UNITED STATES FOREIGN ASSISTANCE PROGRAMS: THE DEVELOPMENT OF THE MUTUAL SECURITY PROGRAM

Under Secretary's Meetings, Lot 53 D 250

Record of the Under Secretary's Meeting, Department of State, December 22, 1950

Report on Executive Branch Planning for Foreign Aid Legislation (no document)

Mr. Thorp described the organization of the Executive Branch into a Steering Group with eight subsidiary Task Forces, all under State Department leadership. Present plans envisage a single-package foreign aid legislation and one basic presentation to the Congress. The main theme would be that of building necessary strength in the free world through the necessary military and related economic activities and to strengthen areas against possible aggression. February 23 is the target date for submission of the legislative plan to the Bureau of the Budget. Although this is a tight deadline, it is hoped that the non-European items will be ready sooner than that. March 1 is the deadline for submission of the legislative

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1 For documentation on the Point Four Program, with particular reference to organizational and administrative problems of technical assistance activities, see pp. 1641 ff. For documentation on U.S. economic, military, and financial aid in support of the defense of Western Europe, see vol. iii, pp. 1 ff. For additional material on U.S. assistance to specific nations and regions, see volumes ii, iv, v, vi, and vii.

2 Regarding the origins of the Mutual Security Program, see also Executive Sessions of the Senate Foreign Relations Committee, 82d Cong., 1st sess., 1951 (Historical Series, vol. III, Parts 1 and 2, made public in August 1976), Part 2.

3 Master file of records of meetings, documents, summaries, and agendas of the Under Secretary’s Meetings for the years 1949-1952 as retired by the Executive Secretariat of the Department of State.

4 James E. Webb, Under Secretary of State, customarily met several times a week with the Assistant Secretaries and other principal officers of the Department of State (or their representatives) for the primary purpose of exchanging information on issues before the Department.

5 Reference is to the Foreign Aid Steering Group which was charged with the preparation of foreign economic and military assistance legislation for Fiscal Year 1952. The group included representatives of the Departments of State, Treasury, and Defense; the Economic Cooperation Administration; the Bureau of the Budget; and the office of W. Averell Harriman, Special Assistant to the President. Willard L. Thorp, Assistant Secretary of State for Economic Affairs, served as Chairman. The Foreign Aid Steering Group held twelve meetings between November 21, 1950, and April 13, 1951. Records of the group and its task forces are located in FRC Acc. No. 62A013, boxes 102 and 124.
proposal to the Congress. It is planned that the Departments of State and Defense will make the basic presentation with the other agencies coming in later. He mentioned that one fundamental problem not yet resolved is whether to take a primarily geographic approach or to approach the legislation according to types of programs. The Exim Bank legislation will be separate but perhaps submitted at the same time. Mr. Miller* suggested that the extensive lending program which affects his area should be mentioned in the President's message. He also raised the question of what effect materials shortages would have on overseas developmental work, through grants or loans. He felt that loans should not be made under tighter criteria than grants. Mr. McGhee† and Mr. Rusk§ expressed a preference for the regional approach to the legislation.

Mr. Ohly¶ pointed out the difference between organizing (1) the method of presentation and (2) the structure of the bill, saying that the presentation probably should be on area basis but that the bill itself might be organized differently because of the varying conditions which would probably be attached to different kinds of aid.

[Here follows discussion of other subjects.]

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* Edward G. Miller, Jr., Assistant Secretary of State for Inter-American Affairs.
† For information on the President's budget message of January 15, see editorial note, p. 269.
‡ George C. McGhee, Assistant Secretary of State for Near Eastern, South Asian, and African Affairs.
§ Dean Rusk, Assistant Secretary of State for Far Eastern Affairs.
¶ John H. Ohly, Acting Director, Mutual Defense Assistance Program.

