

GARDNER PATTERSON
JACK N. BEHRMAN

Surveys of U.S.
International
Finance, 1950



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**SURVEY OF
UNITED STATES
INTERNATIONAL FINANCE
1950**

*INTERNATIONAL FINANCE SECTION
PRINCETON UNIVERSITY*

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SURVEY OF
UNITED STATES
INTERNATIONAL FINANCE
1950

BY
GARDNER PATTERSON
AND
JACK N. BEHRMAN

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS AND SOCIAL INSTITUTIONS
PRINCETON UNIVERSITY

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P R E F A C E

IN THE preface to the *Survey of United States International Finance—1949*, we stated that the document was an experiment and that the preparation of similar surveys for future years would depend on whether the first one proved of value as a source of reasonably current information and as a reference to persons seriously concerned with the international financial affairs of the United States. We have been encouraged to continue the work, but the project is still regarded as an experiment.

Our objective continues to be the modest one of orderly and accurate reporting. We have, therefore, except for an occasional footnote, refrained from any independent analysis of the many topics presented. There is, of course, need for rigorous analysis of the international policies and activities of the United States, and we hope this document may supply some of the raw material for such work. In an historical record such as this a source could be cited for every statement but such documentation was considered unnecessary. However, since this is a survey and no subject has been treated exhaustively, we have cited the more important sources—especially original documents—to aid those who wish more detailed information.

While an attempt has been made to include enough background material to make intelligible the 1950 record as here presented, we have not repeated the material presented in the previous *Survey*, and many references to the earlier study have therefore been made. By and large, this document is concerned only with the year 1950, but in a few cases developments during early 1951 have been included if they appear to qualify importantly or to complete actions taken during 1950. In a few instances material which became available after going to press has been inserted in summary form in brackets.

Again we would warn the reader that almost all statistics on international financial transactions are estimates and so are not only subject to considerable error but are frequently revised. In

P R E F A C E

preparing this survey we have included the latest estimates available at the time of correcting galley proofs, but further revisions will doubtless be made in much of the data, and readers desiring later estimates are advised to consult the issues dated after April 1951 of the various official reports cited as sources. For security reasons data published during the last half of 1950 have not been as detailed as previously.

In addition to the cooperation of members of the Department of Economics and Social Institutions of Princeton University, considerable assistance has been received from Mrs. Mary B. Fernholz of the International Finance Section, Miss Laura S. Turnbull, Curator of the Benjamin Strong Collection of the International Finance Section, and Miss Dorothea Collins, Librarian of the Pliny Fisk Library of Economics and Finance of the Princeton University Library. Several persons outside the University have been kind enough to check the various parts of the study for accuracy but they share no responsibility for the final document.

While this is a staff study and no section is entirely the work of one person, Mr. Jack N. Behrman is primarily responsible for Chapters I through IV and the undersigned for Chapters V and VI.

GARDNER PATTERSON, *Director*
INTERNATIONAL FINANCE SECTION

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ABBREVIATIONS FREQUENTLY USED

- CCC—Commodity Credit Corporation
ECA—Economic Cooperation Administration
ECOSOC—United Nations Economic and Social Council
EIB—Export-Import Bank of Washington
EPU—European Payments Union
ERP—European Recovery Program
Fund—International Monetary Fund
GARIOA—Government and Relief in Occupied Areas (Program)
GATT—General Agreement on Tariffs and Trade
GSA—General Services Administration
Gray Report—Report to the President on Foreign Economic Policies,
Washington, D.C., November 10, 1950
IBRD—International Bank for Reconstruction and Development
ICEF—United Nations International Children's Emergency Fund
IEPS—Intra-European Payments Scheme
IAA—Institute of Inter-American Affairs
IRO—International Refugee Organization
ITO—International Trade Organization
MDAP—Mutual Defense Assistance Program
NAC—National Advisory Council on International Monetary and Fi-
nancial Problems
NATO—North Atlantic Treaty Organization
OAS—Organization of American States
OEEC—Organization for European Economic Cooperation
PWDC—Philippine War Damage Commission
RFC—Reconstruction Finance Corporation
Survey—1949—Survey of United States International Finance—1949,
International Finance Section, Princeton University
UN—United Nations Organization

I N T R O D U C T I O N

AT THE beginning of 1950, most of the international economic and financial policies of the United States were directed toward solving what were regarded as transitional postwar problems. The broad policy objectives were (a) to "contain" Communism and encourage the growth of democratic political and social organizations by increasing the real income of peoples in the rest of the non-Communist world; and (b) despite many conflicts and inconsistencies, to foster throughout the world free convertibility of all currencies and a non-discriminatory trading system with a progressive reduction of all barriers to trade.

