CONDITIONS ATTACHED TO AMERICAN POST-WAR FOREIGN AID DURING ITS FORMATIVE YEARS,
1945-1951

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DURING ITS FORMATIVE YEARS,
1945-1951

by

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>II. THE CONDITIONS OF AMERICAN AID DURING THE TRANSITION FROM WAR TO PEACE</td>
<td>4</td>
</tr>
<tr>
<td>The Wartime View of Post-war Relief and Recovery</td>
<td>5</td>
</tr>
<tr>
<td>Exchanging American Loans for Acceptance of United States Trade Policy</td>
<td>9</td>
</tr>
<tr>
<td>American Reconstruction Lending Undergoes a Political Orientation</td>
<td>32</td>
</tr>
<tr>
<td>The United States Abandons Internationally Administered Relief</td>
<td>61</td>
</tr>
<tr>
<td>III. THE CONDITIONS OF AMERICAN &quot;COLD WAR&quot; AID.</td>
<td>80</td>
</tr>
<tr>
<td>The Truman Doctrine and Aid to Greece and Turkey</td>
<td>80</td>
</tr>
<tr>
<td>The European Recovery Program</td>
<td>90</td>
</tr>
<tr>
<td>The Mutual Defense Assistance Program</td>
<td>120</td>
</tr>
<tr>
<td>Reapproachments</td>
<td>128</td>
</tr>
<tr>
<td>Attention to the Underdeveloped Areas</td>
<td>140</td>
</tr>
<tr>
<td>IV. SUMMARY AND CONCLUSIONS</td>
<td>155</td>
</tr>
<tr>
<td>Summary</td>
<td>155</td>
</tr>
<tr>
<td>Conclusions</td>
<td>157</td>
</tr>
<tr>
<td>Recommendations for Further Study</td>
<td>161</td>
</tr>
<tr>
<td>BIBLIOGRAPHY</td>
<td>165</td>
</tr>
</tbody>
</table>
CHAPTER I

INTRODUCTION

Since the end of World War II, the United States has extended to foreign countries approximately sixty billion dollars in grants and loans. It was the purpose of this study to ascertain the nature of the conditions which were attached to that aid during the period from the end of the war until the beginning of the Mutual Security Program in October 1951—the formative period of American post-war foreign assistance. An inquiry was made into both (1) the criteria which were used in choosing the recipients of American aid and (2) the conditions which had to be met by those nations which actually received such aid. An attempt was made, moreover, to explore the relationship of these changing criteria and conditions to the purpose of the aid in question and, more ultimately, to the total foreign policy of the United States.

Foreign aid has been an integral part of American foreign policy in the post-war period. The huge cost of the aid extended has made many Americans—including many Congressmen—concerned with the question of whether the United States has received a "fair return" on the vast funds it has expended for this purpose. One way the
United States has sought to secure such a "fair return" has been to attach criteria of eligibility and various conditions to its foreign assistance. These criteria and conditions have generally been intended to assure that the aid extended would serve the American national interest—as that interest was variously defined. The attachment of conditions to American aid has also been criticized, however, as when Secretary of State Marshall warned against "... conditions which would, in effect, destroy the whole moral justification for our cooperative assistance. ..." Concern with the conditions of American aid has not been limited to Americans. Foreign countries have often been sensitive to the "debtor stigma" which has accompanied American aid, and nowhere has that sensitivity been more evident than in the reaction to the conditions which have been attached to that aid.

In order to understand the significance of the conditions attached to American aid under the Mutual Security Program since 1951, it is necessary to have a knowledge of the development of such conditions during the six and one-half years preceding the Mutual Security Program. For just as that earlier period was the formative one of the American post-war foreign aid program, so it was the formative period for the conditions which
have been attached to that aid.

In the study which follows, the inquiry into the conditions of American foreign assistance has generally been developed in a chronological manner over the period of time concerned. The division of the study into chapters and main sub-headings was intended to facilitate and clarify this chronological treatment. The most frequent source of information has been United States Government documents of three kinds: (1) the legislation which authorized the various foreign aid programs, together with the reports of Congressional committees which considered that legislation (2) the international agreements and diplomatic correspondence under which foreign aid was extended, and (3) the reports of aid administering agencies. The reporting of the United States Department of State Bulletin and The New York Times constituted a convenient source for tracing Government actions and declarations of policy affecting the foreign aid program. In addition, a few secondary sources of information—mostly books—proved helpful in various parts of the study.
CHAPTER II

THE CONDITIONS OF AMERICAN AID DURING THE TRANSITION FROM WAR TO PEACE

The period of American foreign assistance covered by this chapter extended generally from the end of the war to the declaration of the Truman Doctrine in 1947. In its wartime planning for the post-war period, the United States looked upon the first two post-war years as ones which would witness a continuation of international cooperation among the great wartime Allies. Within the framework of this international goodwill and cooperation, those two years were supposed to see the successful completion of an emergency program of post-war relief assistance by the United Nations Relief and Rehabilitation Administration and the launching of a reconstruction program which would combine the resources of domestic and foreign private capital, the International Bank for Reconstruction and Development, and, initially, United States Government agencies engaged in surplus property disposal and foreign lending operations. Instead, however, the first two post-war years saw a prolongation of the need for relief assistance and an appalling lag in reconstruction and recovery, both partly attributable to a rapid deterior-
ation of the international political situation. As a result of this discrepancy between American expectations and realizations, American views toward post-war relief and recovery underwent radical alteration during the course of the period covered by this chapter. These changing views were perhaps best reflected in the changing criteria used to determine eligibility for American foreign aid and in the changing conditions attached to the grant of that aid. In this chapter, an attempt has been made to trace the development of such criteria and conditions in the case of American relief assistance and reconstruction lending during the period of transition from war to peace.

I. THE WARTIME VIEW OF POST-WAR RELIEF AND RECOVERY

As early as August 1941— in the Atlantic Charter—the United States declared its interest in the establishment of a post-war world economy marked by:

... fullest cooperation between all nations in the economic field with the object of securing for all, improved labor standards, economic advancement, and social security . . . .

In the Master Lend-Lease Agreement of February 23, 1942, the United States and the United Kingdom reaffirmed
their intention of taking, jointly and together with "like minded Governments," agreed action directed toward the expansion of production, employment, and the exchange and consumption of goods. In 1943 practical expression was given to these affirmations of the Atlantic Charter and the Master Lend-Lease Agreement by the convening of the Hot Springs Conference on Food and Agriculture, by discussion among technical experts of thirty-seven nations preparatory to the Bretton Woods Conference of the following year, and by the signing of the United Nations Relief and Rehabilitation Agreement on November 9 at Atlantic City.

The United States, by its leading role in bringing about the establishment of the Food and Agricultural Organization, the United Nations Relief and Rehabilitation Administration, and the Bretton Woods institutions, demonstrated its determination to emphasize the media of international organization in dealing with post-war economic problems as well as with political and security matters. President Roosevelt told the Congress on February 12, 1945, that the Allied Military Command would be succeeded by the

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1 For the texts of the Atlantic Charter and Master Lend-Lease Agreement, see U.S. Congress, Senate, Foreign Relations Committee, Decade of American Foreign Policy: Basic Documents 1941-49 (Senate Document 123, 81st Congress), pp. 2, 5.
United Nations Relief and Rehabilitation Administration as the primary agency to render emergency relief assistance to the liberated countries. Reconstruction, he said, was primarily a job for the local people, who would, however, need the means of buying foreign goods needed for the job. He therefore asked the Congress to ratify the Bretton Woods Agreements, which would establish the International Bank for Reconstruction and Development to help provide such means.\(^1\) Assistant Secretary of State Acheson emphasized shortly thereafter the belief of the United States Government that private capital would be able to provide the major share of funds for post-war reconstruction, and that the International Bank would supplement these private efforts by guaranteeing some loans and making others.\(^2\)

The United States thus commenced its job of aiding post-war relief and recovery with a conviction in (1) the relatively short duration of the need for relief assistance, (2) the desirability of an international relief administering organization, and (3) the primary

\(^1\)U. S. Department of State, Bulletin, XII (February 18, 1945), 220-22.

\(^2\)U. S. Department of State, Bulletin, XII (March 4, 1945), 297.
role of private capital and the International Bank in making up the deficiency of foreign exchange needed for a reconstruction and recovery program.

Optimism for an effective program of post-war relief and recovery depended, of course, upon a belief that international relations in the post-war period would be characterized by mutual trust and cooperation. Such trust and cooperation were necessary factors for a revival of international trade and investment as well as for the effective international administration of a relief and rehabilitation program. In its wartime dealings with the Soviet Union, however, the United States encountered certain difficulties which cast doubt on the prospects of realizing the kind of post-war international political and economic environment it believed to be most conducive to an effective relief and recovery program. In the Big Power discussions preceding the creation of UNRRA, the Russians clashed with the Western Allies over the issue of the extent to which UNRRA would infringe on the sovereignty of nations receiving its assistance.\textsuperscript{1} Russia could not reach agreement with the West on the role of the proposed International Bank and Monetary Fund, nor would it attend the 1944 Chicago Aviation

Soviet intentions in Eastern Europe became suspect when Russia refused for a time to grant UNRRA access to Poland and when it became known in May that Polish democratic leaders had been arrested for "diversionist activities against the Red Army." Such indications of a possible lack of Russian cooperation clouded American optimism for the successful launching and execution of a cooperative post-war relief and recovery program.

II. EXCHANGING AMERICAN LOANS FOR ACCEPTANCE OF UNITED STATES TRADE POLICY

Immediately after the end of the war, credits which the United States extended in connection with its post-war surplus property disposal and lend-lease termination programs constituted a vital source of reconstruction aid to a large number of countries. The American State Department decided to use this aid as a lever to secure recipient countries' acceptance of American commercial policy. This policy, which favored the creation of a

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free, multilateral world trading system, was felt by the United States to be an indispensable economic counterpart of international political cooperation. Convinced of the basically unselfish nature of its commercial policy, the United States made the extension of much of its earliest post-war aid conditional upon recipients' declarations of support for that policy. The extension of huge American loans to England and France was made conditional not only upon declarations of support for American commercial policy but also upon unilateral—and controversial—actions by those two countries to actually implement that policy.

Aid through lend-lease and surplus property credits. Wartime lend-lease and surplus property disposal legislation provided for the extension of post-war credits to foreign countries for the purpose of financing lend-lease settlements and purchasing American surplus property overseas. Although most lend-lease aid had been given and consumed during the course of the war, approximately one and one-half billion dollars of lend-lease supplies were en route to recipient countries when the war ended.¹ These "pipe-line" supplies, which were

still the property of the United States, were in lend-lease stock-piles abroad, in transit overseas, or in the process of procurement and manufacture in the United States.

Because such a vast amount of goods could contribute importantly to the relief and recovery of lend-lease recipients, the United States decided to allow these "pipe-line" supplies to be delivered to the countries of destination on condition that arrangements for payment would be included in the post-war lend-lease settlements to be negotiated with the United States. A second prospective source of immediate assistance to post-war foreign recovery programs was United States non-combatant type surplus property located overseas, which had an original cost of more than ten billion dollars. The Office of the Foreign Liquidation Commissioner in the State Department was charged with disposing of this surplus property on cash, credit, or barter terms. When the disposal program ended in 1949, surplus property with an original cost of approximately six billion dollars had been sold to foreign governments for about one billion dollars, mostly on long-time credit terms.¹ Lend-lease and surplus

property credits, together with reconstruction loans by the Export-Import Bank and the program of government and relief in occupied countries, constituted the only major sources of United States bi-lateral foreign assistance in the year and a half following the end of the war.

**Surplus property credits.** It was United States policy to dispose of its overseas surplus property as soon as possible, and bulk purchase agreements were quickly signed with most countries in which surpluses were located. While most sales to foreign governments provided for cash payment over thirty years, the United States usually received part payment in the form of local currencies and real estate for embassy use, strategic raw materials, and local currencies for use in the Fulbright educational exchange program. In March 1946 the Secretary of State authorized the exchange of surplus property for "rights" to be granted the United States; he mentioned in particular "air rights". Subsequently, air rights agreements of two kinds were generally negotiated in all large bulk disposal agreements. One type of agreement afforded all rights necessary for the practical operation of United States commercial airlines in the country concerned; the United Kingdom, France, Belgium, Italy, Egypt, India, China, the Philippines, Brazil and Canada all signed such
agreements. A second type of air rights agreement provided for exchange of United States military airfields in turn for the guarantee that American commercial airlines would be afforded use of these fields on the same basis as domestic airlines and that such airfields would be operated in conformity with American standards. Thus, the United States used sizable surplus property credits to secure implementation of a small part of the liberal commercial policy it was urging on the world in the post-war period. In a few cases surplus property credits were exchanged for a more general declaration of support for American economic policy and other considerations. In the case of Britain and France, surplus property credits were extended as part of general economic and financial agreements involving settlement of lend-lease accounts and the assumption of far-reaching obligations by those two countries. These general settlements are discussed below.

The lend-lease settlements. In their 1945 negotiations for settlement of the British lend-lease account, the United States and Britain agreed that all lend-lease supplies used up or destroyed during the war should be written off; that all usable military supplies should become the property of Britain without further compensa-
tion;¹ and that Britain would make payment only for non-combatant lend-lease supplies remaining in or en route to Britain, surplus war property, American interest in United Kingdom military installations used by it during the war, and the net value of certain mutual claims arising out of wartime operations. When the formula of the American-British settlement was applied to the other forty-one recipients of American lend-lease assistance, it was found that in all cases except France and Russia the amount of lend-lease supplied by the United States was so nearly equal to the amount of reverse lend-lease received by the United States that a cash settlement was appropriate.² These cash settlements were, with minor exceptions, made without the imposition of any conditions. Although a final settlement was never reached with the Soviet Union, reference has been made to the British and French settlements and to the far-reaching obligations

¹The lend-lease settlement agreement affirmed the right of the United States to reclaim these military supplies, but stipulated, paradoxically, that the United States would not exercise that right. The agreement, entitled "Joint Statement by the United States and the United Kingdom Regarding Settlement for Lend-Lease, Reciprocal Aid, Surplus War Property and Claims," is reprinted in Department of State Bulletin, XIII (December 9, 1945), 910-11.

²The South African payment of one hundred million dollars was by far the largest of the cash settlements. See Brown and Opie, op. cit., p. 107.
which those countries were required to undertake in connection with the settlements. These obligations constituted an acceptance of the highly controversial principles of American foreign trade policy.

Commitments to support American trade policy. A commitment to accept the general principles of American foreign economic policy was undertaken by all countries which signed wartime lend-lease agreements with the United States. Britain and France, however, in their post-war settlement agreements, were required to subscribe to a much more detailed expression of American commercial policy, to take certain unilateral steps to implement that policy; and to work for its international implementation through the medium of a proposed International Conference on Trade and Employment.

The basic goal of American foreign economic policy, as represented by the State Department, was a system of free multilateral trade characterized by the absence of trading blocs of nations. It was felt that such a system would work to the maximum benefit of all

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1 India, Iran, Panama, and Argentina did not sign wartime agreements with the United States. India refused to do so because she regarded the commitment to accept American foreign trade policy as interfering with her prerogative to adopt a post-war protective tariff policy to facilitate the industrial development of India. See Brown and Opie, op. cit., p. 55.
trading nations, would open the markets of the world to American products, and would prevent the process whereby dangerous political and military blocs of nations emerge from economic blocs previously formed. A general expression of this American policy was contained in Article VII of the Master Lend-Lease Agreement of February 23, 1942, and, as previously indicated, was subscribed to by almost all recipients of wartime lend-lease.

Article VII. In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress on March 11, 1941, the terms and conditions thereof 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. To that end they shall include provision 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 14, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining in light of governing economic conditions the best means of attaining the above-
stated objectives by their own agreed actions and of seeking the agreed actions of other like-minded Governments.\(^1\)

The December 1945 lend-lease settlement with the United Kingdom provided that the United States would extend the United Kingdom a statutory loan of $3,750,000,000 as well as a $650,000,000 credit to cover the lend-lease settlement and surplus property purchase. Extension of the statutory loan, which was repayable in fifty annual installments, was stated by the Financial Agreement to be for the purpose of (1) facilitating United Kingdom purchases of goods and services in the United States, (2) helping the United Kingdom to meet transitional post-war deficits in its current balance of payments and to maintain adequate gold and dollar reserves, and, (3) assisting the United Kingdom to assume the obligations of multilateral trade as defined in this and other agreements . . . .\(^2\)

\(^1\)The Agreement is re-printed in Senate Document 123, 81st Congress, 2nd Session, p. 5.

\(^2\)The general settlement arrived at between the two countries on December 6, 1945, was set forth in three separate agreements, all of which are contained in Department of State Bulletin XIII (December 9, 1945), 905-912. They were: Financial Agreement between the Governments of the United States and the United Kingdom; Joint Statement by the United States and the United Kingdom Regarding the Settlement for Lend-Lease, Reciprocal Aid, Surplus War Property, and Claims; Joint Statement by the United States and the United Kingdom Regarding the Understanding Reached on Commercial Policy.
Assistant Secretary of State Clayton, in announcing the conclusion of the settlement agreements, said that they

... would put Britain in a position to join in full partnership with us in bringing about a multilateral, non-discriminatory trading system throughout the world. This, in our opinion, is the consideration of the greatest value to the United States. It will open up the markets of the world to our goods and should lay the foundation for a period of expansion in production, consumption, and the exchange of goods and services, and a rising standard of living for all peoples everywhere.1

The Financial Agreement pledged Britain as follows:

1. Immediately upon the effective date of the Agreement,2 the United Kingdom was to end exchange controls on current transactions with the United States. An exception was made in the case of controls imposed with the permission of the International Monetary Fund, but the United Kingdom waived its right under the International Monetary Fund Charter to impose exchange controls during the post-war transitional period without the consent of the Fund. One year after the effective date of the Agreement, the United Kingdom was to permit free convertibility of the pound into all currencies. The sterling area "dollar

1U.S. Department of State, Bulletin, XIII (December 9, 1945), 912.

2The effective date of the Financial Agreement was to be that on which the United States notified the United Kingdom that Congress had provided funds for the loan.
pool" would end, thus allowing all sterling area countries freedom in spending dollars they earned.

2. After December 31, 1946, the United Kingdom was to remove any quantitative import restrictions which discriminated against the United States.

3. The United Kingdom was to make early settlement with the nations who owned the fourteen billion dollars worth of blocked sterling to reduce or cancel their balances in recognition of the United Kingdom's extraordinary contribution to the waging of the war. Any balances released after one year from the date of the Financial Agreement were to be freely convertible into any currency, thus allowing their expenditure for United States products.