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Editorial Note

On December 27, 1950, Departmental Announcement 248 established the position of Director, International Security Affairs (S/ISA) within the Department of State, effective January 8, 1951. The Director was assigned responsibility for the general direction and coordination of all activities within the Department of State relating to a) the North Atlantic Treaty and other collective defense arrangements, and b) military assistance programs and economic assistance programs designed to support military assistance. Thomas D. Cabot, a Boston executive, was appointed Director. Files of the Office of Director, International Security Affairs, and its predecessor organizations, 1949-1951, are located in Federal Records Center Accession No. 62A613, 129 boxes. For the text of Departmental Announcement 248, released to the press on January 4, 1951, see American Foreign Policy, 1950-1955: Basic Documents (Department of State Publication 6446) (Washington-
The position of Director, International Security Affairs, was established within the Department of State pursuant to organizational arrangements set forth in an interdepartmental memorandum of understanding concluded by the Departments of State, Defense, Treasury, and the Economic Cooperation Administration, approved by President Truman on December 19, 1950. This understanding provided for the establishment of an International Security Affairs Committee (ISAC) to conduct the review and coordination of policy and programs in international security affairs and mutual defense assistance matters. It was specified that the Chairman of ISAC would be the Director, International Security Affairs, Department of State. Membership of the Committee included representatives of the Departments of Defense and the Treasury, the Economic Cooperation Administration, and a representative of W. Averell Harriman, Special Assistant to the President. ISAC met 49 times between February 2 and October 12, 1951. Documentation produced by ISAC and its subcommittees is located in Department of State Lot File 53 D 443 and in FRC Acc. No. 62A613, Files of the Office of the Director, International Security Affairs.

For the text of the interdepartmental understanding of December 19, 1950, and other material on mutual defense assistance, see Foreign Relations, 1950, volume I, pages 126 ff.

Current Economic Developments, Lot 70 D 467, FRC Acc. No. 72A6248

Current Economic Developments

[Extract]

SECRET

[WASHINGTON,] January 2, 1951.

US Foreign Aid Programs: Study of Certain Issues

Proposals are now being formulated within the Government for US foreign economic and military assistance programs for fiscal year 1952. These proposals cover military aid to western Europe and supporting economic assistance, military assistance to other countries, and a broad program of aid to underdeveloped areas, primarily South

1 Master set of the Department of State classified internal publication Current Economic Developments for the years 1945-1969, retired by the Bureau of Economic Affairs.
and Southeast Asia. Although these programs have not yet been fully
developed, tentative agreement has been reached on certain issues
regarding the form and content of the legislation which will be re-
quested from Congress. In addition, the National Advisory Council
has considered the financial aspects of these programs and has ap-
proved principles governing counterpart policy in connection with
US aid, the relation of such aid to monetary reserves, and the use of
loans versus grants as the form of US assistance.\(^2\)

**Form of Legislation.** Although Congressional leaders will be con-
sulted before final decisions are made on the precise form of the pro-
posed legislation, a Foreign Aid Steering Group consisting of
representatives of the State, Defense and Treasury Departments, ECA
and the Budget Bureau has reached preliminary agreement on sev-
eral aspects of this question. This group has agreed that all economic
and military grant assistance requests should be submitted to Con-
geress in one package in order to emphasize the unitary theme of build-
ning our security by promoting situations of strength in the free
world. All Congressional appropriations for these programs should
be made to the President to be allocated by him to the appropriate
administering agencies. Some flexibility should also be provided for
the interchange of funds within and between the various programs.
Although there is still some question concerning the extent to which
existing legislation should be utilized in the new legislation, the Steer-
ring Group tends to prefer a bill which would incorporate existing
legislation by reference, together with such amendments and new
authorizations as may be required.\(^3\) The major issue at the pres-

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\(^2\) The National Advisory Council on International Monetary and Financial
Problems coordinated the policies and operations of United States representa-
tives on the International Monetary Fund and the International Bank for Re-
construction and Development, the Export-Import Bank, and all other U.S.
agencies involved in the areas of foreign loans, and foreign financial exchange
and monetary transactions. NAC membership included the Secretary of the
Treasury (Chairman), the Secretaries of State and Commerce, the Chairman of
the Board of Governors of the Export-Import Bank, and the Administrator of
the Economic Cooperation Administration. The master file of the records of the
NAC for the years 1945–1958, as retired by the Bureau of Economic Affairs,
Department of State, comprise item 70 of Federal Records Center Accession
71A6682, 15 boxes.

The NAC decisions on the matters under reference here were embodied in
Action No. 442 taken at NAC Meeting No. 168, December 26, 1950 (FRC Acc. No.
62A613, Box 16, NAC Actions).