Most U.S. Government officials thought as the year began that nearly all public grant programs could and should be rapidly reduced. Aid under the European Recovery Program was to terminate in mid-1952 and expenditures were to be reduced sharply in the meantime, but it was anticipated that some \$2 billion would be needed for the final year. Grants to the occupied areas were also to be cut drastically and then terminated within the near future. The program for rehabilitating the Philippine economy was regarded as almost complete, and efforts were being made to terminate American contributions to the various international emergency relief projects. Except for a modest three-year program of economic reconstruction in Korea and the occupied areas program in Japan, there were no indications that the Government was planning anything other than token grants to the Far East and Southeast Asia. In 1949 official Washington had concluded that the military potential of the free world should be strengthened and a coordinated and long-term program of military aid—almost exclusively to Western Europe—had been inaugurated. But the expenditures authorized for the first year were only \$1.3 billion, and Administration officials stated that they hoped the first year's appropriation would be the largest.

While the bulk of the official economic assistance had been, and was planned to be, in Europe, the Administration had concluded

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in 1949 that the United States should embark on a "bold new program" for the improvement and growth of underdeveloped areas. Although it recognized that one of the benefits of such a program might be to increase the supply of strategic materials needed by the United States, this was not emphasized as much as the broad humanitarian aspect of helping others to help themselves and the objective of preventing these areas from turning to "false doctrines." However, the Executive Branch stated that this program was to involve only small amounts of grants from the Government and that the bulk of the foreign financial requirements were to be met from private sources. To this end, the Administration was working to remove the deterrents to a larger outflow of private long-term capital and was placing great emphasis on the desirability and possibility of an expansion in private American investment abroad. It anticipated that Government loans would continue to decline.

There was much discussion in the United States as the year began of the international reserve position of the sterling area, the problem of the accumulated sterling balances, and the restrictions being applied in the sterling area to sales of petroleum products by American companies. In Western Europe a major new policy was being evolved of encouraging the economic integration of the area. Those fostering such a "single mass market" argued that it would result in an increase in production and productivity which would not only permit higher standards of living but would also improve Europe's competitive position vis-à-vis the rest of the world and so prepare her for the time when the European Recovery Program would end.

At the beginning of 1950, United States officials were, by and large, pleased with the extensive currency devaluations of September 1949, believed that except in rare cases fixed rates were preferable to fluctuating ones, and urged the International Monetary Fund to guard against its resources being used as long-term loans and to devote increasing attention to encouraging the relaxation of exchange restrictions. The Administration continued to hold to a policy of a fixed price for gold, of a willingness to buy whatever quantities were offered at that price, and of limiting international transactions in gold to those between central monetary authorities.

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There was much concern in both official and private circles at the beginning of the year lest the planned curtailment of Government aid to foreign countries result in large reductions in American exports, bringing unwanted domestic and international consequences. To prevent this, and to help achieve the long-term goals of expanding world trade and of freeing it from government interference, the Administration was taking steps at the beginning of the year to obtain Congressional ratification of the ITO Charter, to simplify United States customs procedures, to participate in a third round of tariff negotiations under the GATT, to directly encourage Europe to increase its exports to the United States, and to simplify American export controls and reduce the number of commodities subject to license. Although security considerations dominated the stockpiling program, it was far behind schedule and an increase in the rate of foreign purchases was being urged by many—in the United States and abroad—as an effective way of increasing the dollar earnings of foreign countries. Much of the Congressional discussion on the subject was in terms of the threat of imports of strategic and critical materials to domestic producers.