In addition to the formal commitments undertaken in the Financial Agreement, it was understood that Britain would now join the International Monetary Fund. The British Cabinet had decided in November to withhold its approval of British membership in the Fund pending the outcome of the loan negotiations underway in Washington.¹

The above outlined commitments which the United Kingdom undertook in the Financial Agreement secured

British adherence to United States commercial policy to the extent that bi-lateral agreements between the United Kingdom and the United States might reasonably permit. Such commitments by Britain were of extreme importance to United States policy because of the leading role Britain played in international commerce. Further steps, even by the United States and Great Britain, toward securing a free multilateral world trading system required assent of all the major trading nations to the principles necessary for such a system. In the Joint Statement by the United States and United Kingdom Regarding the Understanding Reached on Commercial Policy, the United Kingdom was required to give its agreement to, and to join the United States in working for the international implementation of, the full range of United States commercial policy as that policy was set forth in a State Department document released at the time of the United States-United Kingdom settlement. The document, entitled "Proposals for Consideration by an International Conference on Trade and Employment",¹ was to be used as the basis of discussion at an International

¹This document is contained in Department of State Publication 2411, Proposals for Expansion of World Trade and Employment (Washington: Government Printing Office, 1945).
Conference on Trade and Employment. The United States Proposals included the following:

1. No nation, in seeking to promote its domestic employment, should take measures likely to create unemployment in other countries.

2. International taxes on, and regulation of, imported products should be no greater than those taxes and regulations applying to domestically produced goods.

3. No taxes should be assessed on foreign goods passing through a country en route to another country.

4. The conditions under which anti-dumping duties may be imposed should be the subject of international agreement.

5. Custom valuation formulas should be the subject of international agreement, and unnecessary custom procedures and regulations should be eliminated.

6. International agreement should provide for substantial reduction of tariffs on an unconditional most-favored-nation basis and for the elimination of tariff preferences. Existing international commitments should not be permitted to stand in the way of action agreed with respect to the elimination of tariff preferences.

7. The margin of protection provided by a tariff should in no case be increased for any product.
8. Export tariffs should not differentiate with respect to countries of destination and should be subject to negotiated reduction in the same way as import duties.

9. Commitments with regard to tariffs should permit countries to take temporary action to prevent sudden and widespread injury to the producers concerned.

10. No quotas or embargos should be allowed except in specific internationally agreed cases, such as in the case of severe imbalance between the supply and demand of essential foodstuffs in a country.

11. The imposition of quantitative import restrictions by nations faced with an adverse balance of payments should be resorted to only under internationally agreed circumstances. Such import restrictions should not discriminate among the various sources of supply in respect to any imported product, except under provisions of the International Monetary Fund Agreement relating to actions permitted to conserve scarce currencies.

12. Domestic subsidies which result in foreign sale of products for less than their market price in the producing country should be eliminated. Exceptions could be provided, through international commodity agreements, for commodities in burdensome supply.

13. Governments engaging in monopolistic state trading should be influenced only by commercial considera-
14. Nations should take individual and collective action to curb restrictive business practices in international trade.

15. Intergovernmental agreements should deal with the special problems involved in the production of, and trade in, primary agricultural commodities often in burdensome supply.

16. Principles governing the conduct of international trade, including those set forth above, should be incorporated into the articles of an International Trade Organization. The Organization would serve as a medium for international collaboration on matters affecting international commerce, with a view toward continuous consultation, the provision of expert advice, the formulation of trade policies, and the monitoring of national compliance with the principles contained in the Organization's articles.

The United States lend-lease settlement with Britain in December 1945 set a precedent for the general settlement between the United States and France the following May.\(^1\)

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\(^1\) The general settlement between the United States and France was contained in a four-part agreement entitled "Agreement on Economic and Financial Problems Reached by the United States and Provisional French Governments." The Agreement, signed May 28, 1946, is reprinted in Department of State Bulletin, XIV (June 9, 1946), 944-1000.
France received a thirty year credit of $720,000,000 to finance settlement of her lend-lease account, purchase of American surplus property located on French territory, and payment of the net balance of mutual wartime claims between the two countries. In a declaration which was part of the settlement, the two Governments announced that they were "... agreed on the necessity for increased French production as a prerequisite to French participation in a world economy [italics supplied]...", and, consequently, the United States Export-Import Bank was extending France a further $650,000,000 loan to be used for the reconstruction and modernization of French industry.¹ France, in turn, duplicated the British endorsement of the American "Proposals for Consideration by an International Conference on Trade and Employment." In addition the French Government:

1. Agreed to prepare a new tariff schedule from which reciprocal reductions would be negotiated.

2. Announced that it had "definitely abandoned

¹The Export-Import Bank had granted France a loan of $550,000,000 in September 1945 to enable her to receive delivery of lend-lease goods which had been ordered, but not contracted for, before V-J day and which were thus ineligible for financing with lend-lease funds. See Export-Import Bank of Washington, First Semiannual Report to Congress for the Period July-December 1945 (Washington: Government Printing Office, 1946), p. 16.
its pre-war policy of protecting French producers with import quotas."

3. Promised to end import controls as soon as France's balance of payments position allowed.

4. Agreed in principle to return French-United States trade to private channels, and announced that it was already taking action in this regard.

**British and French criticism of the commitments.**

In the United Kingdom and France, considerable criticism followed the signing of the British and French lend-lease settlement agreements. Some of that criticism was voiced by those who opposed on political grounds the ending of the respective systems of trade preferences built around the British Commonwealth and French Empire. Most of the criticism, however, was directed at the commitments which those two countries had been required to make in the field of commercial policy.¹ This criticism, together with the general reluctance of the United Kingdom and France to make the concessions they did, was directed not at the desirability of a free, multilateral trading system but at what those countries regarded as the lack of realism

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in expecting that conditions necessary for operation of such a system could be attained in the near future. Subsequent history demonstrated that the British and French skepticism was justified. The great extent of the war's dislocation of national economies and world commerce, an American inflation which greatly reduced the purchasing power of the British and French loans, the virtual sealing off of Eastern European markets and raw materials sources for political reasons, the necessity for large scale rearmament, and other factors all contributed to deprive Britain, France, and much of the rest of the world the prerequisites for convertibility of currencies and participation in a liberal, multilateral commercial system. When the United Kingdom fulfilled one of its major commitments under the lend-lease settlement agreements by granting free convertability to sterling in July 1947, one year after the effective date of the agreements, a financial crisis struck. British dollar reserves were rapidly depleted, and Britain soon reimposed exchange controls with the consent of a disappointed but wiser American Government. Thereafter, resort was more often had to the various escape clauses of the British Financial Agreement than to clauses intended to facilitate the establishment of a free, multilateral world trading system.
Some important features of a more liberal international commercial system were attained when twenty-three nations signed the General Agreement on Trade and Tariffs at Geneva in October 1947.\(^1\) Failure, however, to attain the economic conditions necessary for a more liberal international economy have precluded the further development of such an economy. Moreover, doubt was cast on the dependability of the American position in support of such a system by Congressional refusal to ratify the 1948 Charter of the International Trade Organization and by the bitter Congressional fights preceding successive authorizations for continuance of the American reciprocal trade program.

The State Department defended its action in attaching "the strings of American commercial policy" to the British and French loans. It said that commitments on exchange controls, blocked sterling balances, imperial preferences, and related matters were directly connected with the purpose of the loans.\(^2\) Indeed, the loan agreements specifically stated that a primary purpose of the loans was ". . . to assist the United Kingdom

\(^1\)The General Agreement on Trade and Tariffs comprises parts 5 and 6, Volume 61, United States Statutes at Large.

to assume the obligations of multilateral trade, as defined in this and other agreements . . . " and to help France secure increased production " . . . as a prerequisite to French participation in a world economy . . . "

Because the French loan was an Export-Import Bank one, it did not require Congressional approval. When the British loan legislation came before Congress, however, the State Department found unanimous support for the economic conditions which it had attached to the loan. In fact, amendments were offered in both houses of Congress to require termination of the $3,750,000,000 line of credit after one billion dollars had been used or after one year had elapsed if Britain had failed by that time to carry out all the commitments it had undertaken regarding commercial policy.¹ Other amendments offered would have required the United Kingdom to surrender British islands in the Atlantic and Pacific Oceans as collateral for the loans and to dispose of all British investments in North America before receiving a loan. In the Congressional debate, demand was also made that Britain should revise her Palestine policy as a condition

¹The New York Times, May 10, 1946, p. 10; June 4, p. 34; July 14, p. 3.
of receiving the loan. Cries were likewise heard against financing British colonialism and socialism.\footnote{The New York Times, February 17, 1946, p. 1; May 10, p. 10; June 4, p. 34; and July 14, p. 3. Although the French loan did not require Congressional approval, apprehension was expressed by some Frenchmen lest their country's loan be disapproved on account of American reluctance to finance the economic program of the Socialist Government then in power. The French newspaper Figaro denied charges that the Socialist Government had curbed its nationalization program in order to improve its chances of obtaining a large American loan. See The New York Times, April 1, 1946, p. 4 and May 22, p. 3.} Administration forces successfully fought all the above proposals, claiming that the commercial concessions obtained were the greatest possible and that "... Between self-respecting people political concessions are not to be bought for money ... ."\footnote{Acheson quoted in Campbell, op. cit., p. 367.}

Commercial policy commitments by other countries. A small number of countries in addition to Britain and France indicated their support for American commercial policy as part of diplomatic agreements or exchanges with the United States. With the exception of the Philippines, these were only general declarations of support, however, and contained no obligation to take unilateral action to implement that policy. Belgium and Holland gave such
assurances after receiving substantial reconstruction loans from the Export-Import Bank, while Turkey did so as part of her cash lend-lease settlement with the United States. Italy declared her support of American trade policy as part of a 1947 agreement in which the United States waived its claim against Italy for payment of almost one billion dollars to compensate for the cost to the United States of the American military relief and occupation program in Italy. Czechoslovakia, Poland, and Greece announced their general accord with American commercial policy in connection with reconstruction credits which became highly "politically charged" and which are discussed later.

The Philippines, like Britain and France, were required in 1946 to take unilateral steps to implement United States commercial policy in exchange for American aid. Paradoxically, however, the Philippines were required to renounce the principles and practices of a free, multilateral world trading system.

The Philippine Rehabilitation Act of 1946: (1) gave the Philippines free of charge one hundred million dollars worth of American war surplus property, (2) authorized a $120,000,000 grant for reconstruction of Philippine public property which had been destroyed in the war, and
(3) authorized the payment of compensation to private persons whose property had been damaged in the war.\textsuperscript{1}

The Rehabilitation Act prohibited, however, the payment of any private war damage claims in excess of five hundred dollars until such time as the provision of a companion law, the Philippine Trade Act of 1946, had been brought into force by the signing of an executive agreement between the American and Philippine Presidents. The Trade Act provided for a twenty-eight year period during which the Philippines and the United States would grant mutual preferential treatment to one another's products. It also stipulated that United States citizens should have rights equal to those of Filipinos in doing business in the Philippines.\textsuperscript{2} This last provision, whose implementation required amendment of the Philippine Constitution, was termed by the Philippine President to be a violation of Philippine sovereignty.\textsuperscript{3} Nevertheless, the necessary amendment was approved by the Philippine voters, for the alternative of foregoing the receipt of millions of dollars in payment of personal war damage claims was too great a price to pay, even where the question of the

\textsuperscript{1}60 Stat. 128-140 (1946).
\textsuperscript{2}60 Stat. 141-159 (1946).
\textsuperscript{3}The New York Times, April 7, 1946, p. 1.
new nation's sovereignty was raised. The Philippines thus removed themselves for twenty-eight years from the possibility of participation in a free, multilateral world commercial system.

III. AMERICAN RECONSTRUCTION LENDING UNDERGOES A POLITICAL ORIENTATION

In addition to surplus property and lend-lease pipe-line credits, the United States extended to foreign countries in the year following the end of the war approximately two billion dollars in reconstruction loans, exclusive of the British loan voted by Congress. As the international political situation progressively deteriorated in the months following the end of the war, the United States made increasing use of political criteria in choosing the recipients of its reconstruction loans. By 1947 American reconstruction lending had undergone a far-reaching political orientation in response to a situation in which the United States felt the security of the "free" world to be newly threatened by Russian-inspired Communist expansion.

The American lending policy which was applied to China and Greece revealed that the United States was willing to employ political criteria in its aid program even where Communism was not an issue.
Political considerations in the British loan.

During Congressional consideration of the British loan, the Executive Branch stressed again and again the economic benefits which would accrue to the United States as a result of the commitments undertaken by the United Kingdom in the loan agreement and the general financial settlement of which it was a part. When final passage of the resolution authorizing the loan came, however, in July 1946, the issue appeared to have turned not on the loan's economic merits but on its political importance in coping with a developing Russian inspired Communist threat.

The year since the war's end had seen the manifestation of that threat in: Communist dominated governments established in Eastern Europe under conditions which the United States claimed were gross violations of the agreements reached at the Yalta, Potsdam, and Moscow conferences; showings of great Communist strength in France and Italy; Russian threats of force against Turkey and Iran; Canadian revelation of a spy ring in that country; and breakdown of Russian-American discussions dealing with the unification of Korea. During the last month of Congressional action on the British loan, Russia had announced its unilateral action in confiscating Austrian industrial plants as reparations; General Mihaililovic had been sentenced to death by the Yugoslav Communist
Government; and the third post-war conference of Foreign Ministers had failed to reach agreement on the matter of peace treaties for the ex-enemy states. In his closing speech in support of the British loan, Speaker Rayburn told the House of Representatives:

"... I do not want West Europe, England, and all the rest pushed toward an ideology that I despise. I fear if we do not cooperate with our great natural ally that is what will happen. If we are not allied with the great British democracy, I fear somebody will be and God pity us when we have no ally across the Atlantic Ocean and God pity them, too."

The issue of political criteria in reconstruction lending. If Congressional passage of the huge British loan was representative of a political orientation being undergone by American reconstruction lending policy, its counterpart was to be found in the diminishing prospects for an American loan to Russia, the other great wartime ally of the United States. As indicated above, debate on the British loan revealed a Congressional willingness to use a reconstruction loan to increase the strength of a nation with whose political system and foreign policy the United States was in substantial agreement and whose

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independence and freedom the United States felt were potentially threatened by a nation towards whose political system and foreign policy Americans were developing an increasing antipathy. The logical, minimum complementary policy would have been to deny financial assistance to Russia or any other country whose foreign policy was felt by the United States to threaten the freedom or independence of the democratic nations of the world. Such a policy might conceivably be extended to withholding American aid from a country whose domestic political policies the United States disapproved, regardless of whether that nation's foreign policy was felt to constitute a threat to other nations. The issue here is whether and to what extent the United States adopted political criteria in determining which nations would, and which would not, receive American reconstruction loans. That issue is examined in the next few pages; subsequently an inquiry is made into the question of whether and what political and economic conditions were attached in the case of those nations which did receive reconstruction loans.

The proposals for a Russian loan.¹ The mammoth

extent of the post-war reconstruction job in Russia was readily apparent early in the war. In October 1943, Donald Nelson, former War Production Board head, visited Stalin and advised him that it would be possible to arrange an American credit to finance Russian purchase of American war surplus property which would be useful in the Russian reconstruction effort. In seeking to implement this offer, Nelson encountered the opposition of Secretary of State Hull, who wanted to use any large credit to Russia for the purpose of securing Russian adherence to United States policy on international trade. For while the Soviet Union had signed a lend-lease agreement identical to that signed by other lend-lease recipients, Hull doubted Russia's sincerity with regard to the commitments required by Article VII. Other high American officials resented Russian actions under the lend-lease program: (1) her refusal to submit the kind of detailed justifications for Russian lend-lease requisitions that other recipients were required to do, (2) her practice of sacrificing receipt of foodstuffs for industrial equipment, which would have a useful life extending far into the post-war period, and (3) her refusal to negotiate an agreement to pay for those civilian-type goods which would not be fully used up or depreciated by the end of the war.¹

¹Brown and Opie, _op. cit._, pp. 42, 52-54.
The Soviet Union next raised the question of post-war aid on the last day of 1943, to which Ambassador Harriman replied that Russia should make a detailed determination of her post-war needs with the help of American technicians to be sent to Russia for that reason.

On February 1, 1944, Mikoyan proposed to Harriman that the United States extend Russia a one billion dollar long term credit bearing interest of one-half per cent. In answer to this request, Harry Hopkins advised the Soviet Union that a provision of the Lend-Lease Act would allow post-war delivery of any civilian-type equipment for which contracts were let before the war's end and that terms for financing the payment of such goods would be worked out in the general lend-lease settlement between the two countries. The Hopkins' reply also advised of the impracticability of specific loan discussions at that time because of the Johnson Act prohibition against American governmental lending to countries who had defaulted on previous debts to the United States. The Russians thus had to be satisfied with the lend-lease program, to which they made increasingly generous resort in the closing months of the war.

In January 1945, Russia made its first formal request for a post-war credit, asking for a six billion
dollars credit repayable over thirty years at two and one-fourth per cent interest. Feis ascribes the following theme to the Russian memo requesting the credit:

Having in mind the repeated statements of American public figures concerning the desirability of receiving extensive Soviet orders for the post-war and transition period, the Soviet Government considered it possible to place orders on the basis of long term credits to the amount of six billion dollars.¹

Harriman's advice to the State Department was that the question of Russian credits should be given sympathetic consideration, but that such credits should be tied to diplomatic dealings in which the Soviet Union would be made to understand that our willingness to help meet its reconstruction needs will depend upon Russian behavior in international matters. In 1944 proposals for a large Russian loan found support within the Treasury Department, and in January 1945 the Department presented to the President a proposal for a ten billion dollar loan repayable in raw materials over a period of thirty-five years.²

Although Russian reconstruction needs were unquestionably great, none of the above proposals materialized in an American loan to the Soviet Union. The

¹Feis, op. cit., p. 646.
explanation for this undoubtedly lies in the rapid deterioration of post-war relations between the two countries. American disagreement with the Soviets extended over a whole field of international political and economic matters, and the United States soon came to regard Soviet foreign policy as posing an immediate threat to the freedom and independence of other nations and a potential threat to American security. Under such circumstances it was understandable that any American aid which would have strengthened the Soviet Union became out of the question.

The Export-Import Bank and the National Advisory Council. In the year following the end of the war, the United States extended to foreign countries approximately two billion dollars in reconstruction loans exclusive of lend-lease pipeline, surplus property, and the British credits. This two billion dollar lending program was executed by the Export-Import Bank, and in order to fully appreciate the political import of the program, it is necessary to understand the respective roles of the Export-Import Bank and the National Advisory Council on International Monetary and Financial Problems.