\(^3\) The following Acts of Congress, as amended, comprised the major elements
of existing foreign aid legislation: the Economic Cooperation Act of 1948 (Pub-
lic Law 472, 80th Cong.; 62 Stat. 137), authorizing the European Recovery Pro-
gram; the Mutual Defense Assistance Act of 1949 (Public Law 329, 81st Cong.;
63 Stat. 714), providing for a comprehensive military assistance program; and
the Act for International Development (Title IV of the omnibus Foreign Economic
Assistance Act of 1950–Public Law 535, 81st Cong.; 64 Stat. 204), authorizing tech-
nical assistance under the Point Four Program. This legislation, reflecting amend-
ments through the year 1961, is contained in *Mutual Security Act of 1951 and
Other Basic Legislation*, House Committee on Foreign Affairs, 82d Cong., 2d
ent time concerns the manner in which the programs should be grouped within the one legislative act. In general, programs could be grouped on a purely regional basis or on a functional basis which would reflect their principal objectives, i.e., the promotion of military strength or the promotion of political and economic strength, within the overall framework of building for security. The final arrangements will probably represent a combination of these two approaches.

Financial Policy Aspects. On the basis of only tentative estimates of the amounts involved in proposed US foreign assistance, the National Advisory Council has approved financial principles which should govern the extension of such assistance. The NAC discussed the extent to which the effect of US aid on the level of monetary reserves of a country should be considered in the allocation of aid to that country. It was decided that US assistance to European countries should be dictated primarily by considerations of mutual defense, but that most critical examination will be required when an increase in the level of reserves results, or is likely to result, from such assistance. The present policy of not extending grant assistance for the purpose of increasing reserves should also be continued. However, if the US feels that failure to provide aid would prejudice the defense effort, aid should not be withheld because it would increase reserves, nor should the unanticipated accumulation of reserves as a result of the vigorous application of appropriate economic and financial policies automatically result in the reduction of aid where a country is making the maximum contribution to mutual defense. This is not considered a serious problem in connection with the programs for the underdeveloped countries since these programs are not likely to influence appreciably their levels of reserves.

Although it was generally agreed that, as at present, recipient countries should not be required to deposit local currency counterpart for end-use military items received from the US, a question arose as to whether the present policy of requiring counterpart for economic assistance to Europe should be continued. Under the present circumstances, with all economic assistance to European countries to be provided as a basis for sustaining the military effort, it was asked whether the counterpart requirement would contribute to this effort and whether it might not instead offer conflicts between our military objectives and the objectives of financial stability which have been the aim of counterpart programs in the past. The NAC decided that counterpart deposits would still appear to be useful in influencing recipient countries to follow internal financial policies in support of
the common defense effort. However, the Council also agreed that they should be permitted to use these deposits directly for military expenditures where this seemed to be desirable for the defense effort. In view of the diverse nature of the grant assistance programs for the underdeveloped countries and the varying political and economic circumstances in these areas, the NAC has recommended that the administrators of these programs should be allowed substantial discretion in determining the extent to which counterpart deposits should be required and the terms and conditions under which they may be spent. In general, counterpart deposits, commensurate in value to the dollar costs of the goods supplied by the US, should be required at least for goods sold through private commercial channels.

The National Advisory Council has recommended that assistance to Europe should continue as for the past two years on a wholly grant basis, and that both loans and grants should be used in the programs for the underdeveloped areas. Because the latter are part of a longer range program whose precise magnitude and form cannot now be determined, and because of uncertainties concerning the availability of supplies for them, it is not possible now to determine precisely the extent to which such programs might be financed on a loan or grant basis. However, the NAC has laid down three general principles in this connection: 1) grants should be made so far as possible for programs which are appropriate for such financing because of their inherent character, such as technical assistance, aid programs based on recommendations of the Griffin report 4 on Southeast Asia, and related projects; 2) loans should be made where a country is in a position to service a loan and projects are of the appropriate type; and 3) such loans should be financed by the established lending institutions under their usual terms and conditions rather than as special categories of loans. The NAC also recommended that an increase of up to $1.5 billion in the Eximbank’s lending authority should be included as an integral part of the foreign aid program.

* For documentation on the economic and technical assistance survey mission to Southeast Asia headed by R. Allen Griffin, February–April 1950, see Foreign Relations, 1950, vol. vi, pp. 1 ff.