In contrast with the situation at the beginning of the year, after the outbreak of war in Korea, United States international economic and financial policies were being determined and activities were being carried out in a setting of intensive rearmament and mobilization, and by the end of 1950 many of the problems appeared all too similar to prewar ones rather than those of a post-war transition. As a result, some of the policies followed at the beginning of the year had been abandoned, others were being pursued more vigorously, still others were unchanged, and several new ones had been inaugurated. The following chapters attempt to describe these developments and the specific reasons for them.

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INTRODUCTION

IN response to the deteriorating international political and military situation, major shifts in the purposes and direction of aid were recorded in the various foreign grant programs of the U.S. Government during 1950. Previous hopes that foreign grants would decrease rapidly were abandoned. Net new grant funds provided by Congress for fiscal year 1951 exceeded by almost three-quarter billion dollars those authorized for the previous year and the preliminary estimates of requests to Congress for fiscal 1952 were almost \$2 billion over 1951. Actual net disbursements fell to \$4.1 billion in 1950 from the \$5.1 billion recorded in the previous year as several new programs were begun and old ones were tapering off. These aggregates hide the shift away from aid for economic recovery to financing military preparedness abroad and the increased attention being given to Southeast Asia.

The most important change, with respect to Europe, was the sharp curtailment of European Recovery Program activities and the beginning of large-scale assistance under the Mutual Defense Assistance Program. The shift from recovery to rearmament was also evidenced in the extension of direct grants to Yugoslavia, frankly designed to "purchase" support of the thirty odd Yugoslav divisions, and in the authorization of a loan to Spain.

The war in Korea interrupted aid from ECA to that country and stopped all assistance to mainland China but accelerated both economic and military aid to Southeast Asia—an area to which the United States had previously given comparatively little attention. Aid to Japan was reduced during the year as production increased; only economic assistance was provided since her military role was as yet undetermined. The Philippine rehabilitation program was virtually completed in 1950, but plans were under way to start a new five-year program of economic aid.

Early in the year the United States sought to end all strictly

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foreign-relief programs. Specifically, it urged the early termination of the existing International Children's Emergency Fund and the International Refugee Organization and favored the curtailment of the relief aspect of aid to Palestine refugees, though it supported an expansion of the United Nations public works assistance program there. Following the invasion of Korea, however, the United States supplied relief to that country through the Army and actively supported a large UN program for Korean relief and rehabilitation. It continued participation in a variety of international organizations (permanent and temporary) dealing with economic, cultural, and scientific relations.

Private remittances during the year were again small, totalling (net) \$439 million.

The uncertainty as to the purpose and direction of official grants to foreign areas in 1951-1952 was evidenced in the January 1951 Budget Message of the President in which he stated that he would request Congress to provide \$9.7 billion but that details would be submitted later. He had not done so when this document went to press.

A. EUROPEAN RECOVERY PROGRAM

Legislative Issues and Changes

Congressional hearings on extending the Economic Cooperation Administration for a third year were begun in February 1950. The import of the opening presentations of both Secretary of State Acheson and ECA Administrator Hoffman, as well as of the various ECA mission chiefs, was that recovery in Europe was "spectacular" but that it was not yet completed and the United States should buttress her further against the onslaught of Communism. All Administration witnesses before the Committees emphasized the intent to complete the program in 1952 and as evidence of this stated that requests for authorizations were scheduled to be reduced yearly. So great was the desire of the Congressional Committees to reduce expenditures that they requested repeated assurance on this point, and Senator Connally stated at the outset that ". . . it is entirely appropriate that we begin to cut back, with a view to teaching, or suggesting to the Europeans that they accommodate their economy to what

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they may expect. . . .¹ For fiscal year 1950-1951, the Administration requested only \$2950 million plus any unobligated funds remaining from the 1949-1950 appropriation, then estimated at \$150 million. This figure was approximately 25 percent less than the amount provided for the previous year.² The only other major change asked by the Administration in the existing law was that Congress specifically authorize ECA to use not more than \$600 million of the above request to help finance any European organization (notably the proposed European Payments Union)³ designed to increase the convertibility of currencies and liberalization of trade, and otherwise to "reward" those going farthest in their relaxation of trade barriers.⁴

