a program of rebuilding might restore

Europe to a sound condition, in which it could throw off the infection of communism, assuming the Soviets would not attack with military force. (At that time the attack in Korea and the consequent fear of a march on Europe were still in the future.) In order to make clear the American position, the Marshall Plan was offered to all Europe, including the satellites, and the Soviet Union was invited to take part.

#### **Early Soviet Cooperation**

Secretary Marshall's speech proposing the Plan was made on June 5, 1947, and Mr. Truman repeated the offer on June 11 in a speech at Ottawa. The British and French went into action at once, and they invited the Soviets to join them in making preliminary plans. Molotov for the U.S.S.R. attended the first Big Three meeting in Paris. During the meeting Molotov got a telegram from home that obviously angered and embarrassed him. He immediately became uncooperative, and attended no more meetings on the Marshall Plan.

The British and French sent invitations to the other European countries to attend an organization meeting. Poland and Czechoslovakia, which had shown an interest in joining, were ordered by Moscow to keep away. It was clear that the Soviets wanted no recovery of Europe under free auspices.

Sixteen nations met in Paris on July 12 and formed a Committee on European Economic Cooperation (CEEC). The Committee presented a report to the United States Government on September 22, outlining a four-year recovery program, and showing an estimated need for dollars to meet trade deficits of about \$22 billion. These estimates were somewhat reduced when Congress showed signs of refusing to supply that much money, but the amount given in the first three years, before the Plan was distorted by the attack in Korea, was enough to get the program well under way.

It is important to remember that the Europeans themselves did the work and supplied over 95 percent of the money in the recovery program. The United States contribution was only the necessary blood transfusion that made the difference between life and death.

On the American side, President Truman in June appointed a committee under Secretary of Commerce W. Averell Harriman to analyze principles and policies for European recovery, and one under Secretary of the Interior Julius A. Krug to study American economic capabilities for supporting the program. The Council of Economic Advisors, headed by Edwin G. Nourse, also studied the economic effects on the United States. The reports generally agreed that Europe was capable of being saved by means within the power of the United States, and that if Europe were not saved free institutions everywhere would be in danger. The fact was emphasized that the United States was proposing to cooperate in an enterprise of vital importance to its own future as well as to that of Europe. The fact was also noted that this was no time to boggle over what seemed to many Americans to be too much socialism in some of the free countries. Britain, for instance, had a Labor government, but that could hardly be said to warrant throwing Britain and all Europe with it to the Soviet wolves.

#### **Interim Aid**

Meanwhile conditions in Europe were growing worse. The winter of 1946-47 had been extremely cold, and there was a drought in the summer of 1947. France and Italy were especially hard hit and the communists were riding high. On October 23 President Truman called a special session of Congress, which approved an Interim Aid Program of \$522 million to buy food and fuel for France, Italy, and Austria. It seems probable that the failure of the communists to win the Italian elections the following April was largely caused by this aid, together with the effect of private help from Italians and others in this country.

Congress had begun to study the Marshall Plan during the summer of 1947. A special committee of the House under the chairmanship of Christian Herter, Sr. went to Europe in August for extensive study and conferences. By January, 1948, when Congress met in regular session, there was much intelligent support for the Plan on both sides of the aisle. Since the Republican Party was in control of Congress, the

support of Senator Vandenberg, who took the lead in steering the law through the Senate, was of especial value.

A Citizens Committee for the Marshall Plan had been organized in late 1947 with Henry L. Stimson as Chairman. There was strong support from labor and business organizations, the Federal Council of Churches, the National Catholic Welfare Conference, and the principal organizations of women, farmers, and veterans. Opposition was voiced by Herbert Hoover, Felix Morley, Senator Taft, the National Economic Council, the American Coalition, and Henry Wallace. The Gallup Poll on December 7, 1947, showed 56 percent for the Plan to 17 percent opposed. In general, support for the Plan in America was much reinforced by communist attacks on it in Europe, and by the shocking communist seizure of Czechoslovakia.