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Editorial Note

On January 15, 1951, President Truman transmitted the annual budget message to Congress (Fiscal Year 1952). In this communica-
tion, he stated his intention to request appropriations of $9.7 billion for foreign economic and military assistance, primarily to the North Atlantic Treaty area. The bulk of this assistance would be in the form of military equipment and supplies, but economic aid in support of the Western European military build-up and technical assistance to non-European areas were also included in the overall foreign assistance program outlined by the President. For text of the message, see Public Papers of the Presidents of the United States: Harry S. Truman, 1951 (Washington, Government Printing Office, 1965), pages 61–106. The message and the budget document are published in House Document 17 (82d Cong., 1st sess.).

Department of State Administrative Files, Lot 54 D 291

Special Report on American Opinion, Prepared by the Division of Public Studies

[WASHINGTON,] January 15, 1951.

PUBLIC ATTITUDES TOWARD U.S. AID PROGRAM
Opinion Concerning Aid For The Four Regions:
Europe, Far East, Near East, Latin America

Public discussion about U.S. foreign aid plans and programs during recent weeks has been chiefly in the context of the security problems now confronting the U.S. and the other free countries.

In regional terms, the military reverses in Korea have stimulated a major debate as to the aid program which the U.S. should follow for Europe and for the Far East. Some who doubt the wisdom of large-scale aid to Europe at this time have stressed the importance of strengthening the Western Hemisphere without giving much specific discussion to a new aid program for the Latin American states. Direct Communist threats to particular countries have flavored much of the discussion on aid to the Near East and South Asia.

U.S. aid to Europe is today envisaged chiefly in military terms—continuance of some economic aid to most of the ERP countries being more taken for granted than discussed. Respecting the Far East, however, economic aid receives as much (or more) attention as does military aid, the two forms of aid often being discussed at the same time. Military aid is quite prominent in discussion of U.S. assistance

1 Consolidated administrative files of the Department of State for the years 1949–1960.
to certain areas of the Near East, although economic help is frequently considered in the case of India.3 Respecting Latin America, economic aid receives greater public discussion than military assistance, although neither has attained much prominence in recent weeks.

EUROPE

Despite the national debate about the future of U.S. security policy, the bulk of both the press and the general public adhere to the fundamental position expressed in the North Atlantic Treaty.4 Seeing the defense of Europe as vitally related to American security, the public supports the continuance of both arms aid and economic aid. Although there is some doubt about the wisdom of the newer policy of sending large numbers of American troops to a Europe which is thought to be “laggard” in its own defense, this doubt does not seem to extend to the material items envisaged for the single-package foreign aid bill.

There is difference of opinion as to the amount of aid—especially economic aid—which should be sent to Europe. Here the chief considerations are the need and the amount of self-help shown by recipient countries and also the more general factors of depleting American resources and raising American taxes.

On the question of arms aid, an early January opinion survey shows 7 out of 10 Americans approving the dispatch of military supplies to the countries of Western Europe. This sustained support exists despite the fact that a majority of the general public feels that these countries “are not doing all they should to build up their own defense.”

Suspension of ERP aid to Britain has been widely acclaimed in the American press, and there is some hope that the amount of aid required by other countries may be cut also. In the past, France and Italy have been the European ERP recipients most criticized for alleged failures to make best use of their aid; but it seems to be expected that these nations will continue to need economic, as well as military assistance from the U.S. A majority of the public believes that Western Europe will need economic aid at least until 1952, according to a recent opinion survey.

Spain.5 Although the questions of economic and military assistance to Spain remain controversial, the recent loan to Spain has been, for

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3 For documentation on economic aid and famine relief to India, see vol. vi, Part 2, pp. 2085 ff.
4 For documentation on U.S. participation in the North Atlantic Treaty Organization, see vol. xii, pp. 1 ff.
5 Documentation on the questions of aid to Spain and Spanish membership in the North Atlantic Treaty Organization is included in material on United States relations with Spain in volume iv.
the most part, endorsed or acquiesced in. A number of editors and Congressmen favor bringing Spain into West European defense plans; but this question has not been widely discussed. A recent Gallup Poll indicates majority acceptance for admitting Spain into the North Atlantic Treaty system.

**Current Questions**

1. Will Eisenhower's prestige and talents be enough to enable him to bring about unity and action in Western Europe?

2. How far and how fast can the British and French governments increase the pace of rearmament?

3. With the increase in Europe's productivity brought about by the Marshall Plan, cannot European countries finance much of their own rearmament programs?

4. Considering the burden of the U.S. rearmament program, how much can the U.S. afford for economic aid to Europe?

5. Should the U.S. make greater cooperation among the European countries a condition of further American aid?

6. Shouldn't it be a condition of further aid, that the European nations cease sending strategic (or other) materials to the Soviet bloc?