Mr. Hoffman in his initial presentation stated that the two aims of recovery and unification were being carried forward with good results and, although the latter was slower than desired, marked success was anticipated by June 30, 1950, when the new payments union was expected to be approved. With respect to the former, he testified that since industrial production was up one-third over 1947 and 20 percent over prewar, further improvement had to come from increased productivity and ECA was therefore stressing its technical assistance program and the integration of the European economy. Although Europe's dollar deficit had been reduced from some \$8 billion in 1947 to an estimated \$4-\$4.5 billion in fiscal 1949-1950, he stressed that if the gap were closed without United States aid and with no increase in imports by the United

¹ "Extension of European Recovery--1950," *Hearings on S. 3101*, U.S. Senate, Committee on Foreign Relations, 81st Cong., 2d Sess., February and March 1950, p. 1. See also "To Amend the Economic Cooperation Act of 1948, as Amended," *Hearings on H.R. 7378*, House of Rep., Committee on Foreign Affairs, February and March 1950, for discussions of the issues involved.

² A bilateral economic aid agreement between ECA and Western Germany was ratified on January 26, 1950; thus the funds formerly requested for Germany under the GARIOA program were put in with the ECA request, and the 25 percent reduction includes Germany. Korea also was put under ECA administration in 1949 so that its aid was requested under the Foreign Assistance legislation. Aid for Japan was to remain a separate program administered by the Defense Department.

³ Discussed in detail in Chapter VI, *infra*.

⁴ The Administration also requested that Congress give the President power to transfer ECA allocations for Germany to other Departments or agencies to be administered within the purposes of the Act unless exempted by the President, and that some German ECA counterpart funds be deposited in the GARIOA Special Account and so made available to the State Department for use in the German occupation. Finally, it requested that the ECA Administrator be allowed to use counterpart funds for publicity purposes in recipient countries.

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States, it would mean a reduction of \$3 billion in American exports, with "catastrophic" results for Europe and "severe dislocations for the United States." To make sure that the dollar gap was closed with the least difficulty by 1952 and was narrowed considerably in the meantime, he stated, ECA was pressing for and facilitating increased production of goods now imported and those for export. These efforts were expected to reduce the reliance on dollar imports and to increase dollar exports by \$1 billion, thus cutting the dollar gap to approximately \$2 billion by 1952. Under these conditions, and on an assumption that private American investments would increase considerably, ECA expected that Europe, except possibly for Austria and Greece, would be free of need for extraordinary assistance. In discussing this problem, Mr. Hoffman, as well as State Department witnesses, stated in strong terms that a *sine qua non* for the long-term success of United States efforts to foster European recovery was a large increase in imports by the United States.

In calculating the amount of funds to be requested, the Administrator stated that ECA had adopted a new procedure to encourage (rather than thwart) greater liberalization of trade and payments and more energetic efforts of self-help. Thus, instead of basing its requests for funds from Congress on carefully reviewed programs submitted by each of the ERP countries, ECA had this time set the level of aid it estimated that Europe as a whole required on the assumption that each country ". . . makes maximum efforts and takes all steps, however difficult, to minimize its requirements for dollar aid."⁵ Specifically, ECA's estimate of total aid required was based on an assumption of a 10 percent increase over the previous year in dollar earnings of recipient countries and an 11 percent decrease in dollar requirements through expanded domestic supplies and imports from non-dollar areas.⁶ Once the total was established, each country, with the exception of Greece which was to receive practically as much as in 1949, was then requested to prepare its internal and external

⁵ *Hearings on S.3101, op.cit.*, p. 10.

⁶ There was some evidence later in the hearings that ECA had in fact rather arbitrarily decided to reduce their requests for the third year to about 75 percent, and for the final year to about 50 percent, of the funds supplied by Congress for the second year.

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programs on the basis of a share in the total proportionate to its share during the previous year.