Although the United States felt that the International Bank for Reconstruction and Development would assume the major responsibility for governmental
financing of foreign reconstruction programs, it was recognized that the International Bank could not begin lending operations at least until mid 1946. To meet the interim need of foreign countries for reconstruction credits, Congress passed the Export-Import Bank Act of 1945. That act: (1) made the Export-Import Bank of Washington D.C. a permanent independent agency of the Government, (2) vested the management of the Bank in a fulltime board of directors appointed by the President, (3) made inapplicable, in the case of the Bank, existing legislation prohibiting further governmental loans to countries in default on previous debts to the United States, and (4) increased the lending authority of the Bank from $700,000,000 to $3,500,000,000, the amount of the increase being the estimate of what would be needed to meet the minimum, essential foreign exchange requirements of the war-devastated countries in fiscal 1946.

1 59 Stat. 526 (1945).

Since its establishment in 1934 as a Washington D.C. public banking corporation, the Export-Import Bank had enjoyed a reputation of being operated in accord with "strict business principles". It had been mainly concerned with financing private export-import business between the United States and Latin America. When, in 1945, the Export-Import Bank assumed responsibility for executing the United States program of post-war reconstruction lending, it announced that the following factors would be considered by its Board of Directors in passing on loan requests:

1. urgency of need,
2. borrower's own resources of gold and dollar exchange,
3. possibility of obtaining funds from private sources, other countries, or the International Bank,
4. ability to make effective use of loan,
5. impact of loan on the United States economy.

An "a-political" board of directors administering loans in accordance with the above "bankers" principles did not result, however, in an "a-political" bank. This was because Congress did not intend the Bank to be divorced from all political influence after its reconstitution in 1945. The Export-Import Bank Act of 1945 established an Advisory Board which precluded such divorcement.

The membership of the Advisory Board created by the Export-Import Bank Act was the same as that of the National Advisory Council on International Monetary and
Financial Problems. The latter body was established in the Bretton Woods Agreements Act, which became law on the same day as the Export-Import Bank Act. The following were designated ex-officio members of each of these bodies: Chairman of the Board of Directors of the Export-Import Bank; Secretary of State; Secretary of Treasury; Secretary of Commerce; and Chairman of the Board of Governors of the Federal Revenue System.

The Export-Import Bank Act stated that the Advisory Board may make such recommendations to the Bank's Board of Directors as it deemed advisable and that the Board of Directors should consult the Advisory Board on major questions of policy.

Section Four of the Bretton Woods Agreements Act established the National Advisory Council on International Monetary and Financial Problems.

... in order to co-ordinate the policies and operations of the representatives of the United States on the [International Monetary] Fund and the [International] Bank and of all agencies of the Government which make or

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1 Because of this identical membership, common practice has been to refer only to the National Advisory Council on International Monetary and Financial Problems regardless of whether reference is made to the Export-Import Bank or to the Bretton Woods Institutions. In economic and political literature, the Council is often referred to only as the National Advisory Council.


3 The Economic Cooperation Administrator was designated a member of both bodies in 1948.
participate in making foreign loans or which engage in foreign financial, exchange, or monetary transactions . . .

The latter law charged the Export-Import Bank and the representatives on the Bretton Woods institutions with keeping the National Advisory Council informed of their activities and with providing any other information the Council might want.

In practice, the National Advisory Council has become a powerful body exercising great influence on the activities of the Export-Import Bank and the Bretton Woods Institutions - in the case of the latter through the medium of the United States representatives on those international bodies.1 In the case of the Export-Import

1While it is not within the scope of this paper to discuss the activities of the Bretton Woods Institutions, it should be pointed out that the dominant role which the United States plays in these Institutions, by reason of its supply of the major portion of their capitalization, has made the International Bank and the International Monetary Fund important media for the extension of American foreign aid. Jack Behrman has discussed the nature and record of this dominant American role (Jack N. Behrman, op. cit., p. 447-451). Behrman has referred to the "Americanization" of the Bretton Woods institutions and has demonstrated how the International Bank has tended to follow a lending policy identical to that of the United States regarding, for example, the question of loans to the Soviet Satellites and Yugoslavia and to underdeveloped countries for the purpose of increasing production of raw materials needed in the West's mobilization program.
Bank, such influence has been realized by a requirement that every application for an Export-Import Bank loan first be considered by the National Advisory Council which either grants or denies its "approval for consideration." Only those loans which receive the Council's "approval for consideration" are able to be subsequently considered by the Bank's board of directors using its own "economic" criteria. In explaining this relationship between the Bank and the National Advisory Council, William Martin, former chairman of the Bank, has said:

... The use of the Council mechanism attunes Export-Import Bank lending to United States foreign policy [italics supplied] while retaining in the Board of the Bank, as it was obvious Congress intended, the veto power over indiscriminate or unsound loans ... 1

The important role of the Secretary of State in formulating the lending policy of the Export-Import Bank is attested by the fact that in addition to being a member of the National Advisory Council, he is the only ex-officio member of the Bank's five-man board of directors. Moreover, the record of post-war Export-Import Bank lending confirms the important part which foreign policy considerations have had in Bank lending policy.

Use of political criteria in choosing Export-Import Bank borrowers. The size of the above discussed British loan and the proposed Russian loans precluded their being made by the Export-Import Bank; it would have been necessary for Congress to grant a Russian loan, just as it actually did in the case of the British loan. The resources of the Export-Import Bank, however, were considered large enough to meet the minimum, essential reconstruction financing needs of all other countries in the interim before the International Bank would commence lending operations. The Export-Import Bank's reconstruction lending began in the summer of 1945 and was practically completed a year later. All of the United States' Western European wartime allies received large credits, as did Finland, Austria, Italy, Greece, and Turkey. The record regarding those countries of Eastern Europe which had been liberated or occupied by Russia was spotty, however, even when both Export-Import Bank and surplus property credits were taken into account.

Rumania, Bulgaria, and Hungary had, of course, entered the war on the side of the Axis, and failure of the United States to grant them post-war credits would have been consistent with American policy toward Germany and Japan. It would not have been in accord, however, with the magnanimous American decisions to grant relief and
reconstruction aid to two other ex-enemy states--Austria and Italy. No American credits were, in fact, extended to Rumania and Bulgaria, and almost as soon as the war ended, the United States began an endless stream of protests to the Communist Governments of those countries, charging violation of the Yalta, and later the peace treaty, provisions regarding free elections and civil liberties. Hungary, on the other hand, received a fifteen million dollar surplus property credit in August 1946, and the amount of this credit was increased to thirty million dollars in February 1947. In contrast with the internal political situation in Rumania and Bulgaria, relatively free elections had been held in Hungary in November 1945 with a resultant victory for anti-communist forces. Thereafter, however, pressure by the Hungarian Communist Party and Soviet occupation forces increasingly perilled the life of the elected Government majority, culminating in the Russian Army's arrest of the Hungarian Smallholders Party's leader in March 1947. In doubling the amount of Hungary's surplus property credit the month before this arrest, the United expressed a hope that the "... Hungarian people, under

1U.S. Department of State, Bulletin, XV (October, 8, 1946), 638.
leadership of their freely elected government, might attain political and economic stability.... On May 29, the non-Communist premier was ousted from office by a Communist coup. President Truman immediately termed the course of events in Hungary "an outrage," and on June 2 the State Department suspended Hungary's recently increased surplus property credit pending clarification of developments there. The credit was never revived, although Russia extended a $200,000,000 loan to Hungary two weeks later. The Hungarian case clearly demonstrated that the differential treatment which the United States accorded the various ex-enemy states in administering its program of reconstruction credits was based upon an evaluation of those countries' internal political situations.

Yugoslavia, Albania, Czechoslovakia, and Poland, who were all wartime victims of the Nazis, also received varying treatment in the American post-war lending program. After a year and a half of negotiation, the United States and Albania finally gave up their attempts to

1U.S. Department of State, Bulletin, XVI (February 23, 1947), 341.

2U.S. Department of State, Bulletin, XVI (June 15, 1949), 1161.

settle a wide range of disagreements as a prelude to granting each other diplomatic recognition. No American financial aid was ever extended to Albania. When the United States reluctantly granted diplomatic recognition to Tito's Yugoslav Government in November 1946, it called that Government unrepresentative. Post-war relations between the two countries were strained from the outset and steadily deteriorated with their dispute over Trieste, the shooting down of an American plane over Yugoslavia, Yugoslav aid to Greek Communist guerillas, the imprisonment of Archbishop Stepinac, and the execution of General Mihailovic. It was not until after Yugoslavia's expulsion from the Cominform and her break with Russia in 1948 that she received any American aid. Czechoslovakia and Poland both received American loans in the Spring of 1946, and the administration of these became even more embroiled in political considerations than did the credit to Hungary.

When Czechoslovakia was liberated in 1945, a coalition Government was established in which Communists held important offices and exercised considerable influence. A general election in May 1946 confirmed the Communists in their dominant role. Coincident with the holding of elections, which the American State Department had been urging upon the Czechs, the United States announced that it was extending a fifty million dollar surplus property
credit to Czechoslovakia and that, in addition, the Export-Import Bank had been authorized to begin negotiations for a fifty million dollar reconstruction loan.

Soon after the election, the Czech Government concluded a treaty with Yugoslavia, which contained a clause calling for cession of all Trieste to Yugoslavia—a policy repugnant to the United States. At the Paris Peace Conference in August 1946, Czechoslovakia lined up with the Russians on every important matter before the Conference and clashed with the United States over the Czech demand for a piece of Hungarian territory. Next, Czech newspapers began an assault on American foreign lending, saying that the United States was trying to use its economic power to enslave weaker nations. The American State Department's response to this course of events was to announce on October 16 that it had suspended the unused forty million dollars of its recent surplus property credit to Czechoslovakia and had asked the Export-Import Bank to halt negotiations for a Czech reconstruction loan. The official reasons which the Department gave for its action were:

(1) Czechoslovakia had misinterpreted United States motives in extending aid to Europe, (2) Czechoslovakia was economically better off than other countries, as evidenced by its agreement to sell to Rumania some of the surplus property it was receiving from the United States, (3) Czechoslovakia
had failed to reach agreement with the United States in regard to compensation for American nationals whose property the Czech Government had nationalized, and (4) Czechoslovakia had failed to reach agreement with the United States on the matter of international commercial policy. Secretary of State Byrnes elaborated on the reasons for the American action when he told a press conference five days later that the United States had no policy of denying aid to nations in the so-called Russian sphere but that at the same time it should not grant credits to countries which felt the United States was trying to enslave them. The American suspension of credits touched off a dispute within the Czech Government, which issued an official denial that Communist Under Foreign Secretary Clementis would resign because of American hostility toward him. In less than a month, the Czech Government exchanged notes with the United States in which it agreed to accept American views on the question of international commercial policy and compensation for nationalized property. The United States, however, failed to revive the question of credits. In February and March of 1948, the Communist ousted representatives of other

political parties from the Government, ending the coalition.

The United States was shocked in the Spring of 1945 when it learned that the Russian Army had arrested Polish democratic leaders who were to have participated in the Polish Provisional Government. Thereafter, the United States repeatedly protested against the delay of Poland's Communist Government in holding free elections. Although the Polish Peasant Party provided leadership for a vocal opposition to the Communist Government, that opposition was seen by the United States to be slowly exterminated by a process which included threats, mass arrests, and "political murders". On April 24, 1946, the State Department announced that it was granting Poland a fifty million dollar surplus property credit and that the Export-Import Bank was prepared to begin negotiations for a forty million dollar reconstruction loan.

The State Department announcement read in part:

In the view of this Government . . . economic freedom and political freedom are interdependent, and for that reason, this Government has made it clear on numerous occasions that the election commitments undertaken at Yalta and Potsdam must be fulfilled by Poland in their entirety . . . .

It was therefore the view of this Government that it would not be justified in authorizing such credit, unless in so doing the American people could receive reassurance that free and unfettered
elections will be held in accordance with the Yalta and Potsdam pledges, and that commercial relations between the two countries can develop in accord with the non-discriminatory principles of our economic foreign policy. Accordingly, it has sought and obtained such assurances from the Provisional Government of Poland, as indicated in the notes that are made public concurrently herewith. This Government has also made it clear to the Provisional Government of Poland that the question of any further credit will be considered in the light of the fulfillment of the assurances given. ¹

In the notes referred to, Poland gave the required assurances regarding free elections and commercial policy; in addition, it pledged to: (1) adequately compensate the Americans whose property it had nationalized, (2) make available to the United States information about its international economic relations of the same kind which the United States normally makes public regarding its own international economic relations.² That further unwritten conditions had been attached to the Polish loans was revealed two weeks later when Acting Secretary of State Acheson announced that the credits which had just been extended were now being suspended because the Polish Government had failed to carry out certain obligations undertaken at the time of the loans. He charged that: (1) the texts of the notes exchanged at the time of the loans had not

¹U.S. Department of State, Bulletin, XIV (May 5, 1946), 761.
²U.S. Department of State, Bulletin, XIV (May 5, 1946), 761-763.
been published in Poland, (2) it appeared that American press dispatches from Poland were being subjected to censorship, and (3) the texts of Poland's economic agreements with other countries had not been made available to the United States as promised.¹ On August 9 the Polish credits were again freed when Poland gave the necessary assurances to the United States. These credits were subsequently drawn in full, but no further American aid was extended to Poland until 1957, after an apparent strain had developed in Polish-Russian relations.

In Western Europe, the Export-Import Bank made large reconstruction loans with no political conditions attached.² When the record of its lending in Eastern Europe is compared therewith, it is clear that by 1947 the United States had adopted political criteria in determining the recipients of American aid. The Truman Doctrine proclaimed in March of that year formalized this policy and generated the vast financial resources necessary to carry it forward in an effective manner.

The lending criteria for China and Greece. It is

reasonable to assume from the record of American reconstruction lending in Eastern Europe that the ultimate cause of denying or discontinuing aid to the various countries in that area was that the Governments of those countries were felt by the United States to have passed under Soviet control. In two countries whose Governments were clearly not under Soviet influence, however, the United States also attached stern political conditions as prerequisites to the receipt of reconstruction credits. In the case of China, the conditions were not met, and reconstruction aid was denied as a result. In the case of Greece, a reconstruction loan was granted but was accompanied by a threat to deny any further American aid unless the Greek Government took "rigorous measures" to meet conditions prescribed by the United States.

At the end of the war in 1945, the Chinese Government faced the tasks of (1) reoccupying the vast area of the country which had come under Japanese control and deporting the Japanese armies stationed in those areas, (2) securing effective political control over all China and ending the autonomous status of the Communist armies, and (3) initiating a program of relief, reconstruction, and development which would lead to an acceptable standard of living for the Chinese people. To aid the Chinese
Government in the task of reoccupying Japanese held areas, the United States extended Chinese eligibility for lend-lease assistance until June 30, 1946; this military assistance was to be used for the reoccupation task and to help strengthen and modernize Chinese armed forces "... of moderate size ..." on the condition that they "... would not be diverted for use in fratricidal warfare or the support of undemocratic administrations."\(^1\)

The United States was not so ready, however, to aid China in its reconstruction program. It was the feeling of the American Government that the successful execution of a program of economic reconstruction and recovery in China required prior far-reaching reforms in the Chinese Government, and the United States thus adopted a policy of withholding any substantial economic aid to China until the desired reforms had been initiated. In a major statement of policy on December 15, 1945, President Truman said that the United States wanted to see a united and strong China and that "... peace, unity, and democratic reforms in China will be furthered if the basis of this (Chinese) Government is broadened.

to include other political elements in the country . . . " The President said that the United States advocated convening a conference of representatives of major Chinese political groups in order to secure the necessary broadening of the Government. He then promised substantial American assistance:

... to rehabilitate the country, improve the agrarian and industrial economy, and establish a military organization capable of discharging China's national and international responsibility for the maintenance of peace and order. . . .

But he made it clear that such assistance would be extended only after the desired broadening of the Government.

Two major steps were taken by the United States to implement the policy outlined by the President. In January, General Marshall was sent to China as a special representative of the President in an effort to mediate between the opposing factions in China and to prepare the ground for the formation of a coalition government. Encouraged by the seeming progress he had made during his first three months in China, General Marshall recommended in March 1946 that the United States extend substantial reconstruction aid to that country. In April, the Export-Import Bank announced that, in response to the President's message of last December, it was reserving five hundred

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1Department of State, Bulletin, XIII (December 16, 1945), 945-946.
million dollars to meet Chinese requests for loans on a project basis during the next year. That same month large-scale fighting broke out in Manchuria between Nationalist and Communist armies. Thereafter, hopes for securing a coalition government steadily deteriorated, and in January 1947 the United States announced that it had given up its mediation effort. In its Report to Congress on June 30, 1947, the Export-Import Bank said that it had made no loans to China from the half billion dollars reserved for that purpose a year ago. Noting that the reservation had now expired, the Bank merely commented that the money was to have been available "... in the event that conditions in China should warrant credits from the Bank." 1

The United States did extend to China in 1946 a large surplus property credit. It also allowed China to order fifty million dollars of civilian-type goods under the post-war lend-lease program. In June 1946 the State Department denied that the extension of this limited aid to China represented a retreat from the policy announced by President Truman in December 1945. A Departmental announcement said, in part:

Too much stress cannot be laid on the hope of this Government that our economic assistance be carried out in China through the medium of a government fully and fairly representative of all important Chinese political elements, including the Chinese Communists.

The announcement explained, however, that the economic and financial emergency in China had become so grave that it had been necessary to extend a limited amount of aid in order to provide encouragement for the Chinese:

... to find a solution of their internal problems by the democratic process of peaceful agreement rather than by resort to military force ... [and] to forestall a financial and economic breakdown ... 2

The United States, at Congressional insistence, included China in its 1947 program of relief assistance to certain European countries. It was not until the time of the Marshall Plan, however, that American aid was extended on a scale capable of assisting Chinese recovery. Before most of this aid could be used, however, the Nationalist Government was driven from the mainland.

In January 1946 the State Department advised Greece that the Export-Import Bank had approved a twenty-five million dollar reconstruction loan to that country. The critical tenor of the Department’s note to Greece was

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1U.S. Department of State, Bulletin, XV (July 7, 1946), 34.

2Ibid.
unique among Western and Southern European nations which received American reconstruction loans. The politically charged communique to Greece bore a resemblance only to the American notes which were sent in connection with reconstruction loans to Communist dominated Poland and Czechoslovakia. The note to Greece read in part:

There is a danger, which should not be ignored, that if energetic steps are not taken to improve the present internal economic situation, the assistance from the United States will not produce the lasting benefits that are hoped for. An immediate improvement in the economic situation in Greece should create an atmosphere favorable to the successful holding of elections. Elections accurately reflecting the wishes of the Greek people should bring about an improved political situation which should contribute substantially to long-run economic recovery and to future stability.

... The Government of the United States is convinced that the assistance being extended to Greece can accomplish little toward economic recovery unless the Greek Government itself undertakes rigorous measures to control inflation, to stabilize the currency, to reduce Government expenditures and to increase the efficiency of the Civil Service Administration, and to revive industry and trade... the extent of possible further American assistance to Greece would necessarily be influenced by the effectiveness with which the Greek Government deals with the problems of economic stabilization...