7. Shouldn't the U.S. "face realities" and help Spain develop her military potential? How would such a move be received by the NATO countries?

**FAR EAST**

The Korean aggression served to heighten public discussion of how the United States could most effectively assist Far Eastern countries to prevent Communist expansion in that area. Military aid has been discussed chiefly in connection with specific countries: Nationalist China, Indochina, Philippines—with sporadic discussion of a Pacific Pact and increasing advocacy of the rearming of Japan. A January opinion survey shows that a majority of the general public still favors arms aid to "governments in Asia threatened by Communism". Another survey shows popular sentiment fairly evenly divided on rearming Japan.7

Economic aid to strengthen Far Eastern countries has been widely discussed and approved, although relatively few have supported Mr. Stassen's large-scale proposal of a "Marshall Plan for Asia".

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*General of the Army Dwight D. Eisenhower, Supreme Allied Commander, Europe.

7 For documentation on this subject, see vol. vi, Part 1, pp. 777 ff.

8 Harold E. Stassen, President of the University of Pennsylvania; Governor of Minnesota, 1939–1943; prominent national political figure (Republican Party).
Commentators also applauded the vigorous U.S. leadership in securing adoption of a UN program of economic reconstruction for the Republic of Korea. In a November survey, 6 out of 10 Americans supported assistance to help backward peoples; and nearly half mentioned the Far East or Asia in indicating the parts of the world which should be included in such an aid program. In the case of Japan, it is generally presumed that U.S. economic aid will continue as part of a plan to maintain strength and stability in this critical area.

*Southeast Asia.* Sympathy for moderate-scaled economic aid to the countries of Southeast Asia, based on the Point Four or “self-help” ideas, has remained high. The Commonwealth’s “Colombo Plan”⁹ has been warmly applauded by a number of prominent observers, and some have urged the U.S. to help share the expenses of this program. However, observers have been shy of large-size assistance in this area in view of U.S. commitments elsewhere and uncertainty that aid would be effectively utilized. Many have specifically endorsed the “realism” of the Bell Mission recommendations for aid to the Philippines,¹⁰ and some have termed them a “yardstick” for granting aid to other Southeast Asian countries.

Less attention has centered on arms aid to Southeast Asia, but such aid for Indochina has been consistently approved in limited discussion.¹¹ However, commentators have been pessimistic over the situation there, and, aware of the demands made by the Korean conflict, have not pressed for large-scale military help. Almost no specific discussion of military aid has centered on Malaya, Burma or Indonesia, and only very light attention on Thailand. The handful commenting have appeared favorable.

*China.* An increasing number of observers, including others than the traditional pro-Chiang group, have favored military aid to the Nationalist army and its use in the struggle against Chinese Communists. Some have also called for arms aid to the guerrilla forces reportedly operating on the Chinese mainland. However, an articulate group of “moderates” and “liberals” have continued to disapprove support of the “discredited” Chiang regime. There is almost no current discussion of economic aid to the Nationalists.

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⁹ For documentation on the Colombo Plan, see vol. vi, Part 1, pp. 1 ff.
¹⁰ For documentation on aid to the Philippines, see *ibid.*, Part 2, pp. 1491 ff.
¹¹ For documentation on U.S. policy with regard to Indochina, including material on aid to the forces of the French Union and the Associated States, see *ibid.*, Part 1, pp. 332 ff.
¹² Documentation on United States policy regarding China, including the question of aid to the Republic of China, appears in volume vii.
¹³ Generalissimo Chiang Kai-shek, President of the Republic of China.
Current Questions

1. What are the reasons that the U.S. refuses to aid Chiang and use his troops in fighting the Chinese Communists?

2. Should the U.S. grant military aid to the colonial powers or to the native regimes in Southeast Asia?

3. Could U.S. military aid to Asia be more effectively organized if there were a Pacific Pact comparable to the North Atlantic Pact?

4. How carefully can the U.S. supervise aid to Southeast Asian countries, and yet not be accused of "economic imperialism" or "intervention"?

5. How can the limited number of dollars the U.S. can grant Southeast Asia be most effectively used in its underdeveloped countries?