These topics which the ECA Administrator touched upon—the amount of funds, expanded United States imports, and the problem of economic integration—anticipated most of those in which the Committee members were interested. However, they also reviewed United Kingdom-United States relations in lengthy and often confused and complex discussions of the sterling-dollar oil problem and the “failure” by the United Kingdom to restore to an American company some seventy airplanes in Hong Kong taken over by the Communists. The latter point was part of a recurring expression of concern by Congress on the strength of Communism, not only in Europe but also in Asia. The legislators generally accepted that the Program was succeeding in the containment and partial rejection of Communism in Europe, but its spread in other areas caused Congressmen great concern. Several of them expressed interest in the formation of an Asiatic OEEC which they hoped would be sponsored by the State Department. State Department officials felt that everything possible had been done when invitations were sent suggesting such a conference by the nations concerned and that any further action would be deemed unwarranted interference. Although some of the Committee members were not satisfied with this answer and the question was discussed later in the floor debate, no final action was taken by Congress. There was also some sentiment for establishing a new committee to study and report on the advisability and need for post-ERP aid. The State Department testified that, while primary reliance after 1952 must be placed on expanded United States imports and private loans,⁷ some aid might be needed—not under the ECA program—in the form of military and civilian relief for certain countries, but it had as yet planned no organization to administer such assistance. Congress felt that some study should be given the problem immediately and that to this end a committee, like the previous Harriman Committee, should be formed. These suggestions, strengthened by a letter from Senator Vanden-

⁷ In the hearings (*Hearings on H.R. 7378, op.cit.*, p. 62), it was reported that Mr. Black, President of the International Bank, had stated in a conversation that with respect to public loans “. . . he felt the World Bank could handle any loan requirements of any countries, for reconstruction and development, from here on.”

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berg to Mr. Hoffman urging a study on United States responsibilities after 1952 as the world's largest creditor and "bulwark of peace," culminated in the appointment in late March by the President of Mr. Gordon Gray to study and make recommendations on future United States foreign economic policies and programs.⁸

Congress in general was disappointed with the progress of European integration and asked opinions of many witnesses on the advisability of writing into the Act some timetable of accomplishment which had to be met before aid would be continued. The consensus of the replies was that progress toward economic integration would proceed fairly rapidly and that political federation, although a necessary companion, could not be forced. However, the House incorporated in its Committee report a statement that it was the policy of the United States to encourage political federation as well as economic unification and that the encouragement of the free movement of peoples was as important as that of trade.⁹

During the hearings and floor discussion on the bills, one of the topics debated most heatedly was that of the impact of expanded imports into the United States. Many Congressmen saw in this Administration policy a direct threat of unwanted competition to some of their constituents. This problem is discussed in Chapter V, *infra*.

A controversy also arose over the question of ECA investment guarantees. Mr. Hoffman argued that such activities were better incorporated under the Point Four Program and should be the responsibility of the Export-Import Bank so that worldwide coverage would be provided. Committee members, however, obtained expressions from various ECA mission chiefs that the guarantees would be quite effective if broadened to include risk

⁸ For these recommendations, see *Report to the President on Foreign Economic Policies*, Washington, D.C., November 10, 1950. Hereinafter frequently referred to as the *Gray Report*.

⁹ This action on migration was a result of the concern of some Committee members over the overpopulation of Italy and other countries. Committee members urged that European emigrants be sent to areas where extensive land settlement and development were "possible" and "desirable" and not to the United States, where large immigration would upset what was regarded as the nice racial and rural-urban "balance" which exists. It should be noted, however, that the Displaced Persons Act of 1948 was amended in June, increasing the total number admissible from 232,377 to 400,744.

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of war, revolution, confiscation, and expropriation plus the usual currency transfer guarantee, and the provisions were expanded in the final law.¹

The extension of some of the aid in the form of loans, previously regarded as desirable by Congress, was hardly discussed in the hearings. ECA stated that it did not want part of the authorization set aside for loans; it was supported in this view by the National Advisory Council (NAC), which considered the debt burden of Europe so great as to make further loans inadvisable, and Congress did not seriously question this conclusion. Another aspect of the ECA program which received only scant attention in the 1950 hearings, held before the invasion of Korea, was ECA stockpiling of strategic materials; Congressional debate on the matter centered around the desirability of protecting domestic nonferrous metal mining.

A topic which many Congressional members wished to air with the State Department officials was the relation between the economic and military aid programs. The witnesses declined to testify in public session except to admit that the economic and military programs were supplementary and should be coordinated. Mr. Hoffman stated that the military programs required no change in major ECA policies since a healthy economy was necessary for military preparedness.