#### **The ECA**

The Senate voted for the Plan 69 to 17 and the House 329 to 74, and it became law on April 3, 1948. The Act created an Economic Cooperation Administration, which was headed by Paul G. Hoffman and had offices in Washington. W. Averell Harriman was European representative with a central office in Paris, and there was an ECA mission in each participating country.

Senator Vandenberg insisted that the ECA must be independent of the State Department, which in his opinion was not suited by tradition and personnel to manage an "action" program.

The European countries were organized by the CEEC in March, 1948, into a permanent Organization for European Economic Cooperation (OEEC), which is still active and has helped to establish many other institutions for united action in Europe. Harriman as European head of ECA was Ambassador to OEEC.

Several features of the ECA are worth noting. American aid was given to the European governments in the form of goods. The actual steel and wheat were procured and distributed through the normal trade channels in each country, so as to restore those channels to healthy activity. Those who

received the goods paid for them in the money of the country. This money was placed in a "counterpart fund" and used by the government, with U.S. approval, for such purposes as public works or debt reduction. The emphasis on coordinated European planning, self-help, and mutual assistance did much to make clear that this was not a charity program. The Plan also implied a moral obligation on the United States to lower tariffs and other obstacles to American buying, so that as quickly as possible the Europeans might earn enough dollars to pay for their necessary imports from North America.

Congress required ECA to take over the task of China relief from UNRRA and that of Korea from the Army, against the wishes of Hoffman, who felt that European recovery ought to be managed separately.

#### **The Marshall Plan Succeeds**

Most of the history of the Marshall Plan and its technical institutions such as the European Payments Union need not be detailed in a paper for the present purpose. The Plan did succeed; Europe was saved from collapse and chaos and was well on the way to self-support and general prosperity when the attack in Korea aroused fears of a similar move in Europe and so forced a shift from a civilian to a military buildup. This shift, however, took effect only after several months. The success of the Plan was shown by the fact that in the second half of 1950 the OEEC countries showed an industrial yield of about 25 percent above 1938, or nearly the goal that had been set for 1952. Agricultural production was about 14 percent above prewar, enough to take care of a population increase of 11 percent since 1938. Technical assistance for improvement of efficiency was gaining emphasis as the problems of rebuilding and reorganizing had become less urgent. This unexpectedly rapid progress had led to smaller trade deficits than originally expected, with consequent smaller requirements for dollar aid.

The effect of Korea was not to stop the growth of European economic activity but to cause a new demand for dollar aid to meet enlarged trade deficits. For one thing, heavy

industry in Europe, which was largely devoted to making goods for export, had to be shifted to making military goods for rearmament, leaving once more a serious deficit in exports. For another, the United States was stepping up its military production and causing a rise in the prices of raw materials that Europe had to buy all over the world. The United States, therefore, had to cover these new trade deficits with military aid. But that, too, is another story.

Harry Bayard Price, in *The Marshall Plan and its Meaning*, concludes that the principal effect of the ECA and OEEC was the development of many kinds of cooperation among Europeans that previously would not have been thought possible. The moral effect of working together for aims that can be rather simply defined and generally agreed upon, such as having enough to eat, is obviously one of the fundamentals of a policy looking toward world peace. Its success in Europe therefore throws light on other plans for economic assistance.

The problems of recovery, as Price points out, turned out to be infinitely complex. Merely to get the factories going again was not enough. Economic systems had to be streamlined to meet postwar conditions. The political as well as economic effects of such institutions as tax rates and land tenure had to be taken into account. In other words, it is as hard to run a European country successfully as it is to run the United States, and the amount of advice that Americans can offer with assurance is limited. But cultural exchange on a large scale has been found beneficial, and the techniques for making it effective have been considerably improved since 1948.

Study and advice by many citizens' organizations in this country was of definite value to the ECA, and so was the public support mustered by ECA's strong information program. A great effort was made to reach the public with the facts to show that this was rehabilitation, not charity, and polls showed that the best support was coming from people who accepted that view. On the other hand Hoffman ruefully stated in 1953 that too many people "still think of ECA as a great charity."