NEAR EAST, SOUTH ASIA, AND AFRICA

Iran is frequently referred to as a likely "next spot" for Communist aggression. The press has devoted considerable attention to U.S. arms aid to Iran—as well as to Greece and Turkey—with occasional consideration also of sending military supplies to India, Pakistan, and Israel. The NEA region is also often discussed, in broad terms, as an appropriate area for U.S. economic assistance; but very little press discussion was prompted by the inauguration of Point Four aid in Iran.

Greece, Turkey, Iran. Military and economic aid to Greece and Turkey have been consistently supported in limited comment over the past three years. Many commentators have cited the excellent performance of the Turkish troops in Korea as evidence of the soundness of the military aid program. Reduction in ERP funds to Greece, in view of insufficient Greek recovery efforts, has been generally approved. Observers hope that this action may inspire other nations to redouble efforts.

Seeing in recent Iranian policy a "pro-Russian trend", some observers have urged the U.S. to expedite economic and military aid to Iran. Others, in this limited discussion, have bitterly complained that Iran was "offering nothing in return" for previous aid.

Near East. Both economic and military aid to Israel receive support, chiefly from the group of commentators who have consistently favored the new state. Others, in light comment, have also been sympathetic to helping Israel—particularly through loans and other economic aid.

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14 Documentation on United States policy with respect to the nations of the Near East and Africa, including material on economic and military aid, is presented in volume v. Documentation on South Asia appears in volume vi.
Point Four aid for the Arab states has received some support in limited discussion. In addition, a small group has favored increased relief aid for the Arab refugees and further UN efforts to "resettle" them with U.S. financial assistance. There is virtually no support for arms aid to the Arab states; and a few observers with pro-Israel sympathies are sharply opposed.

India, Pakistan. As compared to other Middle Eastern countries, discussion of aid to India has been fairly sizable. Despite anxiety over India's "neutral position" in the East-West struggle, those commenting have favored strengthening India by Point Four aid and other developmental assistance. India's "tremendous" domestic problems are frequently stressed, and observers usually point out that U.S. aid, though helpful, will only be "a drop in the bucket" to India's actual needs. Discussion of arms aid to India is very limited but not unfavorable. Much less discussion centers on aid to Pakistan. The few commentators discussing the matter have generally been sympathetic to small amounts of economic aid based on the "self-help" principle.

Africa. While there has been some interest in the "development" of Africa, and in its "strategic" importance, almost no observers in recent months have specifically called for economic or arms aid.

Current Questions

1. In view of our limited resources, is it wise to send military and economic aid to the small, "feudal" countries of the Near and Middle East?

2. How can we be sure military aid to the Arab states and to Israel would be used to strengthen them against the common enemy—communism, rather than in the Arab-Israeli conflict?

3. Can the amount of aid America can grant India be of any good in view of the tremendous poverty and backwardness in India?

4. Should aid be given India and Pakistan when both are straining their economies in the struggle over Kashmir?

LATIN AMERICA

Relatively little public attention is devoted to Latin American affairs in general. Most of the comment comes from specialists who concern themselves solely with this area. In the past, these commentators as well as most of those discussing U.S.-Latin American relations have been enthusiastic supporters of continued and, often, of more extensive programs of economic cooperation. The question of military aid, however, has received scant attention.

*For documentation on U.S. relations with the American Republics, including material on questions of economic and military assistance, see vol. II, pp. 925 ff.*
In recent discussion, emphasis has been placed upon the desirability of developing Latin American resources for the military defense program and, in general, on better and more permanent U.S. "good-neighbor" ties. This comment has shown sympathy for giving greater stress to the Point IV principles in Latin America and for reducing trade barriers and foreign investment restrictions. But, in the recent opinion survey which showed popular approval of U.S. help to "backward countries", only 6% of the national sample mentioned Latin America as a region which "should come under such a program."

**Current Questions**

1. How much of a direct economic aid program is actually needed by the countries of Latin America? Wouldn't it be better for the U.S. to encourage foreign and local private enterprise in those countries?

2. How can the U.S. strengthen the ability of the Americas to defend themselves without adding to the power of military dictatorships?

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Under Secretary's Meetings, Lot 53 D 250

*Record of the Under Secretary's Meeting, Department of State, February 7, 1951*

SECRET

UM M-303

[Here follows discussion of matters other than foreign assistance.]

*Foreign Aid Legislation for Fiscal Year 1952 (UM D-134)*

7. Mr. Thorp explained that consultations on the Hill to date had been favorable to a single-package bill, built on existing legislation and arranged geographically rather than functionally in its outline, although both regional and functional aspects would be fully covered in the justification.