Additional issues discussed in the hearings were ECA purchases of agricultural products—both offshore and from United States surplus stocks, the desirability of tax reforms in Europe, the publicity tactics of ECA, European land reforms, the proportion of wheat shipped as flour, and the possibility of using counterpart funds to attract tourists to Europe and to rebuild tourist accommodations there.

The Senate Committee on Foreign Relations reported a bill only slightly changed from the Administration's requests. It rejected an amendment in Committee to cut \$600 million from the Administration request and adopted an amendment allowing use of up to \$600 million in the form of transfers of funds to new European central institutions for direct encouragement of European economic unification. The House Committee defeated two proposals to cut the amount of the authorization, but set aside \$600

¹ See Chapter II, Section B, *infra*, for a detailed discussion of this problem.

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million for economic integration and for that purpose alone. In addition, the House Committee raised the 1949-1950 provision of \$150 million for investment guarantees by ECA by another \$150 million and extended the scope to cover government expropriation, war, and revolution. More important, the House Committee adopted a plan by Mr. Vorys to deduct \$1 billion from the authorization to be replaced by agricultural items obtained from the Commodity Credit Corporation (CCC) in an equivalent amount (market price).

In the House debate on the reported bill,² the Vorys plan was attacked most vehemently as a means of putting domestic politics and subsidies into foreign aid; it was defended as a means of getting rid of the surpluses without placing any burden on ECA—a statement which ECA itself denied, wishing to be free from any restriction on the allocation of its funds. An amendment to strike out Vorys' plan was carried 254-38. But its supporters were not yet through, and an amendment to set aside not less than \$1 billion for the purchase of United States agricultural products was accepted after extensive debate by 119-107, only to be rejected by a roll-call vote at the end of all debate by 198-70. Additional votes on important proposed amendments in the House were as follows: (1) An amendment to cut \$500 million off the \$2.95 billion was rejected 152-137. (2) An amendment cutting the figure to \$2.7 billion was carried 165-163 on the ground that if less than 10 percent of this authorization could not be cut the House would be embarrassed in justifying its planned cuts of up to 25 percent on authorizations requested by the President for domestic purposes. (3) An amendment to withhold aid from the United Kingdom until it released control over Ireland and stopped all discrimination between the six northern counties and the rest of Ireland was adopted by a vote of 99-66; after more sober reflection, the House reversed itself in a roll-call vote by 226-90 at the end of the debate. The amendment was justified by its proponents as evidencing United States desire for self-determination and free elections abroad plus non-discrimination and liberalization of trade.³ A miscellany of amendments were rejected for various

² See mainly *Congressional Record*, March 29 and 30, 1950.

³ This reversal of the House vote fulfilled the prophecy of *The Economist*, which had previously stated that, "The light-hearted willingness of a half-empty House to cut Britain off without a penny in order to demonstrate its impatience with

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reasons. The more important among them were: to expand trade between the United States and ERP countries by encouraging United States exporters to accept foreign currencies rather than to insist on dollars; to include foreign devaluation as one of the risks insured against under the investment guarantees; to withhold expenditure of counterpart funds in countries not abiding by commercial treaties with the United States (aimed at discrimination against American citizens trading in French Morocco); to protect domestic mining of nonferrous metals against outside competition; to delete the provision for ECA encouragement of emigration from Europe; and to establish a committee to study and report on foreign economic policy and aid after 1952, specially directed to include consideration of the problems of the Far East. The bill as amended passed the House by a vote of 287-86 on March 31, 1950 and was sent to conference with the Senate for reconciliation.

The Administration's requests met less opposition in the Senate. It defeated, by a seven-vote margin, a proposed amendment to authorize a \$100 million loan by ECA to Spain. After rejecting two amendments to cut the authorization by \$600 million and \$1 billion,⁴ the Senate approved a cut of \$250 million (similar to that by the House). A miscellany of amendments, including one to disallow aid to any country newly nationalizing any industry, were rejected.

The differences in the House and Senate bills were reconciled in the Conference Report sent to the Senate on May 18 and to the House on May 19. In this Report and in the final Act (Title I of the Foreign Economic Assistance Act of 1950—"Economic Cooperation Act of 1950")⁵ the following were the major changes in the previous law. The policy statement of the House bill including the encouragement of political federation was deleted and the word "further" placed before "unification" to indicate that progress to date was not sufficient; there was no disagreement

'partition' in Ireland and its pleasure at the arrival of the first Irish Ambassador was not expected to survive reconsideration." (April 8, 1950, p. 772.)