One week after the American loan was announced the United Kingdom extended Greece a loan of ten million pounds and other assistance on the condition that a British economic

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1U.S. Department of State, Bulletin, XIV (January 20, 1946), 78-79.
mission be sent to Greece for the purpose of insuring that the Greek Government carry out desired economic stabilization measures. On January 26, Secretary of State Byrnes reported that American representatives would go to Greece to join a British-Greek stabilization board.¹

The post-war political situation in Greece with which the American loan and note sought to deal was in many respects like that in Poland, except that in Greece a right-wing Government and British troops played the leading roles which in Poland were taken by a Communist Government and Russian armed forces. The situation in Greece, had, since the country's liberation, been characterized by postponed election plans, imprisonment of opposition political leaders, charges of party alliances with foreign powers, and repeated intervention of British troops to prop up the besieged Greek Government. In addition, guerilla fighting in the North threatened to involve the whole nation in a civil war. The conditioned aid which the United States offered in this situation was a prelude to that extended to Greece a year and a half later in fulfillment of the Truman Doctrine. The conditions attached to the latter aid probably marked the high point

of United States intervention in the internal affairs of a nation to which it was extending financial assistance.

IV. THE UNITED STATES ABANDONS INTERNATIONALLY ADMINISTERED RELIEF

Of all its foreign aid during the period of transition from war to peace, the United States had least control over its relief assistance. This was because such assistance was administered by an international organization—the United Nations Relief and Rehabilitation Administration.\(^1\) Although the United States came to find many faults with the operations of UNRRA, it was the fact that the American Government was not free to choose the recipients of its relief aid and to set forth conditions governing the aid's use that led to eventual American abandonment of a program of internationally administered relief. The American program of bi-lateral relief assistance which followed UNRRA was clearly characterized by use of political criteria and conditions.

\[1\] Commonly referred to by its initials—UNRRA.
British loan, lend-lease "pipe-line" and surplus property credits, and Export-Import Bank reconstruction loans, the United States participated in the relief and rehabilitation program of the United Nations Relief and Rehabilitation Administration. When the United States had been the prime mover in bringing about the organization of UNRRA in November 1943, it was convinced that the administration of post-war relief assistance should be carried out by an international organization. Assistant Secretary of State Clayton was reflecting this view when he later said:

... We, as a nation, have committed ourselves to international cooperation and collaboration. UNRRA is the first operating experiment in the implementation of this policy ... Any alternative method for giving relief and rehabilitation assistance ... is, to my mind, unthinkable, and impractical.  

The United States' subsequent experience with UNRRA was a troubled one, however, and led to the abandonment of American support for consideration of internationally administered relief beyond 1946.

At the time UNRRA was established and during the

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1Quoted from testimony given on November 14, 1945, before the House Foreign Affairs Committee considering further authorization of United States participation in UNRRA. Quoted in U.S. Department of State, Bulletin, XIII (November 18, 1945), 812.
course of its early operations, the following guiding principles were established for the Administration's operation:

1. UNRRA was to be a self-help organization, which would only supplement and aid the efforts of peoples to help themselves.

2. UNRRA was to carry out its relief program in consultation with, and with the consent of, the Governments of aided countries.

3. No UNRRA funds should be used for reconstruction purposes. Aiding reconstruction was to be the function of private and public capital and the International Bank, and reconstruction aid would generally follow the period of relief and rehabilitation assistance.

4. Funds for the work of UNRRA would be provided by various contributing nations in accordance with their capacity to pay. The UNRRA Council made two solicitations for funds, asking each time for contributions equal to one per cent of the national income of the contributing nations.

5. Only countries which lacked the necessary foreign exchange to pay for relief-type goods were to be aided by UNRRA, and determination of eligibility was to be made by the UNRRA Council.
6. Aid was to be given to displaced persons without obtaining the consent of their countries of nationality.

7. The Governments of aided countries were to distribute UNRRA supplies in accordance with UNRRA principles. One of the most important principles was that supplies were to be distributed without discrimination on account of race, creed, or political belief.

8. If the Government of an aided country sold UNRRA supplies to its people, it was to subsequently spend for additional relief purposes an amount of money equal to the proceeds derived from the sale of UNRRA goods.

The Soviet Union was by no means reconciled to all the above principles, and Soviet-American disagreement regarding UNRRA both preceded and followed the establishment of that organization in 1943. The Russians expressed fear that UNRRA would infringe on the sovereignty of the nations it aided, and consequently they advocated that (1) UNRRA have only an advisory, and not operative, function, (2) unanimity of voting be required for UNRRA Council decisions, thus, giving Russia a veto power over UNRRA actions, and (3) UNRRA give repatriation of refugees priority over relief activities. The Russian viewpoint
did not prevail in any of these matters, however, and the
Soviet Union's greatest "defeat" in UNRRA came in August
1945 when the UNRRA Council decided against Russian de-
mands for involuntary repatriation of refugees. Soviet
insistence did succeed, however, in assuring that aided
countries would have considerable voice with regard to
UNRRA operations within their borders and that those
countries would retain full control over funds derived
from the sale of UNRRA supplies.

The fact that the United States furnished more than
seventy per cent of all UNRRA funds gave her a position of
great influence in the organization. Accordingly, many
of the above outlined principles which guided UNRRA were
ones recommended by the United States. The extreme
dependence of UNRRA on American willingness to provide
funds raised the question of how much influence it was
fitting for the United States to wield in an international
organization of which she was only one of many members.
The American Congress and the Department of State held
substantially different viewpoints on this issue. The
State Department felt that any attempt by the United
States to unilaterally impose conditions on UNRRA opera-
tions would be contrary to the principles which should
govern international organizations. Notwithstanding
this view, the Congress, in its first appropriation of funds for UNRRA, provided that:

1. Agreement should be entered into between UNRRA and aided countries, or that other suitable arrangements should be made to insure that: (a) each aided country make available to UNRRA all its trade agreements and full information on its public and private foreign trade transactions, (b) each aided country grant full facilities to UNRRA personnel, including facilities necessary for inspections and investigations, and (c) UNRRA retains title to all motor transport equipment furnished.

2. None of the United States contributions to UNRRA should be furnished to any country which (a) refuses representatives of the American press and radio full and free access to news of UNRRA activities, or (b) maintains technical, political, legal or economic barriers to the reporting of this news.¹

Confronted by a fait accompli, the UNRRA Council, meeting in Montreal in September 1944, approved a change to the UNRRA Constitution which allowed the United States Congress to exercise control over American expenditures on behalf of UNRRA.²

¹Public Law 382, 78th Congress, Second Session.
It was not until December 1945 that Congress appropriated the second part of the United States' 1944-1945 contribution to UNRRA. At that time the status of the conditions which had been inserted in the previous UNRRA appropriation act was modified to require merely that the President and the American Representatives on the UNRRA Council seek their implementation. When Russia refused President Truman's request that the Soviet Union agree not to impose censorship on the UNRRA reporting of American press and radio representatives, Congress threatened to write into the Third Deficiency Appropriations Act of 1946 an amendment which would have denied use of the American UNRRA contribution to aid countries failing to give the necessary assurances regarding free press reporting. In response to State Department urging, the amendment was limited to apply only to those countries which actually imposed restrictions on the American press.

Congress approved a second year of American participation in UNRRA only after the State Department assured it that the United States would insist on a termination of UNRRA activities by the end of 1946, in the case of Europe, and three months thereafter in the case of Asia.

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1 Public Law 259, 79th Congress, First Session.
2 Public Law 521, 79th Congress, Second Session.
The Congressional and public criticisms which were aimed at UNRRA from the time it began operations in 1944 until its termination at the beginning of 1947 were many and varied. The United States had insisted in 1943 that only those countries which lacked sufficient foreign exchange to purchase their relief supplies be eligible for UNRRA aid. As a result, only the following were subsequently declared eligible recipients: Albania, Yugoslavia, Czechoslovakia, Poland, the Ukraine, White Russia, Greece, Italy, Austria, China, Formosa, and Korea. The fact that the preponderance of UNRRA aid went to Eastern European Communist countries irritated many Americans and caused them to blame UNRRA for this situation, notwithstanding that it was American policy which had actually been responsible. Charges were repeatedly made, by Congressional investigators among others, that the Communist countries were distributing UNRRA aid according to political criteria, using it to "starve their enemies and feed their friends."¹ Charges were likewise made that Eastern European Governments had removed labels from UNRRA supplies and had then represented such supplies as gifts from Russia when distributing them; such charges were

¹See, for example, The New York Times, June 18, 1946, p. 2.
later given credibility in the case of Yugoslavia when the Communist party of that country made an announcement that UNRRA aid to Yugoslavia, although of American manufacture or origin, had been financed by the Soviet Union.  

Another charge concerned the re-export of UNRRA supplies from Eastern European countries to Russia; and the small size of the Russian financial contribution to UNRRA was criticized. An American military commander in Germany charged that UNRRA operations among refugees in that country were a shield for Russian secret agents and criminal elements.

The above listed charges all added up to a criticism that UNRRA was being used, often unscrupulously, to promote the interests of the Soviet Union at the expense of the United States. In addition, charges of gross mismanagement and failure to accomplish its assigned job were frequently leveled at UNRRA.

It is significant that the executive branch of the American Government never joined in, or admitted to the seriousness of, the criticisms directed at UNRRA—not, that is, until UNRRA was in the last two months of its operation.

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2 See The New York Times, August 14, 1946, p. 10 and August 15, p. 6, for reports of the UNRRA Council's discussions of this charge.
As early as August 1945, however, the State Department decided to oppose continuation of UNRRA beyond the end of 1946. The reason given for this decision, which was opposed by the American director-general of UNRRA as well as by many other nations, was that the period of need for relief and rehabilitation assistance would have passed by the end of 1946. This reason was the one maintained almost until the end of 1946, when it became evident that several nations would need a continuation of relief assistance in 1947. In December 1946, the United States announced in the United Nations that it continued steadfast in its opposition to an extension of UNRRA or the administration of relief assistance by any other international organization. It proposed instead that any nation still needing relief assistance in 1947 should secure such assistance through bilateral agreements with countries able and willing to extend the same. The Secretariat of the United Nations would, according to the American plan, serve as an informal clearing house to secure maximum coordination of the program. The American proposal was placed before the United Nations General Assembly, to whom the UNRRA Council had referred the question of a continuation of relief assistance, and the General Assembly approved the plan.
on December 11. In order to ascertain how many of the UNRRA aided countries would continue to need relief in 1947, and how much relief they would require, the General Assembly appointed a Technical Committee on Relief Needs After the Termination of the United Nations Relief and Rehabilitation Administration.¹

The real reasons which motivated the United States to oppose a continuation of internationally administered relief were made known in a series of speeches and press releases by various State Department officials in November and December 1946. These reasons were made clear in a radio address by Assistant Secretary Acheson on December 8, when he said in part:

No country shall be given free relief unless it has adopted all reasonable measures to help itself. Under any impartial application of this test, some of the UNRRA countries would be ruled out.

If a country is maintaining a large army which has to be fed and supplied and which is non-productive, should such a country be eligible for free relief?

The maintenance of such an army may be the right of any country; just as any country may experiment with its economic system even though doing so may play havoc with production. But in that case should it ask or expect gifts of food and supplies from other countries?

Should a country expect other countries to furnish it with tractors and agricultural

implements at a time when it is employing
its manufacturing facilities for building
tanks and other weapons of warfare?

In going on to state the case for a program of bi-lateral
relief agreements, Acheson said that only such a program
would assure that:

. . . nations receiving free relief must
prove their need for it, and they can be held
to a much closer and fairer accountability of
the use of food and other free supplies. Those
in power will be compelled to distribute relief
food on the basis of need. They will not be
allowed to feed their political supporters and
starve their political opponents.

The people of the United States and the Con-
gress of the United States have made up their
minds that the relief problems of the near future
are not of a character which warrant grants of
enormous sums of money from the United States
Treasury under conditions which would leave
little or no effective control by the grantor
of these funds. 1

The United States thus opposed continuation of a program
of internationally administered relief because such a
program did not leave the United States free to choose
the recipients of its relief and to set forth conditions
governing its use.

The American program of post-UNRRA relief. On
January 30, 1947, the United Nations Technical Committee
which the General Assembly had created for the purpose of
determining the extent and distribution of relief needs

1Quoted in Department of State, Bulletin, XV
(December 15, 1946), 1107-8.
during 1947 made its report. The Committee said that six European countries—Austria, Greece, Italy, Hungary, Poland, and Yugoslavia—would need $533,000,000 of relief assistance in 1947. Four other countries which had received UNRRA aid, however, were reported by the Committee to no longer need relief assistance; they were Czechoslovakia, Finland, the Philippines and Ethiopia. The Committee said that it could not obtain sufficient information to determine the needs of China, Korea, and Albania.¹

In February the Administration placed its 1947 relief program before Congress, asking for $350,000,000 as the United States contribution to meeting world relief needs. The Administration said that the recipients of American relief assistance shall be required to sign bilateral agreements with the United States in which the "stringent but fair" conditions under which the aid was being offered would be stipulated. The aid program was to be continuously reviewed by American supervisory staffs in each country, and if a country were found to be violating any of the conditions of its aid agreement, aid would promptly be terminated. The conditions which were eventually written into the relief assistance legislation, and subsequently imposed on recipient countries in bilateral aid agreements, were as follows:

1. All items of American aid and similar items produced locally or otherwise imported, were to be distributed without discrimination on account of race, creed or political belief.

2. Representatives of the United States Government and of the American press and radio were to be permitted to observe freely and report fully regarding distribution and utilization of relief supplies.

3. Full and continuous publicity was to be given within the recipient country as to the purpose, source, character, scope, amount, and progress of the American relief program.

4. Supplies received under the program were not to be re-exported, nor were similar supplies produced locally to be exported.

5. The recipient country was to take, insofar as possible, the economic measures necessary to reduce its relief needs and to provide for future reconstruction.

6. The recipient country was to furnish full information about all supplies of a relief character.

7. United States Government representatives were to supervise the distribution of relief supplies.

8. A control system was to be set up within the recipient country to assure fair distribution to all classes of people.
9. Each article of relief goods was to be marked so as to inform the ultimate consumer that it was American relief goods.

10. If relief supplies were sold, the local currency derived therefrom was to be placed in a "counter-pert" fund to be used only with the approval of the United States and only for further relief purposes.\(^1\)

In addition to imposing these conditions on the grant of American relief assistance, Congress required the President to (1) seek postponement of reparation payments by any recipient during the period of relief assistance and (2) terminate aid if he determined:

\[\ldots\] that an excessive amount of any supplies transferred or otherwise made available pursuant to this joint resolution, or of similar supplies produced locally or imported from outside sources, is being used to assist in the maintenance of armed forces in such country.\(^2\)

The fact that the United Nations Technical Committee had found Yugoslavia, Poland, and Hungary to be in need of continued relief after the expiration of UNRRA posed a problem for United States policy makers. After all, American abandonment of UNRRA had been directed at UNRRA aid to Eastern European Communist countries. The issue of relief

\(^{1}\)For the text of the Joint Resolution Providing for Relief Assistance to the People of Countries Devastated by War (Public Law 84, 80th Congress, First Session), see 61 Stat. 125-128 (1947).

assistance to Communist countries arose in Congress as soon as hearings began on the Administration's relief bill, and that issue continued to be a major one until final action had been taken on appropriations for the relief program.

In presenting its relief proposals to Congress, the Administration did not include Yugoslavia among the countries needing assistance. The Yugoslavs, however, made a formal inquiry as to how much of the $350,000,000 of American relief assistance Yugoslavia would receive. The State Department replied that the economic situation in Yugoslavia was not bad enough to justify the grant of American relief; as evidenced by the fact that (1) the Yugoslav bread ration was higher than that in France, Czechoslovakia, Poland, and Switzerland, (2) Yugoslavia had shipped grain to Rumania and Albania and was negotiating for exports elsewhere, and (3) Yugoslavia was entitled to grain reparations under the Bulgarian and Hungarian peace treaties. The Department added that any emergency in Yugoslavia was the result of poor administration by the Yugoslavian Government.\(^1\) Yugoslavia later charged in the United Nations that United States relief

\(^1\)U. S. Department of State, Bulletin, XVI (March 30, 1947), 585-586.
assistance was being used as a political weapon.\footnote{1}{The \textit{New York Times}, October 28, 1947, p. 8.}

The Administration took the view that relief assistance should be granted to Poland and Hungary as long as those countries observed the conditions which all aided countries would be required to meet. Assistant Secretary of State Acheson told the Senate Committee on Foreign Relations that the United States did not intend to use aid as a political weapon but to relieve suffering when and where needed. The Congress, however, felt otherwise on the issue of aid to Communist countries. The House Foreign Affairs Committee said the proposal to aid Poland and Hungary was inconsistent with the Truman Doctrine and the Greek and Turkish aid legislation then before Congress.\footnote{2}{The \textit{New York Times}, March 18, 1947, p. 1.} In the floor debates on the relief legislation, a protest was made against aiding ideologies that were "hateful" to the United States, and an amendment was offered to deny aid to Russia and nations under Russian influence.\footnote{3}{The \textit{New York Times}, March 18, 1947, p. 2, and April 8, 1947, p. 5.} Although no restrictions on aiding Poland and Hungary were ever actually written into the relief legislation, the appropriation for the relief program was cut from $350,000,000 to $332,000,000, the
amount of the cut being that which the Administration had requested for aid to Poland and Hungary.\(^1\) On July 23, 1947, an American mission sent to survey Poland's relief needs reported that Poland no longer required American relief assistance.\(^2\) No American aid was ever extended to either Poland or Hungary--in the latter's case, because Hungary would not accept the conditions attached to the aid.\(^3\)

The development of United States policy on relief assistance was thus comparable to that on reconstruction lending. The most usual conditions attached to the earliest post-war aid were meant to bring into play a free, multilateral world commercial system which was to complement an era of international political cooperation. When that political cooperation did not materialize, however, one of the consequences was a lessening of prospects for attaining multilateralism in the international economic field. Another consequence was the increasing use of political criteria in choosing the recipients of American aid and the attachment of political conditions in extending that aid. The American aid program had become,

\(^3\)Brown and Opie, op. cit., p. 112.
by 1947, an instrument of policy in the United States' growing conflict with the Communist world.
CHAPTER III

THE CONDITIONS OF AMERICAN "COLD WAR" AID

Beginning in 1947, the preponderant purpose of American foreign assistance was to strengthen "free" nations against Communism. Before the Korean invasion and the resultant Mutual Security Program, the primary goal of American aid was to build up such nations' economies and living standards as a defence against Communist subversion. Another goal, which generally remained a secondary one until 1951, was to increase such nations' military strength as a deterrent to Communist aggression. In this chapter, an inquiry has been made into the conditions attached to American aid during the "cold war" period extending from the declaration of the Truman Doctrine in 1947 until the beginning of the Mutual Security Program in 1951. Those conditions were generally intended to help achieve the purposes for which aid was given or to further broader foreign policy goals of the United States.