⁴ During the debate Senator Taft questioned the appropriateness of any aid to the United Kingdom since it had a surplus in its overall international accounts.

⁵ Title II concerned aid to the China area; Title III, aid to Palestine refugees; Title IV, international economic development; Title V, International Children's Emergency Fund. These will be discussed in separate sections below.

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as to the desirability of political federation but only as to the propriety of inserting an expression on such a development in legislation primarily economic in character.⁶ The House-inserted expression urging removal of the "barriers to the free movement of persons" was accepted. The duties of the Administrator were expanded to include the encouragement of emigration from ERP countries to underdeveloped and dependent areas, and counterpart funds were declared available for such use by the Administrator. Additionally, with reference to the purposes of the program, the final law included in its statement of objectives that the United States favored and supported not only increased production but also "increased productivity, maximum employment, and freedom from restrictive business practices"; this statement was not considered to introduce any new sentiment but merely to express more adequately what was formerly in the minds of Congress. Somewhat contradictory expressions of policy were also inserted to the effect that the American taxpayer should be relieved of his burden as much as possible by the reduction of dollar purchases by ERP countries to the greatest extent possible consistent with continued recovery; at the same time, this action was not to be accomplished by the imposition of discriminatory restrictions on American exports.

The Act included the provisions of both House and Senate to cut the authorization to \$2.7 billion plus the \$150 million carry-over, and no funds were earmarked as loans. Of the total authorization, \$600 million was to be available "solely" for use in supporting a program of liberalized trade and payments.⁷ The provision on investment guarantees was expanded to cover not only convertibility but also losses from confiscation and expropriation, and the maximum amount outstanding at any one time was raised from \$150 million to \$200 million.

With reference to wheat and flour, the previous requirement that at least 12½ percent of all ECA-financed wheat exports from the United States had to be in the form of flour was

⁶ See *Conference Report No. 2117*, May 19, 1950 (to accompany H.R. 7797) for details on this and other points.

⁷ ECA has interpreted this clause as setting a "floor" on the use of funds for encouraging European economic integration; the law, however, also set a "ceiling" of \$600 million for "transfer of funds directly to any central institution"—notably EPU.

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repealed. This action was designed to aid the American wheat producer who was suffering from Europe's using her free dollars to purchase wheat elsewhere so that Europe could use its own milling facilities and thus mill more of the husk, retain the by-products, and retain the milling revenue. Also, the Act specified that domestic wheat and flour purchased out of ECA funds (or those of any official foreign relief program) for participants who were also members of the International Wheat Agreement should be at the prices therein specified and credited to their quotas.

Counterpart funds, new and outstanding, were allowed by the Act to be used outside the area of the depositing country for the purpose of liberalizing trade and for publicity and information by ECA in Europe. Despite some pressure for it, no provision was made for use of the 95 percent counterpart funds for military purposes.

The House passed the Act on May 23, 1950 by a vote of 248-88, and the Senate approved it on May 25 by 47-27. The President signed the omnibus foreign aid authorization bill on June 5, 1950.

Congress was not through with ECA, however. The Committees on Appropriations were presented with much the same evidence given earlier to the Committees on Foreign Relations and Foreign Affairs; they examined it thoroughly and minutely questioned the justifications.⁸

Prior to the House debate on the appropriation, ECA disclosed that it would save some \$276 million from its 1949-1950 appropriation rather than the previously estimated \$150 million. In view of this and of Congress' economy drive to cut everywhere but in military aid and expenditures, the House reduced ECA's appropriation to just under \$2.4 billion. The Senate defeated an amendment to cut the appropriation to \$1.95 billion plus the carryover but adopted an amendment to increase the House figure to \$2.45 billion. Finally, a figure of \$2.25 billion plus the carryover (the total being about \$1.2 billion under the actual 1949-1950 expenditures) was appropriated, with a limit of \$500 million placed on transfers to any central organization to encourage economic unification. So intense was the drive to prune appropriations

⁸ "Foreign Aid Appropriations for 1951," *Hearings*, House of Rep., Subcommittee of Committee on Appropriations, 81st Cong., 2d Sess., February 1950, pp. 1-533; "Foreign Aid Appropriations for 1951," *Hearings*, U.S. Senate, Committee on Appropriations, May-June 1950, pp. 165-421.