I. THE TRUMAN DOCTRINE AND AID
   TO GREECE AND TURKEY

The Truman Doctrine, which was proclaimed in March 1947, formalized the American policy of using
foreign aid as a weapon in the developing cold war with Russia and world Communism. President Truman's declaration opened the way for recovery assistance on a grant basis and on a vast scale to those countries seeking to maintain "their free institutions and their national integrity" against Communist subversion and aggression. The provision of aid to Greece under the Truman Doctrine set a precedent in regard to the conditions which the United States would impose in extending aid to its cold war allies.

The Doctrine. The exclusion of all Communist countries from participation in the post-UNRRA relief program of the United States represented a victory for the Congressional viewpoint that to extend relief assistance to Communist countries would be to contradict the Truman Doctrine. This question of contradiction had been destined to be thoroughly aired during Congressional consideration of the post-UNRRA relief program because Congress was at the same time considering the Administration's request for aid to Greece and Turkey under the Truman Doctrine.¹

¹The Presidential messages to Congress on the post-UNRRA and Greek-Turkish programs were delivered on February 21 and March 12, 1947, respectively. The two programs were simultaneously considered by the same Congressional committees, and they became law within nine days of each other--on May 22, and May 31.
On March 12, 1947, President Truman told Congress that one of the primary objectives of the foreign policy of the United States was the creation of conditions in which the United States and other nations would be able to work out their own ways of life free from coercion. He then went on to set forth what became known as the Truman Doctrine:

... We shall not realize our objectives, however, unless we are willing to help free peoples to maintain their free institutions and their national integrity against aggressive movements that seek to impose upon them totalitarian regimes. This is no more than a frank recognition that totalitarian regimes imposed upon free peoples, by direct or indirect aggression, undermine the foundations of international peace and hence the security of the United States. At the present moment in world history nearly every nation must choose between alternative ways of life. The choice is too often not a free one.

Seeds of totalitarian regimes are nurtured by misery and want. They spread and grow in the evil soil of poverty and strife. They reach their full growth when the hope of a better life has died. We must keep that hope alive...  

The President asked Congress to appropriate four hundred million dollars to aid Greece and Turkey to resist the threat of Communist subversion and aggression. In the case of Greece, the aid was needed to help bring order out of

chaotic economic conditions and to help pacify the Northern part of the country where Communist guerrillas were waging war against the Government. In the case of Turkey, the American assistance was necessary to permit a politically tolerable rate of economic development at a time when Turkey was shouldering a huge military budget to provide for her defense against a threatening Russia. While the President's specific request for aid was limited to Greece and Turkey, the principle of the Truman Doctrine was soon applied to most of the nations of Europe under the Marshall Plan. The United States thus embarked upon a formally declared policy of aiding friendly countries to build up their economies and to raise the standard of living of their peoples as a defense against Communist subversion. Although the United States had, by 1947, already arrived at essentially such a policy in administration of its reconstruction lending program and in its views towards relief assistance, the Truman Doctrine opened the way for recovery assistance on a grant basis and on a multi-billion dollar scale.

The conditions. The legislation authorizing aid to Greece and Turkey required that full publicity be given the aid program within those countries and that representa-
tives of the American press and radio be allowed to report fully and freely on the program. Materials supplied were not to be re-exported to other countries or used to repay governmental loans. In addition, Greece and Turkey were to make provisions for the security of all articles received and were to grant American officials full freedom for observing whether the assistance given was being effectively utilized in accordance with the terms of bilateral agreements under which the aid was to be extended.¹

The bilateral agreement which the United States subsequently entered into with Turkey required Turkey to accept no obligations other than those stipulated in the law. The agreement with Greece, however, incorporated an exchange of diplomatic notes which obligated the Greek Government to undertake a full range of economic reforms and to accept American participation in the management of the Greek economy as a condition of American assistance. The conditions attached to the Greek aid marked the high point of American interference in the internal affairs of a country which was receiving aid from the United States.

The Greek-American aid agreement had part of its background in an American Economic Mission which had been

¹ 61 Stat. 103-105 (1947).
sent to Greece in January 1947 to make a study of Greece's economic difficulties. The mission was sent in response to a request by the Greek Government, and was, as part of its study, to consider how much foreign assistance Greece would need to carry out a successful reconstruction program. The Mission, however, was also to make recommendations to the United States Government, for transmittal to the Greek Government, of specific measures which the latter should take in order to assist the Greek reconstruction program.\(^1\) While the American Economic Mission was in Greece, Great Britain advised the United States that it was having to renounce its economic and military commitments in that country because of a financial and economic crisis at home. This British action added even greater urgency to the Greek economic crisis and led the Greek Government to make a frantic appeal for American aid. When President Truman responded to this request on March 12, he did so without awaiting the report of the American Economic Mission, which was still in Greece. When it came time, however, to negotiate the bilateral agreement under which aid was to be extended to Greece, the Mission's on-the-spot assessment of Greece's economic problems, and its recommendation of measures to deal with

\(^1\)U.S. Department of State, Bulletin, XVI (January 19, 1947), 136.
these problems, played a very important role. The effect of three notes exchanged by Greece and the United States between May 26 and June 18, 1947, was to obligate Greece to carry out the program recommended by the American Economic Mission in turn for the receipt of United States aid under the Truman Doctrine.\(^1\) In its note of June 15, the Greek Government set forth those measures which it would take; and in the bilateral agreement of June 20, it reaffirmed that it would effectuate those measures.

In its note the Greek Government said it recognized its responsibility for: composing its internal differences, collecting more revenue, re-building foreign trade, conserving foreign exchange, reconstructing public works, improving government administration, assisting and guiding agriculture and industry, establishing protective labor measures, encouraging democratic organizations among economic and social groups, taking measures to control inflation and assure equitable distribution of supplies and services, and restraining excesses and

\(^1\) The three notes became an integral part of the bilateral aid agreement between Greece and the United States and are printed, together with the agreement, in 61 Stat. 2907-2936 (1947). The report of the American Economic Mission was summarized before the House Committee on Foreign Affairs by the Mission chairman, Paul Porter; Porter's testimony is reprinted in U.S. Department of State, Bulletin, XVI (May 4, 1947), 844-845.
and extravagances on the part of any segment of the population. The note then set forth in general terms certain measures which the Government would take and said that both these measures and others would be developed further after consultation with the American advisers. The measures as set forth in the note were:

1. The national and local revenue systems would be rehabilitated by all necessary measures, including:
   (a) modernization of the tax administration, (b) elimination of tax evasion, (c) equitable distribution of the tax burden on the principle of ability to pay, (d) control and curtailment of government expenditures, (e) strengthening of the audit and accounting system, and (f) publication and use of the budget to control expenditures.

2. Foreign exchange income would be increased relative to import requirements by (a) vigorous efforts to increase exports, (b) use of Greek shipping for the benefit of Greece, (c) enforcement of existing regulations on the import and export of foreign exchange, (d) limitation of imports, and (e) centralization of foreign trade planning and supervision in a Foreign Trade Committee headed by an American in the employ of the Greek Government.
3. Inflation would be controlled by (a) price control, (b) an equitable relationship between prices and wages, (c) rent control, (d) rationing, and (e) credit and banking controls.

4. Agricultural and industrial production would be increased by (a) government guidance and financial assistance, (b) re-examination of restrictive taxes, detrimental employment practices, and monopoly regulations with a view to increasing production, and (c) encouragement of increased labor productivity while fostering the right of workers to organize and join democratic labor unions and to engage in activities to promote their mutual protection and economic status.

5. Government organization and the Civil Service would be improved.

The Greek note next dealt with the matter of American participation in the management of the Greek economy during the period of American aid. It said that the Greek Government wanted a special American Mission to administer the extension of the American aid, to observe the Greek Government's use of such aid, and to advise the Greek Government. The Mission, the note said, should:

1. Participate in the development of revenue and expenditure policies.
2. Approve Government expenditures for activities which directly or indirectly involve use of American aid.

3. Take part in the planning of the import program and approve use of foreign exchange.

4. Assist in execution of reconstruction projects, technical training of civil servants, continuation of the health program, development of exports, programming and disposition of Government purchased supplies, promotion of agricultural and industrial recovery, and regulation of wages and prices.

"In general," the note concluded, "the Greek Government will consult with the Mission before taking any economic steps which might effect the success of the American aid program."

Just as the Truman Doctrine indicated that the United States might provide large-scale aid on a grant basis to assist the recovery efforts of "free" nations, so did the aid to Greece under that Doctrine indicate that the United States was willing to impose whatever conditions it felt were necessary for the achievement of that recovery. Although the wide range of the "economic" conditions imposed on Greece was not again approached--except in the case of American aid to the Philippines in 1951--the imposition of conditions meant to facilitate economic
or development became almost a universal feature of subsequent foreign economic assistance granted by the United States.

II. THE EUROPEAN RECOVERY PROGRAM

The announcement of the Marshall Plan for aiding European economic recovery followed by less than three months the declaration of the Truman Doctrine. The Marshall Plan made it clear that the Truman Doctrine would not be confined to Greece and Turkey but would be extended to all of "free" Europe. Under the European Recovery Program, large-scale American aid was extended to recipient countries under conditions generally intended to assure the achievement of recovery. In addition to attaching conditions to its aid, the United States sought to influence the direction of European recovery through its role as aid administrator. The question of conditions was an important and controversial one throughout the more than three years of the European Recovery Program.

Origin of the European Recovery Program. The United States acted with great urgency in meeting what it considered a critical situation in Greece and Turkey at the beginning of 1947. The unsatisfactory state of recovery
progress in 1947 was not confined to Greece and Turkey, however, but was widespread throughout Europe. Agricultural and industrial output had, by 1947, reached only 75 and 83 percent, respectively, of their prewar levels. This reduced output, however, had to meet the consumption needs of a population 10 per cent larger than the prewar one. Only part of the reduced production was, moreover, available to meet these needs because most countries were undertaking heavy investment programs in an effort to replace capital plant and equipment destroyed in the war. Everything considered, per capita income remained, by 1947, 20 per cent below the prewar level.¹

The major causes of the lag in European recovery were: (1) wartime damage to farms and factories had been far greater than was imagined; (2) overseas sources of supply had been destroyed or disrupted, and the merchant marine had been largely destroyed; (3) bad weather had resulted in poor harvests; (4) the traditionally vigorous German economy had been reduced to an economic charge; and (5) the European economy had been divided into two artificial economic blocs as a result of the East-West political division. Commenting on this last point, Assistant

Secretary Acheson said:

... In Eastern Europe, the Soviet Union, over American and British protests, has used its dominant military position to carry on a unilateral policy, contrary to the Yalta Agreement, by which free choice of their destiny has been denied these peoples. Even more important, the minority Communist regimes fastened upon these peoples have acted to cut them off economically from the community of Europe, curtailing their productivity, and binding them to exclusive economic relations with the Soviet Union. . . .

... As a result, the recovery of Europe has long been delayed--tragically long.¹

After the failure of the Moscow Conference of Foreign Ministers in March and April 1947, Secretary of State Marshall became convinced that to allow the economic situation in Western Europe to fester indefinitely would be to invite Communist subversion of the countries of that area. This conviction led to the decision to extend the principle of the Truman Doctrine to most of the countries of Europe.² The decision was announced in Marshall's famous speech at Harvard on June 5, 1947, and became known as the Marshall Plan.

Cooperation as a condition of Marshall Plan aid.
The foremost condition attached to Marshall Plan aid was

¹From address by Assistant Secretary of State Acheson on June 15, 1947; quoted in Ibid., p. 61-62.

that the recipient countries cooperate with each other in a joint European Recovery Program. The degree to which that cooperation should extend was never fully defined either at the outset of the European Recovery Program or during the course of its operation. Consequently, the question of how far that cooperation should extend was a frequent source of disagreement: (1) among the aided countries of Europe, (2) between those countries and the United States, and (3) within the United States. Making cooperation a pre-condition of Marshall Plan assistance was, moreover, the cause of the Soviet Union's unwillingness to partake of that aid.

Russia's refusal to join in a cooperative European Recovery Program in response to Secretary Marshall's aid offer did not come as a surprise. Soviet objections to such a cooperative approach to Europe's post-war economic problems had a history dating back to wartime discussions about the kind of emergency organization needed to aid European reconstruction pending action by the United Nations. When the European Central Inland Transport Organization, the European Coal Organization, and the Emergency Economic Committee for Europe were established in 1945, Russia would join only the first of these. The United Nations Organization took its first action with regard to European reconstruction when it formed a
temporary Subcommission on Economic Reconstruction of Devastated Areas in June 1946. In October 1946, the Subcommission made a report which (1) called for coordination of country plans based on consultation and exchange of information and (2) recommended the establishment of an Economic Commission for Europe to facilitate concerted action by Governments and the United Nations specialized agencies in the reconstruction of Europe.

The Economic and Social Council established the recommended Commission early in 1947 over Soviet protestations that an international fact-finding body constituted interference in the domestic affairs of sovereign nations. Russia demanded that investigators not pass judgment on methods of reconstruction in individual countries but concentrate on (1) estimating the amount of outside aid needed and (2) obtaining the needed aid from those countries able to furnish it. Thus, whatever merits a cooperative recovery program might have had, Secretary Marshall could be almost certain when he proposed such a program in June that the Soviet Union would refuse to participate in it.

Sixteen nations accepted Marshall's offer to draw up a joint recovery program preparatory to receiving American assistance. Meeting in Paris in July, these

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1 Brown and Opie, op. cit., pp. 92-94.
nations quickly established a Committee of European Economic Cooperation and four subcommittees to carry out the task of preparing a joint recovery plan. In September the full Committee reconvened to write a report which pledged, among other things, a continuation of its member nations' cooperative approach to economic recovery.¹

When Congress wrote the Economic Cooperation Act of 1948, which implemented the Marshall Plan, it made the grant of American assistance thereunder dependent on a continuation of this early cooperative approach toward European recovery:

"Cooperation" between the European Marshall Plan countries took two general forms—consultation in economic planning and action to increase the volume of trade among

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²62 Stat. 150-151 (1948).
themselves. Consultation began when the sixteen nations worked together in 1947 as the Committee on European Economic Cooperation to draw up a recovery report which outlined their four year recovery goals and the extent to which they needed American assistance to reach those goals. During the winter and early spring of 1948, the cooperating nations worked out plans for a permanent joint organization. Their negotiations resulted, in April, in the signing of the Convention for European Economic Cooperation and the establishment of the Organization for European Economic Cooperation. In the Convention, these sixteen nations pledged to increase their production, achieve financial stability, take mutual steps to liberalize trade and to achieve a multilateral system of payments, and cooperate with one another in seeking general economic recovery. The Organization was to provide means for continuous consultation and study regarding the problems of recovery, was to report the findings of its studies, and was to make recommendations to its members.\textsuperscript{1} A more positive role was urged on the Organization when the United States insisted that it make recommendations for the allocation of American aid during the first year of the recovery program. In order

\textsuperscript{1}Price, \textit{op. cit.}, pp. 80-82.
for it to recommend such an allocation, the Organization required all Marshall Plan countries to submit to it detailed information on their economies together with their national recovery programs and requests for assistance.\footnote{Tbid., p. 82-85.} Although the United States made the subsequent yearly allocations of aid largely on its own volition, the Organization for European Economic Cooperation continued to be an influential consultative and advisory body which gave impetus to mutual economic cooperation among Marshall Plan countries.

From the beginning of the European Recovery Program, there was strong sentiment in Congress for urging, or even requiring, European mutual cooperation to extend beyond that entailed in the Organization for European Economic Cooperation. This sentiment favored various degrees of political unity, and the elimination of all barriers to intra-European trade.

In the Economic Cooperation Act of 1948 Congress said:

\footnote{Tbid., p. 82-85.}
these countries through a joint organization to exert sustained common efforts as set forth in the report of the Committee on European Economic Cooperation... which will speedily achieve that economic cooperation in Europe which is essential for lasting peace and prosperity... Continuity of assistance provided by the United States should, at all times, be dependent upon continuity of cooperation among countries participating in the program... The ambiguity of this Congressional "declaration of policy" was clarified by the Senate Committee on Foreign Relations, which said in its report on the aid bill that the above quoted section was meant to encourage greater political, as well as economic, unity among the aided countries. When the aid Act was amended in 1949, Congress declared that it was the policy of the United States "...to encourage the unification of Europe..." The Senate Foreign Relations Committee said of this new provision that it was meant to express approval of current developments in Europe, adding that it "...feels strongly that the impetus toward unification must come from the European peoples themselves without interference

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363 Stat. 50 (1949).
or dictation from the outside . . . "1 In 1950, the House of Representatives attached an amendment to the foreign aid Act which would have declared it to be United States policy " . . . to encourage the economic unification and federation of Europe . . . " This amendment was rejected by the Conference Committee only after Secretary of State Acheson wired the Committee his view that there was no need for statutory encouragement to attain the amendment's objective. Also influential in causing the Committee to strike the amendment were French Foreign Minister Schuman's simultaneous proposals for the pooling of European coal and steel industries as a prerequisite to European economic unity and eventual political federation.2

Congress put more "teeth" into its encouragement of trade liberalization among the Marshall Plan countries. The Economic Cooperation Act of 1948 required those countries to agree to undertake mutual efforts to increase trade and to reduce trade barriers. Subsequently, the aided nations began consultations which led to the


reduction of quantitative import restrictions at the end of 1949 and to the establishment of the European Payments Union in 1950.\textsuperscript{1} In its 1950 renewal of the Economic Cooperation Act, Congress provided that $600,000,000 of the $2,750,000,000 foreign aid funds authorized thereunder should be spent solely for the purpose of promoting a program of liberalized trade and payments among the Marshall Plan countries.\textsuperscript{2} This Congressional mandate was in response to a request by the Economic Cooperation Administration for discretionary authority to spend up to $600,000,000 for the purpose of freeing intra-European trade.

The above outlined attempts to make grant of American aid conditional on steps toward European "unity" were in some respects intensified under the Mutual Security Program, which began in 1951, especially when such aid was made dependent on action to establish the European Defense Community.

\textbf{Conditions recommended by the Administration.} The draft Marshall Plan legislation which the Administration sent to Congress in 1947 provided that aided countries

\textsuperscript{1}Price, \textit{op. cit.}, pp. 100-102, 123-126.

\textsuperscript{2}64 \textit{Stat.} 200 (1950).
meet certain other conditions in addition to participation in a cooperative recovery program. Each country was to sign a bilateral agreement with the United States in which it reaffirmed the following general pledges it had taken in signing the General Report of the Committee of European Economic Cooperation:

1. To promote industrial and agricultural production in order to reach a production level which would make it independent of outside aid.

2. To take financial and monetary measures necessary to stabilize its currency, to establish or maintain a proper rate of exchange, and generally to restore or maintain confidence in its monetary system.

3. To cooperate with other participating countries to obtain greater intra-European and extra-European trade. In addition to reaffirming these pledges, each country was to: (1) agree to make effective use, within the framework of a joint recovery program, of its own resources and of United States aid, (2) furnish all economic information requested by the United States, (3) make full and public reports on the aid program, and (4) agree to sell to the United States certain raw materials which the United States wanted to stockpile because of its own domestic shortage of such materials. Finally, the principle of a counterpart fund, which was
first used in the post-UNRRA relief program, was made to apply to all Marshall Plan grant aid. An amount of local currency equal to all dollar aid received was to be placed in a special fund to be used by the aided country only for expenditures pursuant to the purpose of the aid Act and only with the consent of the United States.

The Administration cautioned Congress against adding any further conditions to Marshall Plan aid. In testifying on the aid legislation, Secretary Marshall told the Senate Foreign Relations Committee:

... It is the obvious duty of this Government to insure in so far as possible that the aid extended shall be effectively used to promote recovery and not diverted to other purposes, whatever their nature. ... I can not emphasize too much my profound conviction that the aid we furnish must not be tied to conditions which would, in effect, destroy the whole moral justification for our cooperative assistance toward European partnership. ... We cannot expect any democratic government to take upon itself obligations or accept conditions which run counter to the basic national sentiment of its people. This program calls for free cooperation among nations mutually respecting one another's sincerity of purpose in the common endeavor—a cooperation which we hope will long outlive the period of American assistance.¹

Congress did not share Marshall's cautious view on conditions, however, and the question of imposing other

¹U.S. Department of State, Bulletin, XVIII (January 18, 1948), 75.
important conditions on aid recipients arose during Congressional consideration of the 1948 aid legislation and of 1949 and 1950 renewal legislation.

Use of American aid to encourage free enterprise.

It was argued by some that Marshall Plan aid should be used to restrain the European post-war trend toward socialism. The President's Committee on Foreign Aid, appointed by President Truman in June 1947, to make a preparatory study of the proposed aid program, said in its report:

... Aid from this country should not be conditioned on the methods used to reach these [agreed] goals, so long as they are consistent with basic democratic principles. Continued adherence to such principles is an essential condition to continued aid but this condition should not require adherence to any form of economic organization or the abandonment of plans adopted and carried out in a free and democratic way. While this committee firmly believes that the American system of free enterprise is the best method of obtaining high productivity, it does not believe that any foreign-aid program should be used as a means of requiring other countries to adopt it. The imposition of any such conditions would constitute an unwarranted interference with the internal affairs of friendly nations.

In 1948 and again in 1949, amendments were offered to the Foreign Aid Appropriation Acts which would have

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denied aid to countries continuing to nationalize basic industries. Both times the amendments were defeated in floor votes, although the margin of defeat in the Senate Appropriations Committee in 1948 was only a tie vote.¹ In its report on the 1948 authorization bill, the House Foreign Affairs Committee recommended against an "anti-nationalization" amendment but said that it was nevertheless sympathetic to the philosophy represented by such an amendment and that Congress should rely on the aid Administrator to give expression to that philosophy.² Success in attaching a "free enterprise amendment" to an important foreign aid law had to await the Benton Amendment to the Mutual Security Act of 1951.³

Although there was no Congressional mandate to use Marshall Plan aid to encourage free enterprise against the socialistic trend evident in most aided countries, many Europeans were anxious lest the "business-man" staff of the Economic Cooperation Administration might try to follow such a policy. Commenting on the fears that American Marshall Plan aid might be used to fight socialism, Seymour Harris pointed out that Congressional

committees who spent much time expressing doubt about the United Kingdom's nationalization program wrote into the Economic Cooperation Act a

... super-plan for increasing the efficiency of European industry under United States guidance which would impose standardization, provide for minute allocation of scarce supplies, assure maximum utilization and cooperation among European countries and the United States, and so on. This type of planning, more than nationalization, has become the essence of socialism [italics supplied] ... Control over the use of scarce resources will give the state the power to determine what is produced and where, and, therefore, allocation of output among consumption, exports, and investments; and distribution of jobs and man-power. ... ¹

Harris was expressing the viewpoint that whatever might be said about using Marshall Plan aid to foster free enterprise, the fact was that the nature of the European Recovery Program which Congress had specified required centralized economic planning and direction to a degree whose realization constituted the primary goal of modern socialism.

Restricting East-West Trade. Congress wrote into the Economic Cooperation Act of 1948 a restriction on aided countries' trade with European countries not participating in the European Recovery Program. Marshall Plan

countries were prohibited from using any American supplied materials for the production of articles to be exported to such non-participating countries if similar American produced articles were currently being prohibited export to those countries in the interest of American national security. The House Foreign Affairs Committee explained that this provision was intended to prevent the re-export of American aid to countries hostile to the European Recovery Program. In May 1948, Economic Cooperation Administrator Hoffman told the Senate Appropriations Committee that he would ban aid to nations supplying war materials to the Soviet Union, and in June he warned that aid might be terminated to nations shipping "war potentials" to the "Russian Sphere." These moves were, in 1948, the economic counterpart of the political effort to require severance of diplomatic relations with Russia as a conditions of receiving American Marshall Plan aid; an amendment to require this was defeated in the House of Representatives on March 31, 1948.

Proposals to use American aid to require substantial

curtailment of trade between Eastern and Western Europe were generally resisted until after the outbreak of the Korean War. The dominant argument against such proposals was that a Russian inspired curtailment of such trade before 1948 had indeed been one of the main factors which had delayed Western European recovery and made the European Recovery Program necessary. After the Korean invasion, however, pressure to require aid recipients to curtail their trade with the Communist sphere could no longer be resisted. In the Supplemental Appropriations Act of 1951, approved September 27, 1950, Congress provided that:

... During any period in which the Armed Forces of the United States are actively engaged in hostilities while carrying out any decision of the Security Council of the United Nations, no economic or financial assistance shall be provided ... to any country whose trade with the Union of Soviet Socialist Republics or any of its satellites (including Communist China and Communist North Korea) is found by the National Security Council to be contrary to the security interests of the United States ....

The relatively general nature of the above language was superceded by that of the Kem amendment to the Third Supplemental Appropriations Act of 1951, approved June 2, 1951. That Amendment specified the goods not to be traded as

... arms or armaments, or military materials or articles or commodities which the Secretary of Defense shall have certified to the Administrator for Economic Cooperation may be used in the manufacture of arms, armaments or military material, or the shipment of which to the Soviet bloc is embargoed by the United States in the interest of national security. . . .1

The two amendments just described were forerunners of the Mutual Defense Assistance Control Act of 1951, commonly known as the Battle Act.2 This latter Act became an integral part of the Mutual Security Program.

Furnishing the United States essential raw materials. As mentioned previously, one of the conditions which the Administration proposed be attached to Marshall Plan aid was that recipient countries agree to sell to the United States essential raw materials which the latter wished to acquire for stock-piling. Congress responded to this proposal by requiring that aided countries facilitate the supply of such materials to the United States by negotiating: (1) a schedule of future minimum availabilities of such materials for United States purchase, (2) a schedule of increased production of such materials, with part of the increase to be earmarked for American purchase, and (3) an agreement to allow United States citizens and corporations to have "equal right of access" in the

1Section 1302, Public Law 45, 82nd Congress, 1st Session.
development of such materials. The Foreign Aid Appropriation Act of 1949, which provided the first year
Marshall Plan funds, stipulated that not less than 5 per cent of the local currency counterpart fund to be
established in each country be made available to the United States for purchase of strategic raw materials or
other local currency requirements of the United States, including those in connection with administration of the
aid program. An attempt in 1949 to increase the percentage of each counterpart fund available for United States
use in purchasing raw materials was defeated. The Senate Foreign Relations Committee said that such action would
reduce the amount of aid funds available for recovery and take away from the aided countries a source of dollar
earning. In the bilateral agreements under which aid was extended, each recipient country agreed to make the
requested raw materials available to the United States after its own reasonable needs had been satisfied; it also
agreed to take action to increase production of such materials and to remove all barriers to their export
to the United States. The increased production of the


3 See, for example, the Economic Cooperation Agreement with Italy, 62 Stat. 34 (1948).
raw materials in question was facilitated, moreover, by the use of United States aid for this purpose.

Other conditions. Other important conditions which were proposed or accepted in connection with Marshall Plan aid have been summarized below. First, there were some members of Congress who proposed that the United States should receive military bases in return for its recovery aid. After Secretary of Defense Forrestal had testified before the Senate Foreign Relations Committee in January 1948, it was necessary for Marshall to disclaim a press interpretation of Forrestal's remarks to the effect that the United States did desire such bases in exchange for its aid.1

In 1949, the Economic Cooperation Act was amended to require termination of aid in any case where it

...would be inconsistent with the obligation of the United States under the Charter of the United Nations to refrain from giving assistance to any state against which the United Nations is taking preventive or enforcement action ... 2

This Congressional action was directed against Dutch policy in Indonesia, where the Dutch were seeking a forcible solution to the problem of Indonesia's future

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263 Stat. 50 (1949).
political status. Four months before, the State Department had suspended a one hundred million dollar Export-Import Bank credit to Indonesia as a result of the Dutch military attack launched at that time.

In 1950, Congress attempted to use Marshall Plan aid as a lever with which to deal with two situations where American goods or businessmen were being discriminated against in markets controlled by aided countries. At the beginning of 1950, the United Kingdom began to discriminate against American oil imports in an effort to deal with an adverse balance of payments position; Britain's financial situation was a continuation of that which caused her to devaluate the pound in September 1949. The United States felt that Britain should make a greater effort to find a less drastic solution to her problem than that of suddenly wiping out a large market for American oil.\(^1\) The State Department protested the British action, and the Economic Cooperation Administration suspended Marshall Plan assistance for the purpose of expanding the British oil industry.\(^2\) In June, Congress amended the Economic Cooperation Act to provide that no aided country should

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discriminate against American imports or investments if such actions are:

... not reasonably required to meet balance of payments conditions, or require-
ments of national security, or are not authorized under international agreements to
which such country and the United States are parties...  

The Act provided that when the Department of State
determined that such discrimination had taken place, the
Economic Cooperation Administrator should take "remedial
action."

In the Foreign Aid Appropriation Act of 1951,
approved in September 1950, Congress provided that no
aid be given to a country of which a dependent area
thereof is not complying with a treaty adhered to by
the United States and that dependent area. This unusual
stipulation was clearly directed at France in "retali-
tion" for Morocco's discriminatory treatment of American
businessmen.  

The September 1950 Appropriation Act also contained
a prohibition against providing assistance to "... any
participating country which, in the opinion of the Presi-
dent, has failed, refused, or neglected to support the
United Nations in resisting aggression... ."  

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3Ibid.
The final three conditions attached to the extension of American Marshall Plan aid were meant to serve American special interests. Moreover, each of these conditions was detrimental to the expressed purpose of the aid program. Each of them was in effect during one or more of the three years of the European Recovery Program. They were:

1. At least 50 per cent of the gross tonnage of commodities supplied under the aid program was to be transported in American vessels if such vessels were available at United States market rates. The 50 per cent requirement applied by country of destination and by class of shipping, as well as generally. It also applied regardless of whether the cost of American shipping was higher than world market rates.¹

2. Twenty-five, and later 12½, per cent of all wheat supplied under the aid program was to be in the form of flour, thus benefiting American millers.²

3. No aid funds were to be used in the United States for advertising foreign products or foreign travel.³

¹ 62 Stat. 143 (1948) and 63 Stat. 51 (1949).
² 62 Stat. 143 (1948) and 63 Stat. 52 (1949).
³ 63 Stat. 52 (1949).
Attempts failed to require mandatory inclusion of American coal, machine tools, and agricultural surpluses in the aid program.

Administration of the European Recovery Program.

The Economic Cooperation Act set forth the purpose, goals, and some guiding principles of the European Recovery Program. The Act left to the Economic Cooperation Administrator, however, a great deal of latitude in determining the most effective manner of executing the aid program so as to accomplish the Act's ultimate object—the recovery of the aided nations. The task of the Economic Cooperation Administration was obviously to be more than that of delivering American aid supplies. The broader role to be played by the Administration was pointed out in its first quarterly report to Congress:

The Economic Cooperation Administration . . . has the responsibility to promote through provision of aid under the Act and cooperation with the Organization for European Economic Cooperation . . . and other international organizations the most effective use of the economic resources of the participating countries, looking forward to their mutual economic recovery. Accordingly, the interest of the Administration is focused on the total economic effort of the European nations, including the measures required to increase production and productivity, to expand exports, and to solve fiscal, currency, and trade and payments problems. The Administration must be concerned also with the total import programs
of these countries—including those financed with their own resources as well as with ECA funds.1

This same idea was expressed in an internal staff study by some of the Administration's officers:

The ECA is in two businesses: (1) the influencing of European recovery along lines favorable to both Europe and the United States and, to the extent desirable, attempting to bring about changes in the plans, policies and actions of the participating countries and OEEC; and (2) administering aid to the participating countries. Although both of these businesses are essential and interrelated, one with the other, influencing European policy in the direction of recovery of a character that would be most beneficial to Europe is really ECA's main purpose.2

The primary task of the Economic Cooperation Administration, then, was to influence the economic policies of the Marshall Plan countries in such a way as to promote their recovery. The most ostensible means of influence the Administration possessed was its control of the "purse strings" of the multi-billion dollar aid program. The Administration never resorted, however, to the ultimate means of influence of this kind—the termination or reduction of aid to countries which failed to take desired economic measures. Refusal to resort to this sanction

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1Economic Cooperation Administration, First Report to Congress (for the quarter ended June 30, 1945), p. 2.

was apparently due to a belief that action of this kind would be improper in relations between sovereign allies. The Economic Cooperation Administration did, however, use less severe forms of its control over aid funds in order to influence the economic policies of aided countries. The effectiveness of such controls, however, was open to question because of the principle of "substitutability of resources," discussed below.

The Economic Cooperation Administrator sought to influence national economic policies by exercising the following forms of control over aid extended:

1. It was necessary for the aided country to obtain the Administration's approval of the kinds of commodities the country proposed to import with aid funds. This power to pass on the kinds of goods bought with aid funds supposedly gave the Administration a means of influencing the direction of economic recovery.

2. During the latter part of the European Recovery Program, the Administration set aside part of all aid funds for use only in connection with specific projects which it had approved. This "investment banker" approach required approval of projects rather than commodities.

1 Brown and Opie, op. cit., p. 190.
3. As provided in the Economic Cooperation Act, local currency "counterpart" funds could be expended by a country only for purposes approved by the Administration.

As previously mentioned, the degree of influence which the above controls enabled the Economic Cooperation Administration to exert over national economic policies was made questionable by operation of the principle of substitutability. Generally, substitutability meant that an aided country had other resources than American aid available to it and that such resources could be used for any purpose for which the Administration would not authorize expenditure of aid funds. For example, the Administration might have desired that French counterpart funds be used to reduce the Government debt as an anti-inflationary measure. The French Government, on the other hand, might have wished to use those funds for development of the government owned railways. If the Administration insisted on its viewpoint, the French Government would undoubtedly have agreed to use the counterpart funds in question for retirement of a part of the public debt. The Government could then turn around and borrow money--increase the public debt, that is--for the purpose of developing the railways, thus circumventing the Administration's "control" of counterpart funds. Substitutability worked equally as well
when a Marshall Plan country used its own dollar resources to finance import of goods for which the Administration would not authorize aid funds; dollar aid funds would then be used to import goods which would otherwise have been financed with the country's own dollar resources. These hypothetical examples are not meant to imply that use of the principles of substitutability was characterized by frequent disagreement and disputes between aided countries and the Economic Cooperation Administration. Aided countries were of course completely familiar with the Administration's view of what constituted wise expenditure of aid funds, and this allowed a subtle application of the principle of substitutability.¹

The only way for the Economic Cooperation Administration to assure that its exercise of control over expenditure of aid funds would not be circumvented by contradictory expenditure of substitute funds was for the Administration to assume control over the total expenditures and the monetary and fiscal policy of aided countries. To attempt such a degree of control over sovereign countries would have been both impractical and politically intolerable, although in the exceptional case of Greece this degree of

¹See Brown and Opie, op. cit., p. 188-189, for a fuller discussion of the principle of substitutability as it was applied in the European Recovery Program.
control was approximated. American control over the expenditure of aid funds had the greatest influence and effect in those countries where American aid constituted a relatively large proportion of the countries' total resources—where there were relatively fewer resources to "substitute", that is. Thus, American influence derived from this kind of control was substantial in Turkey but negligible in Great Britain.

When the limiting factor of substitutability was considered, it became probable that the Economic Cooperation Administration's control of aid funds was not its greatest means of influence on aided countries' economic actions and policies. Instead, more influence probably resulted from the continuous and widespread consultation and cooperation that took place between those countries and the Administration's missions to those countries. Such consultation and cooperation were, of course, imposed on aided countries as part of the total aid and recovery program, and lack of enthusiasm for this part of the program would most likely have resulted in a curtailment of aid. To this extent, the economic measures and policies which resulted from such consultation and cooperation could be said to have been conditions of American Marshall Plan aid.
The Interim Aid Program. In December 1947, Congress passed the Foreign Aid Act of 1947, which provided $530,000,000 of emergency relief assistance for Italy, Austria, and France. This aid was intended to meet critical relief needs in the interim before the European Recovery Program began operation. The conditions attached to that aid, both in the authorizing legislation and in the bilateral agreements under which the aid was extended, were generally the same as those attached to post-UNRRA relief assistance.¹

III. THE MUTUAL DEFENSE ASSISTANCE PROGRAM

During the period of the European Recovery Program, the United States and those nations which participated in the Program were preoccupied with the task of Europe's economic recovery. They also gave secondary attention, however, to the question of building up Western Europe's military forces. The precedence given to economic recovery reflected a belief that Communist subversion represented a more immediate threat to the Marshall Plan nations than did a Soviet military attack. It also indicated an awareness that economic recovery was a psychological

prerequisite to rearmament—that "people must be given something to fight for." Early in the recovery program, however, Western leaders came to feel that a certain amount of increased military preparedness was necessary for continued economic recovery. Secretary Acheson expressed this thesis when he advocated increased military preparedness in Western Europe, saying, in part:

... the restoration of political and economic health in Western Europe, so essential to our peace and security, requires on the part of the peoples of that area a confidence in the future, a sense of personal security, and a reasonable assurance of peace. If they do not have that confidence, their progress toward recovery and the establishment of self-supporting sound economies for strengthening democratic institutions will be handicapped.¹

A series of actions in 1948 and 1949 gave expression to the new emphasis on European defense. In March 1948, the United Kingdom, France, and the Benelux countries signed the Brussels Treaty, which contained a pledge of collective self-defense. Three months later, the United States Senate, obviously alluding to the recently concluded Brussels Treaty, passed the so-called Vandenberg Resolution, which declared that the United States Govern-

¹U.S. Department of State, Bulletin, XX (April 17, 1949), 493.
ment should pursue.