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and to fit them in with the military programs that on the Senate floor an amendment was offered to throw out the ECA program entirely and insert the funds authorized into the military appropriation. The amendment was rejected on the grounds that foreign economies must be healthy before demands could be made on them for military expansion. But the debate showed the deep concern of many Senators over continued foreign spending by the U.S. Government.

The question of a loan to Spain had been discussed for some two years in Congress, and as late as the 1950-1951 ECA authorizing act an amendment to extend such a loan was rejected by the Senate. During the discussion of the ECA appropriation, however, Senator McCarran introduced an amendment that \$100 million of the ECA appropriation be used for assistance to Spain on credit terms, for the purpose of stabilizing its economy and strengthening its army. He stated that such a loan request had lain before the Export-Import Bank (EIB) for four or five months without action, that ECA was getting too much money, and that the "strategic value" of Spain was much more than the "economic value" of the loan. The opposition replied that domestic prices had so risen that any reduction of the ECA appropriation for original ERP countries might cripple the recovery effort. To this the Senator proposed that ECA be allowed to sell notes to the Treasury for funds to be loaned to Spain. As finally approved, a loan of \$62.5 million was authorized out of money to be so obtained. Some members of Congress argued that the United States was wrong in supporting any kind of government just because it opposed Communism, especially when the country to be "bought" was already in the anti-Communist camp and when this position would not be appreciably strengthened by a loan meeting only a fraction of her economic needs. The majority supporting the loan replied by emphasizing the strategic importance of the peninsula and by recalling that not one voice was raised in the House against the recent EIB loan of \$25 million to Yugoslavia or to the ECA credit of \$27 million to Portugal—both of which were regarded as having undemocratic governments.⁹

⁹ On signing the bill on September 6, President Truman stated that he considered the Spanish loan provision an authorizing one (not mandatory, which he said would be unconstitutional), suggesting that this loan would not be made. However, in November ECA offered the loan to Spain, and the press interpreted this

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Several other amendments were introduced: (1) An amendment to stop aid to any country exporting to Russia items which might be used for maintaining her armed forces was defeated, after the President and Mr. Hoffman raised strong objections on the grounds that it would not accomplish its purpose and would so reduce East-West trade as to endanger seriously Western European recovery. (2) An amendment to require withholding of funds from a country not abiding by its commercial treaties with the United States was approved, although this provision was previously excluded from the authorizing act as interfering too greatly with the activities of the State Department in its representations to France concerning the treatment of American business enterprises in French Morocco.¹⁰ (3) An amendment, aimed mostly at the sterling area, to require the President to encourage ERP countries to forgive World War II indebtedness among themselves and their associated states so long as assistance was received from the United States was overruled on a point of order. (4) An amendment directed at enlisting more support for United States military activities in Korea, by requiring the withholding of funds from any country not supporting "the United Nations in resisting aggression," was added.¹

ECA Programs for Europe

It is not within the scope of this document to present a detailed account of economic developments in Europe, but it should be noted that during 1950 Europe, according to the usual indices, continued to advance rapidly toward economic recovery.² The volume of industrial production for the year was estimated to have averaged 127 percent of 1938, as compared with 115 percent

change in policy as one dictated by the increasing strategic importance of Spain, as the result of United States difficulties in Korea, and as necessary to obtain Congressional support for aid to Yugoslavia. None of these funds were actually disbursed during 1950.

¹⁰ For French action in protest against this provision, see the *Department of State Bulletin*, December 11, 1950, p. 950, and Department of Commerce, *Foreign Commerce Weekly*, Washington, D.C., November 13, 1950, p. 11.

¹ There is no public evidence that any funds were withheld during 1950 under this amendment.

² For a recent major study of many aspects of European recovery and American aid, see Ellis, H. S., ed., *The Economics of Freedom*, Council on Foreign Relations, New York, 1950.