... progressive development of regional and other collective arrangements for individual and collective self-defense... [and] association of the United States, by constitutional process, with such regional and other collective arrangements as are based on continuous and effective self-help and mutual aid, and as affect its national security. 1

Subsequent discussions between the United States and the Brussels Treaty countries led to the development of the North Atlantic Treaty, which was signed on April 4, 1949, and approved by the Senate on July 21, 1949.

A vital part of any effort to build up European defenses was the provision of American aid for that purpose. The North Atlantic Treaty countries had asked for such aid several months before conclusion of the Treaty, and on July 25, 1949, President Truman requested Congress to appropriate $1,450,000,000 to provide military assistance to the North Atlantic Treaty countries and certain other nations during the fiscal year 1950. In speaking of the conditions which would be attached to this aid, the President said:

... Agreements will be executed with the respective nations, to provide for mutual assistance and to assure proper use of the equipment furnished. The recipient nations

1 Quoted from Senate Resolution 239, June 11, 1948, which is reprinted in U.S. Department of State, Bulletin, XIX (July 15, 1948) 79.
will be required to limit the use of the items supplied to the defense of agreed geographic areas, and will not be permitted to transfer them to other nations without the consent of the United States. The President shall be authorized to terminate our aid at any time. Aid will be terminated in the event that a recipient acts in a manner inconsistent with the policies and purposes of the program or with its obligations under the Charter of the United Nations.

Congress made the conditions recommended by the President a part of the Mutual Defense Assistance Act of 1949, which was approved on October 6 and which authorized approximately $1,300,000,000 of military assistance to North Atlantic Treaty members and other countries. Congress was more concerned, however, with making military aid to the North Atlantic Treaty countries conditional upon action by those countries to establish an "integrated" defense of the North Atlantic area. The aid legislation provided that nine-tenths of the assistance authorized the North Atlantic Treaty countries was to be extended only after the North Atlantic Council and Defense Committee had drawn up plans for an integrated defense of the North Atlantic area and only after the President had approved

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1 Quoted in U.S. Department of State, Bulletin, XXI (August 8, 1949), 186-189.

those plans. This requirement of the law was met in January 1950 when first the North Atlantic Council, and then President Truman, approved integrated defense plans drawn up by the North Atlantic Defense Committee. Congress' reason for imposing this major restriction was set forth in the report of the Conference Committee which considered the aid bill. That report read in part:

What is essential is that the planning that takes place among the North Atlantic nations be premised from the outset on the principle of unity of defense. That means differentiation of functions among the parts in relation to an all-inclusive unity.

Each nation must do its part, as determined by its position and its resources, in relation to the common security of all. No one nation in the group must aspire to perpetuate or expand its various military components for purely national considerations. Each must recognize its obligation to balance its forces in relation to the needs of the whole area in which common defense has been pledged. For some this may require submission to a secondary status in certain types of armament. For some it may require specialization in military activities that would not be preferred if a free choice were made on a purely national basis. All must be willing to give up those preferences which are characteristic of purely national defense but which are not in keeping with the common defense of the area. This principle of unity must be undertaken early and thenceforth rigorously applied.

As soon as possible, the essentials of the pattern of area defense based upon individual national specialization must be agreed to and

the assignments thereunder made. This principle must be riveted into the base of the North Atlantic defense structure. Once this pattern has been developed and agreed to, it must be the governing formula for the assistance program here envisaged. That is the intent behind the language which makes the bulk of the authorized assistance contingent upon recommendations, acceptable to the United States, for integrated defense of the North Atlantic area.¹

On January 27, 1950, bilateral Mutual Defense Assistance Agreements were entered into between the United States and each of the North Atlantic Treaty countries. In these agreements, the aided countries were required to reaffirm: (1) their North Atlantic Treaty pledges to maintain and increase their individual and collective ability to resist armed attack, and (2) their determination to seek the formation of United Nations Organization armed forces and the universal regulation and reduction of national armed forces. The agreements further provided that:

1. Aided countries would give economic recovery priority over rearmament.

2. All assistance extended under the agreements, would be (a) consistent with the United Nations Charter, (b) designed to promote the integrated defense of the

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North Atlantic area, (c) in accordance with the defense plans of the North Atlantic Treaty Organization, and (d) subject to the provisions and terms of the Mutual Defense Assistance Act.

3. Assistance would be used only for the purpose given, would be secured against loss and damage, and would not be transferred to other countries, without the consent of the United States.

4. Aided countries would facilitate the production and transfer to the United States of raw and semi-processed materials required by the latter as a result of deficiencies in its own resources.

5. The aid program would be publicized to an extent consistent with security.

6. Aided countries would furnish the United States local currency to cover administrative costs of the program.

7. No aid would be used for the purpose of constructing munitions and weapons factories.

The agreements also contained a most-favored-nation clause which assured that all North Atlantic Treaty nations would share in any concessions which one of them might receive in its Mutual Defense Assist-
When the Mutual Defense Assistance Act was amended on July 26, 1950, Congress provided that American military equipment could be sold to any country whose security the President deemed important to the security of the United States. Such countries were to agree, however, to use this military equipment only for maintenance of internal security, self-defense, or area defense. The amended law also stipulated that assistance was to be terminated in the case of (1) a North Atlantic Treaty country which was determined by the President, after consultation with the North Atlantic Council, to be making less than its full contribution to the defense of the North Atlantic area and (2) a non-North Atlantic Treaty country which was not making its full contribution to its own or area defense. In September 1950 Congress, taking account of the new situation created by the outbreak of war in Korea, added four billion dollars to the budget of the Mutual Defense Assistance Program.\(^3\)

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\(^1\)The Mutual Defense Assistance Agreements with the North Atlantic Treaty countries are contained in UST 1, 19, 34, 50, 69, 88, 106, and 126 (1950).

\(^2\)64 Stat. 373-377 (1950).

\(^3\)64 Stat. 1063 (1950).
In the period before the Mutual Security Program, limited amounts of military aid were either granted or sold to several small Asian and Middle Eastern nations under the authority of the Mutual Defense Assistance Act. In connection with the receipt of this aid, these nations were required to give the same assurances as the aided North Atlantic Treaty countries gave except those which were related to the North Atlantic Treaty and to joint defense.

IV. REAPPROACHMENTS

Beginning generally in 1948, the United States began to make reapproachments to several nations which it had largely excluded, for political reasons, from its program of post-war foreign aid up until that time. The reason for these reapproachments was that whatever objections the United States might have had against those nations in 1948, they were now potential allies in the fight against world Communism. One of the results of such reapproachment was the extension of various kinds of American aid to the countries concerned.

Germany and Japan. Germany and Japan were recipients of large scale American relief assistance after the end of the war. Such relief was administered by the
American occupation forces, and its stated purpose was
to aid in the prevention of "disease and unrest" which
might interfere with the occupation. Such aid was ad-
ministered in accordance with whatever conditions the
occupation authorities from time to time prescribed;
and its cost constituted a future claim against whatever
governments might be eventually established in those
countries. The replacement of this program of minimum
relief assistance with a program of substantial recon-
struction and recovery assistance coincided with the
American re-evaluation of Germany and Japan's "enemy
complex".

In August 1947, the United States, Great Britain,
and France met to discuss a revision in the allowed level
of German industrial production. The following March,
those countries agreed to the future establishment of
German self-government, revival of the Ruhr's productive
capacity under international control, and German partic-
ipation in the European Recovery Program. In July 1949,
economic cooperation agreements were entered into
between the United States and the military governors of
the Western occupation zones. These agreements were
identical with those of other Marshall Plan countries
except that all aid furnished was to be paid for with
proceeds from future German exports "... at the
earliest practical time consistent with the rebuilding of the German economy on healthy, non-aggressive lines. In April 1949, the Western occupying Powers made arrangements for carrying out their pledges of a year earlier. German parliamentary elections were held in August; Germany became a member of the Organization for European Economic Cooperation at the end of October; the Western powers revised their dismantling policy in November; and on December 15, the Federal Republic of Germany signed an economic cooperation agreement with the United States. The December agreement retained the requirement that Germany pay for its Marshall Plan assistance out of future export proceeds; and it obligated the Federal Government to provide economic aid to West Berlin.

The signal to start reversing the United States' "ex-enemy" economic policy toward Japan came in January 1949 when the Supreme Commander directed Japan to conduct an economic stabilization program comparable to that of Marshall Plan countries. In May the United States terminated Japanese reparations payments. In November 1950, the Gordon Gray Report on Foreign Economic Policy recommended that the United States include Japan in its

foreign assistance program.¹

Spain. Pressure to end the American "cold-shoulder" policy toward Spain came largely from those who felt that Spain was ideally suited for the establishment of American air and sea bases. In 1949 an attempt was made to amend the Foreign Aid Appropriation Act by requiring that fifty million dollars of Marshall Plan funds be set aside for a loan to Spain. The Administration strongly opposed this proposal to aid a country which was not a participant in the European Recovery Program, and the amendment was defeated on the Senate floor. A similar move to include a one hundred million dollar loan to Spain in the Foreign Economic Assistance Act of 1950 was likewise defeated in face of Administration opposition.²

Finally, however, in the summer of 1950, Congressional supporters of a Spanish loan met with success. The Senate amended the Foreign Aid Appropriation Act of 1951 to provide for a one hundred million dollar Treasury loan to Spain to be administered by the Economic Cooper-

¹The Summary and Recommendations of the Gray Report are printed in U.S. Department of State, Bulletin, XXIII (November 27, 1950), 844-852.

²Brown and Opie, op. cit., p. 423.
Administration under the credit terms provided in the Economic Cooperation Act; the amount of the loan was reduced to $62,500,000 in the Conference Committee.\(^1\)

Subsequently, individual credits totaling this sum were allocated and extended by the Export-Import Bank; Spain was not required to sign a bilateral agreement in connection with these credits.\(^2\) In November 1950, the United States supported a successful move in the General Assembly to repeal the United Nations ban on diplomatic relations with Spain. The Administration maintained, however, that this action did not constitute American approval of the policies of the Franco Government. Nine months later, in August 1951, an American military survey team was dispatched to Spain as a prelude to Spanish participation in the Mutual Security Program.

Yugoslavia. The most significant of the American reassessments of this period was the one with Yugoslavia, whose post-war relations with the United States had been more consistently poor than those of any of the other Russian satellites. Yugoslavia was expelled from the Cominform on June 28, 1948. Three weeks later, on July

\(^{1}\) 164 Stat. 758 (1950).

\(^{2}\) U.S. Department of State, Bulletin, XXIII (November 27, 1950), 856.
19, the United States and Yugoslavia reached agreement on settlement of the latter's long outstanding wartime lend-lease account and other claims. The cash settlement was facilitated by the Treasury's action in unblocking Yugoslav assets in the United States, including forty-seven million dollars worth of gold.¹

During 1949, Yugoslavia's relations with Russia and the Eastern European satellites steadily deteriorated, culminating, in September, with Russia's denunciation of her treaty with Yugoslavia and, in November, with the Cominform's call for overthrow of the Tito Government.

In September, the Export-Import Bank made its first loan to Yugoslavia—a twenty million dollar credit for purchase of equipment needed to maintain and expand Yugoslav production of nonferrous metals.² In March 1950, the Export-Import Bank extended Yugoslavia another twenty million dollar loan for general economic development purposes; and in August 1950, still another Export-

¹The settlement agreements are contained in 62 Stat. 2133 and 2658 (1948). The Treasury action was announced in U.S. Department of State, Bulletin, XIX (August 1, 1948), 137.
Import Bank loan--of fifteen million dollars--was provided. 1

In the autumn of 1950, Yugoslavia faced a severe food shortage as a result of a drought that summer. The United States estimated that Yugoslavia would have to import seventy-five million dollars worth of food before the next harvest in order to cope with this crisis. In November, President Truman responded to Yugoslav appeals for help by: (1) making available sixteen million dollars of Mutual Defense Assistance Act Funds to provide food for the Yugoslav army, (2) authorizing the Economic Cooperation Administration to reimburse Italy and Germany for making emergency wheat shipments to Yugoslavia, and (3) authorizing Yugoslavia to use part of its fifteen million dollar Export-Import Bank credit for the purchase of food. 2 The President supplemented these emergency steps by asking Congress to provide Yugoslavia with thirty-eight million dollars worth of additional emergency food supplies. Throughout the Congressional hearings on this request, the Administration stressed the international political re-orientation which Yugoslavia had undergone

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1 Export-Import Bank of Washington, Tenth and Eleventh Semiannual Report(s) to Congress, pp. 9, 11, respectively.

2 U.S. Department of State, Bulletin, XXIII (December 4, 1950), 879.
during the previous two years. When Congress enacted the Yugoslav Emergency Relief Assistance Act of 1950 in December, it stipulated that the Yugoslav aid be extended under a bilateral agreement which would include the following provisions:

1. The Yugoslav Government was to furnish local currency to cover administrative costs of the aid program.

2. The assistance program was to be given full and continuous publicity within Yugoslavia through the use of the press, radio, and other available media; and the United States was to be allowed to use these informational media to the extent required to accomplish the goal of full and continuous publicity.

3. United States representatives were to observe and supervise the distribution of aid; for this job they were to be granted full freedom of movement and access to communication and informational facilities.

4. American aid, together with similar commodities produced locally or otherwise imported, was to be equitably distributed without discrimination as to race or political or religious belief.

5. If any aid were sold, the local currency derived therefrom was to be used to provide relief to needy persons and children and for charitable, medical and such other purposes as might be mutually agreed upon.
by the two governments.

6. The Yugoslav Government was to take all appropriate economic measures to reduce its relief needs, to encourage increased production and distribution of food stuffs within Yugoslavia, and to lessen the danger of similar future emergencies.¹

The aid legislation also stated that:

... Nothing in this Act shall be interpreted as endorsing measures undertaken by the present Government of Yugoslavia which suppress or destroy religious, political and economic liberty, and the Yugoslav Government shall be so notified when aid is furnished under this Act.²

The Secretary of State was required to include in quarterly reports to Congress on the aid program "... information as to any developments in the attitude of Yugoslavia with regard to basic human rights ... ." Aid was to be terminated if "... because of changed conditions, continuance of assistance is unnecessary or undesirable, or no longer consistent with the national interest or the foreign policy of the United States. ... ."³

In February 1951 Tito declared Yugoslavia's willingness to resist aggression anywhere in Europe if

¹ 64 Stat. 1122-24 (1950).
² 64 Stat. 1123 (1950).
³ Ibid.
Yugoslav independence were threatened thereby. In April, President Truman made available to Yugoslavia a further twenty-nine million dollars of mutual defense assistance funds for the purchase of raw materials needed for the Yugoslav military program. This aid was extended under the usual type of mutual defense assistance agreement. Further large-scale aid to Yugoslavia continued under the Mutual Security Program begun in October 1951.

China. Beginning in 1947, Congress began to apply pressure to secure a reversal of the Administration's policy of denying large-scale recovery aid to China until after the initiation of desired political reforms in that country. At Congressional insistence, China was included in the 1947 post-UNRRA relief assistance program of the United States. Relief aid was extended to China under an agreement identical with those entered into by European recipients, except that the Chinese Agreement required the establishment of price control and rationing programs "...in such major urban centers as circumstances permit..."¹ It was this need to establish price control and rationing systems that delayed commencement of relief operations in China for five months.² Under the Interim Aid Program approved

²Brown and Opie, op. cit., p. 328.
in December 1947, China was furnished further relief assistance on the same terms as aided European countries.

Yielding to Congressional pressure for the extension of large-scale recovery assistance to China, President Truman recommended in February 1948 that $570,000,000 be appropriated for the purpose of granting economic and military assistance to China during the fifteen months ending on June 30, 1949. In making this request, he said:

"... We have hoped for conditions in China that would make possible the effective and constructive use of American assistance in reconstruction and rehabilitation. Conditions have not developed as we had hoped and we can do only what is feasible under circumstances as they exist.

... Nothing which this country provides by way of assistance can, even in small measure, be a substitute for the necessary action that can be taken only by the Chinese Government."

In the Foreign Assistance Act of 1948, which authorized the European Recovery Program, Congress also provided $463,000,000 of aid for China. Of this amount, $125,000,000 was to be reserved for military assistance, which was to be extended without any conditions being attached; the absence of conditions was meant to free the

1Quoted in U.S. Department of State, Bulletin, XVIII (February 29, 1948), 269-270.

United States from any moral responsibility for subsequent military developments in China.\textsuperscript{1} The conditions attached to the extension of economic aid were generally the same as those which applied to the European Marshall Plan countries, except that considerable emphasis was placed upon the terms and conditions under which consumption goods were to be distributed to the Chinese people.\textsuperscript{2} Both the aid legislation, and a subsequent separate agreement between the United States and China provided that a Joint Commission on Rural Reconstruction in China be established to formulate and carry out a program of rural improvement in China. The Commission was to be responsible not to the Chinese Government but to the American Economic Cooperation Administrator. Ten per cent of the economic aid funds allotted China were reserved for the Commission's use.\textsuperscript{3} The American aid program which began in China in 1948 made considerable progress with regard to relief assistance and the rural reconstruction program. The proposed industrial recon-

\textsuperscript{1}Brown and Opie, op. cit., pp. 346-347.

\textsuperscript{2}For the text of the economic aid agreement between the United States and China, signed July 3, 1949, see 62 Stat. 2945-2981.

\textsuperscript{3}62 Stat. 159 and 3139-3256 (1948).
struction program was abandoned at the end of 1948, however, because of the imminent Communist threat. ¹

When the Nationalist Government withdrew to Formosa in 1949, the American economic assistance program was transferred to that island. After outbreak of the Korean war, the United States also began a military assistance program to Formosa.

V. ATTENTION TO THE UNDERDEVELOPED AREAS

Prior to 1950, the economically underdeveloped areas of the world played a very small role in the United States' post-war foreign aid programs. This small role resulted largely from the decision of the United States to give Europe precedence in the receipt of American aid. Not only was the need felt to be greater in Europe than elsewhere, but European recovery was regarded as a necessary prerequisite to recovery in other parts of the world, especially in the underdeveloped areas. This latter theory was based on the close economic relationship which had existed between Europe and the underdeveloped countries before the war. The vastly different treatment afforded the European and the underdeveloped

nations in the American aid program did not go without protest from the latter countries. The Latin American nations were especially critical of what they felt was an American disregard for the economic problems and development aspirations of the underdeveloped countries. By 1949 the protests of the underdeveloped nations were being made against a background of growing Communist-led rebellions in Asia. This latter fact prompted the United States to show increased interest in the underdeveloped areas. In "Point Four" of President Truman's 1949 inaugural address, this interest was translated into a proposal for increased aid. By the end of 1950, the place of the underdeveloped countries in the American foreign aid program had become firmly established. The aid extended to underdeveloped nations was generally of small magnitude and usually had relatively few conditions attached to it.

Aid prior to "Point Four". The exceptional instances where underdeveloped nations either received or were considered for substantial American assistance prior to 1950 are summarized below.

The aid which the Philippines was extended under the 1946 Philippine Rehabilitation Act and the obligations which that country was required to accept as a result have
already been discussed. ¹ In the latter part of 1946, the Philippine Government asked for further American aid in the form of substantial budgetary and rehabilitation loans. The United States responded to this request by suggestion that a joint Philippine—American Finance Commission be appointed to make a study of Philippine needs. In December, a Commission composed of three members from each country was appointed and began its study. In its report made public on July 8, 1947, the Commission said that the Philippines would not need American assistance if it followed a program recommended by the Commission. That program generally called for: (1) greatly accelerated production in the next few years, (2) increased taxation and internal borrowing to meet Government expenses, (3) enforcement of the tax laws, (4) monetary and banking reforms to provide flexible credit under the control of a Central Bank, and (5) control over imports. As a consequence of the Commission's report, no American aid was extended.² That there would be Philippine misgivings with this outcome was assured by Vice President Quirino's speculative announcement in May

¹See pp. 26-28 above.

²The Commission's report is summarized in U.S. Department of State, Bulletin, XVII (July 20, 1947), 146-147.
1947 that the Joint Commission had agreed to recommend a fifty million dollar American grant to the Philippines. ¹

Responsibility for aiding Korea devolved upon the United States from the fact that American troops had freed the southern half of that country from Japanese control. Korea subsequently became the recipient of American aid under the program of government and relief in occupied areas. When Russian opposition frustrated action to establish a unified, independent Korea in accordance with the pledges made at the Cairo and Moscow Conferences, the United States decided to seek the establishment of a South Korean Government. In May 1948, elections were held in South Korea under United Nations auspices, and subsequently a South Korean Government was established. In December 1948, the United States signed an economic cooperation agreement with the new Korean Government, thus transferring the administration of American aid from military to civilian channels. The conditions attached to the Korean aid differed in three important respects from those imposed upon the European recipients of Marshall Plan aid:

1. The Korean Government was required to establish rigid controls over foreign exchange expenditures, including establishment of an export-import licensing system;

and foreign exchange allocations and expenditures were to be made only with the concurrence of members of the American aid mission.

2. The distribution of relief-type supplies was to be subject to controls similar to those provided under the 1947 Post-UNRRA Relief Program of the United States.

3. The aid Agreement stipulated that, pending conclusion of a Korean-American trade treaty, most-favored-nation treatment should apply to commercial relations between the two countries.\(^1\)

The Latin American nations were most vocal in protesting the secondary place assigned to the underdeveloped nations in post-war American aid programs. After the Export-Import Bank concluded its reconstruction lending program in 1946, the Latin American countries increasingly regained their prewar place of prominence in the Bank’s operations. The amount of aid which the Bank could provide, however, could not begin to meet those countries’ demands for large-scale development capital. In April 1948 President Truman asked Congress to increase the lending authority of the Export-Import Bank by five hundred million dollars to provide capital for economic

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\(^1\)62 Stat. 3780-3797 (1948).
development in Latin America. It was not until the beginning of the Mutual Security Program, however, that Congress increased the Bank’s lending authority—in order to finance the development and production of raw materials needed for the rearmament program.

Colonies and other dependent territories of European Marshall Plan countries were aided as part of the European Recovery Program. The Netherlands was also granted a one hundred million dollar Export-Import Bank reconstruction loan for use in Indonesia, but this credit was suspended in December 1948 when the Dutch launched a military attack in Indonesia in violation of the truce which had been arranged in that country.

The "Point Four" Program. The signal for the United States to begin affording more attention to the economic problems and development aspirations of the underdeveloped countries came dramatically in the form of "Point Four" to President Truman’s January 1949 inaugural address. The President proposed that the United States, in cooperation

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3 U.S. Department of State, Bulletin, XXI (September 26, 1949), 449.
with other nations, provide technical assistance and foster capital investment in areas needing economic development.¹ The President's proposals were made against the background of growing Communist-led rebellions in Indochina, Malaya, Burma, Thailand, and the Philippines. In June, when the President asked Congress for legislation to implement his "Point Four" proposals, he warned that the underdeveloped countries might pass under Communist control if the United States failed to aid them.²

Congress did not act on the "Point Four" proposals in 1949. The Economic and Social Council of the United Nations, however, responded favorably to an American proposal that the Council study the question of enlarging United Nations technical assistance activities. In November 1949, the General Assembly approved the Council's recommendations for a $35,800,000 United Nations Expanded Technical Assistance Program.³ Initiation of the Program, however, had to await receipt of special financial

¹ For the text of the President's inaugural address, see U.S. Department of State, Bulletin, XX (January 30, 1949), 125.

² For the text of the President's message to Congress on June 24, 1949, see U.S. Department of State, Bulletin, XXI (July 4, 1949), 862-865.

contributions from United Nations members, especially the United States.

Congress finally implemented President Truman's "Point Four" proposals when it approved, in June 1950, the Act for International Development. That act authorized expenditure of thirty-five million dollars for a program of technical assistance, including the American contribution to the United Nations Expanded Technical Assistance Program. The Act stated that the United States would encourage

... the exchange of technical knowledge and skills and the flow of investment capital to countries which provide conditions under which such technical assistance and capital can effectively and constructively contribute to raising standards of living, creating new sources of wealth, increasing productivity, and expanding purchasing power ... .

In order to secure the most effective utilization of American resources available for development aid, the United States Government agencies to which requests for technical assistance would be made were directed to consider

... (1) whether the assistance applied for is an appropriate part of a program reasonably designed to contribute to the balanced and integrated development of the country or area

164 Stat. 204 (1950).

Ibid.
concerned: (2) whether any work or facilities which may be projected are actually needed in view of similar facilities existing in the area and are otherwise economically sound; and (3) with respect to projects for which capital is requested, whether private capital is available either in the country or elsewhere upon reasonable terms and in sufficient amounts to finance such projects. . . .

The Act for International Development further instructed that an aid program was to be undertaken in any country only if that country:

1. Pays a fair share of the cost of the program.
2. Provides all necessary information concerning such program and gives the program full publicity.
3. Seeks to the maximum extent possible full coordination and integration of all technical cooperation programs being carried on in that country.
4. Endeavors to make effective use of the results of the program.
5. Cooperates with other countries participating in the American technical assistance program by undertaking mutual exchange of technical knowledge and skills.\(^2\)

The Act encouraged aided countries to increase the flow of foreign private investment by affording "fair treatment" to foreign investors. Such investors were to

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\(^1\) Ibid., pp. 204-205.  
\(^2\) Ibid., p. 206.
be afforded (1) assurance against deprivation of property without prompt, adequate, and effective compensation, (2) reasonable opportunity to remit earnings and withdraw capital, (3) reasonable freedom to manage, operate, and control their enterprises, (4) security of person and property, and (5) non-discriminatory treatment regarding taxation and business regulations.

The first bilateral agreement signed under the "Point Four" program was one with Iran, which provided for the United States to assist Iran in a program of rural improvement. However, the agreement signed with Ceylon on November 7, 1950, was the one which became a pattern for subsequent technical cooperation agreements under the "Point Four" program. That agreement, referred to as the first "standard general agreement", provided for a program of American aid "... designed to contribute to the balanced and integrated development of the economic resources and productive capacities of Ceylon . . . ." In the agreement Ceylon gave the assurances required by the Act for International Development regarding cooperation with other countries, coordination of

1 Ibid., p. 204.
2 27 UST 727 (1950).
3 724 (1950).
programs, cost sharing, consultation with the United States, publicity for the program, and use of the program's results. Ceylon was not required, however, to give assurances regarding "fair treatment" of foreign investors.\(^1\) On December 27, 1950, a "standard general agreement" was signed with India.

**Economic aid other than "Point Four".** Following President Truman's declaration of the "Point Four" principle in January 1949, the United States extended assistance other than "Point Four" aid to certain underdeveloped countries. Export-Import Bank loans were made to several Latin American countries, Israel, Saudi Arabia, Iran, Afghanistan, and Indonesia. The one hundred million dollar loan to Indonesia was made in fulfillment of a State Department pledge, given in September 1949 and reaffirmed in December of that year, to sympathetically consider Indonesian requests for financial aid if the question of that country's future political status could be peaceably resolved in negotiations with the Dutch.\(^2\)

In 1950, Congress authorized the expenditure "in

\(^1\) UST 723-726 (1950).

\(^2\) U.S. Department of State, Bulletin, XXI (September 26, 1949), 450 and XXI (November 14, 1949), 752-753.
certain areas of China of funds remaining unspent from the China Aid Act of 1948.\(^1\) Any aid extended to Korea, however, was to be terminated:

\[\ldots\text{in the event of the formation in the Republic of Korea of a coalition government which includes one or more members of the Communist party or of the party now in control of the government of northern Korea.}\ldots\] \(^2\)

As a result of this Congressional action, American economic aid was extended to Korea, Burma, Thailand, Indonesia, and the States of Indochina. This aid was extended under bilateral economic cooperation agreements, which stipulated conditions similar to those contained in the agreements signed by European recipients of Marshall Plan aid.\(^3\)

A disagreeable atmosphere surrounded the question of American aid to two underdeveloped countries—Korea and the Philippines—in 1950. In April 1950, the United States threatened to curtail its aid to Korea because (1) it felt that the Korean Government had taken an irresponsible attitude toward inflation and (2) it disapproved the Korean Government’s proposal to postpone the 1950 general elections for six months. In a severely critical note of April 3, the United States said that growing inflation

\(^1\) 64 Stat. 5-6 (1950).

\(^2\) Ibid., p. 5.

\(^3\) See, for example, the agreement with Burma in 1 UST 668-684 (1950).
would impair Korea's ability to effectively utilize American aid and that the extension of such aid had been predicated upon the existence and growth of democratic institutions in Korea. "Free popular elections, in accordance with the constitution and other basic laws of the Republic," the note said, "are the foundation of those democratic institutions."¹ The outbreak of war in Korea precluded a showdown on the issues involved.

Philippine requests for further American assistance, which had been denied in 1947, continued to persist until 1950. On June 29, 1950, President Truman announced that the United States was sending an American Economic Survey Mission to the Philippines at the request of President Quirino. The Mission was to be headed by Daniel W. Bell, President of the American Security and Trust Company of Washington. It was to survey the entire Philippine economic situation and to make recommendations for Philippine action to meet what had apparently become an economic crisis in that country. It was also to consider whether American aid should be extended to the Philippines.² The Mission's report, made public in

¹The text of the note is reprinted in U.S. Department of State, Bulletin, XXII (April 17, 1950), 602.

²U.S. Department of State, Bulletin, XXIII (July 17, 1950), 117-118.
November 1950, bore a striking likeness to that of the 1947 American Economic Survey Mission to Greece.¹

The report of the Philippine Mission, commonly called the Bell report, described the Philippine economic situation as one which threatened inevitable economic deterioration and political disorder unless remedial action were taken. It was highly critical of the Philippine Government's management of the economy since the war's end. It recommended that American aid be extended to help meet the situation but that such aid be conditioned on the Philippine Government's willingness to carry out, with the assistance of an American technical mission, all the economic reforms recommended by the Mission. The scope of those reforms approximated the scope of those which Greece was required to carry out as a condition of receiving American aid in 1947.² Thus, after four years, the conditions attached to American aid to the Philippines once again marked the high point of

¹See pp. 71-75, above, for the findings and recommendations of the Mission to Greece and for a summary of the measures which the Greek Government was required to take as a condition of receiving American aid.

²The summary and recommendations of the Bell report are contained in U.S. Department of State, Bulletin, XXIII (November 6, 1950), 724-726.
American interference in the domestic affairs of an aid recipient.
CHAPTER IV

SUMMARY AND CONCLUSIONS

The summary and conclusions of the foregoing study, together with a recommendation for further study, follow.

I. SUMMARY

The earliest post-war foreign assistance of the United States was extended at a time when the American Government believed that the post-war world would be characterized by an aura of international good-feeling based upon the continuation of cooperation between the great wartime Allies. Consequently, political criteria had little place in determining eligibility for this early aid. With the obvious exceptions of China, Spain, Yugoslavia, and some of the former Axis states, American aid was extended to those countries which were felt to be in greatest need. When conditions were attached to this earliest aid, they were meant to facilitate the establishment of a free, multilateral world commercial system, which was to complement international political cooperation.

When the expected aura of international cooperation was replaced in practice by a world tragically divided
between Communist and anti-Communist forces, the United States felt that the "free" nations of the world were threatened by Soviet inspired Communist subversion. Consequently, American reconstruction lending, and even relief assistance, were quickly enlisted in the fight against this Communist threat. The Truman Doctrine officially proclaimed that the United States would aid free countries to build up their economies and raise the standards of living of their peoples in an effort to maintain their freedom and independence against subversive Communist forces. Just as the Truman Doctrine indicated that the United States might provide large-scale grant aid to assist the recovery efforts of free nations, so did the aid to Greece under that Doctrine indicate that the United States was willing to impose whatever conditions it felt necessary to achieve the purpose of its aid. The conditions which were subsequently attached to Marshall Plan aid generally required the recipients to take economic measures which the United States felt were essential to European economic recovery. Expressions of doubt about the merit of some of these conditions—and of others proposed but rejected—were typified by Marshall's warning against "... conditions which would, in effect, destroy the whole moral justification for our cooperative assistance ..."
The principle of requiring aid-recipients to undertake obligations which the United States felt essential for accomplishment of the aid's purpose was carried into the Mutual Defense Assistance and "Point Four" programs. The conditions attached to technical assistance, however, were not so extensive as those attached to other types of aid, a fact which reflected recognition of the relatively small size of such aid and the extreme sensitivity of the aided countries.

II. CONCLUSIONS

The conclusions which follow are those which the writer has derived from the foregoing study. They are concerned with three aspects of the conditions which were attached to American foreign aid from 1945 to 1951: (1) the motives for such aid and its attendant conditions, (2) the necessity for conditions, and (3) contradictory conditions.

The motives. There were three principal motives for the extension of American foreign assistance in the period from the end of the war to the beginning of the Mutual Security Program. They were: (1) humanitarianism, (2) a desire to simultaneously promote world peace and benefit the American economy through expansion of world
trade, and (3) a desire to halt Communist expansion. The conditions which were attached to that aid were usually meant to directly or indirectly serve these same motives. Humanitarianism was undoubtedly the principal motive of the earliest post-war American relief and reconstruction aid. The decision to require acceptance of American commercial policy in turn for the receipt of American reconstruction loans was considered by the State Department as being a case where the goal of multilateralism was so impeccable as to justify exploitation of the critical needs of aid recipients. The question of whether this viewpoint was a proper one became academic when the necessary prerequisites for multilateralism failed to develop. The judgment, rather than the morals, of the United States was thus impeached.

As long as there was doubt whether world Communism represented a potential threat to the security of the United States, there was also uncertainty and disagreement about employing political criteria in choosing the recipients of American aid. Once it had been decided, however, that American security was at stake, there was little room for criticizing a policy of using American aid to strengthen potential allies against potential enemies.
The necessity for conditions. After it had been decided to deny American aid to nations in the Russian sphere of control, the question arose as to whether there was justification for attaching conditions to aid which the United States gave its "friends". Generally, the justification offered for such conditions was that they were necessary to accomplish the purpose of the aid. The American experience with UNRRA and with Greece, Korea, and the Philippines tended to confirm the necessity of such conditions. American experience with the European Recovery Program, however, revealed that consultation and cooperation might be more effective than conditions in securing the purpose of American assistance. Moreover, many of the conditions attached to Marshall Plan and subsequent aid were in the nature of "statements of policy" rather than specific requirements for action. Such "preaching" ran the danger of generating resentment without obtaining the desired results.

The divergent nature of the American experience with aid programs in Greece and the United Kingdom, for example, argued for reserving judgment as to the conditions to be imposed in connection with aid to any particular country.

Contradictory conditions. The United States
required some recipients of its early reconstruction loans to subscribe to, and even implement, American commercial policy. Later, Marshall Plan aid and most of the conditions attached to that aid were designed to promote European economic recovery to the point where the aided countries would no longer need American assistance. Achievement of both multilateralism and European self-sufficiency, however, required that the United States take action to permit the rest of the world to earn many more American dollars. Such American action did not materialize to the extent needed, however, and this was largely responsible for the failure to achieve either multilateralism or European self-sufficiency.

Even the "special interest" conditions written into the Economic Cooperation Act contradicted the stated purpose of that Act—the requirements that aid recipients use American shipping and American flour but not use aid funds to advertise their products in the United States. The requirements that Export-Import Bank loans be used only for purchase of American products had the same contradictory effect.

Other apparent contradictions in the American aid program must be accepted as inevitable consequences of the international political situation. Such was the
contradiction of aiding dictators under the provisions of a law whose preamble said that such aid was given for the purpose of preserving freedom. Such, too, was the contradiction of using American aid to simultaneously encourage both multilateralism in world trade and economic regionalism in Europe. Likewise, there was no doubt that making American aid conditional on curtailment of East-West trade had a detrimental effect on the economies of aided countries. At the same time, however, it was desirable to inflict the corresponding detrimental effect on the Communist countries which were also deprived of trade.

III. RECOMMENDATION FOR FURTHER STUDY

This study has been concerned with the conditions attached to American post-war aid during the formative period of that aid. It would be a logical and profitable step, in the opinion of the writer, to extend this study to the period of the Mutual Security Program, which began in 1951 and has continued to the present. The writer has made a preliminary survey of this latter period, which was characterized by (1) increased emphasis on military assistance to countries in both Europe and Asia, (2) increased attention to the development aspirations of economically
underdeveloped countries, and (3) a fluctuating American attitude toward aiding "neutrals" in the cold war. The writer's survey indicates that the conditions attached to American aid during the period of the Mutual Security Program clearly had their genesis in those conditions attached to American foreign aid between 1945 and 1951. This was true, for example, in the important instances, after 1951, when American assistance was made dependent upon (1) curtailment of recipients' trade with the Soviet sphere in accordance with the Mutual Defense Assistance Act, (2) ratification by Western European countries of the European Defense Community, and (3) abandonment by Egypt of that country's program of large-scale arms purchases from the Communist sphere.

Because the period of American foreign assistance from 1945 to 1951 was a formative one with regard to the conditions attached to post-war aid, the foregoing study of this formative period should facilitate a study of the conditions attached to the most recent American foreign assistance.
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