8. One problem is whether a single appropriation should be sought for Europe or whether some separation should be made in the European area between military end-items and economic assistance. While the Department of Defense prefers a separation, the other interested agencies favor a single lump-sum, as being more consistent with the whole bill's singleness of purpose for one reason. Mr. Thorp emphasized the importance of making the April 2 or 3 deadline for presenting the legis-

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1 Document UM D-134, February 5, 1951, titled "Foreign Aid Legislation for Fiscal Year 1952," is not printed. It consisted of a one-page outline of the projected legislation and a presentation guide, also in outline form. (Under Secretary's Meetings, Lot 53 D 250)
lation to the Congress. He said that the deadline has been set that late primarily to obtain assurances as to European capabilities and intentions as part of the justification. Failure to meet the deadline would have three unfavorable effects: the Congress might feel that the Administration is uncertain of what to do, our European friends might get the same impression, and the Soviets might read the delay as an indication of lack of determination on our part. Further delay would be threatened if difficulty is encountered in working out the plans of the European countries. Mr. Thorp felt that we should proceed on the stated schedule regardless of the outcome of the European negotiations, especially since the orientation of the bill is global.

9. Mr. Webb called attention to the still earlier deadlines for the various programs to go to the Bureau of the Budget in order to meet the April 3 presentation to the Congress.

10. Mr. Webb commented that he had intended to discuss State-ECA arrangements with Administrator Foster but that at present these issues are being considered under Budget Bureau guidance from the over-all administration point of view. Mr. Webb believed that the Budget group will be of assistance in the planning of this legislation.

11. Mr. Rusk raised the problem of the effect of the security and anti-Communist aspects of the bill upon other programs such as Point IV. He felt that this factor will complicate some of our "neutral contacts". Mr. McGhee suggested that this problem might be met by ECA, for example, employing a different approach in the various countries. Mr. Thorp said that it might be possible to operate country-by-country from different divisions within ECA, specialized according to a security or non-security emphasis, as the local situation required. Mr. Rusk felt this idea had some merit.

12. Mr. McGhee expressed some concern about the inflexibility of the one-package approach, particularly where new programs are affected. He feared that certain emergency programs might be delayed for as long as 18 months by the time the omnibus legislation is passed and administrative considerations such as FBI clearance have been provided for. Mr. Webb commented that the earmarking of 25 millions as an emergency fund for the use of the President is one way of meeting this point. The Secretary agreed with the importance of the problem raised by Mr. McGhee. Mr. Thorp recognized that the problem is a basic one and said that we must work toward

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2 William C. Foster, Administrator, Economic Cooperation Administration.
3 For additional documentation on the Point Four program, particularly on the question of whether Point Four-type technical aid should be administered by the Department of State or by the Economic Cooperation Administration, see pp. 1641 ff.
greater flexibility in the legislation. We want to be able to shift the funds where necessary to meet the emergencies. Mr. Webb commented that, on the other hand, the inherently rigid tendencies of legislation in some cases have helped us to obtain increased flexibility in shifting funds. Mr. Thorp added that the ECA legislation is the best practical example of ability to shift within the purposes of the Act. We hope for more of this ability in the forthcoming bill.

[Here follows discussion of other subjects.]

800.00-TA/2-2751

Memorandum of Conversation, by the Under Secretary of State
(Weebb)

[WASHINGTON,] February 27, 1951.

Subject: Rockefeller Report

Participants: Mr. Nelson Rockefeller
Mr. Webb—Under Secretary

At lunch today Mr. Rockefeller and I had a long and friendly talk about his report. He explained to me that he was somewhat concerned at the reactions to the draft which had been sent out, and that he and his Board were prepared to make substantial modifications in line with advice they had received from several quarters.

Essential points of the conversation were as follows:

(Made by Mr. Rockefeller)

1. That he doubts the long-range feasibility of the ECA program of large-scale grants for public works.

2. That he believes the institute or servicio type of operation is the only satisfactory one that can be maintained over a long period.

3. That he fears our technical assistance missions and experts will draw large-scale plans and elicit interest in foreign countries in them, which is apt to be disappointing by inability to execute the plans.

4. That he believes he can get substantial support from business, labor and other groups, and particularly support in Congress, for his idea of a World Development Corporation with the grants on a matching basis handled under somewhat the same kind of rules as foundations have operated in this country, and that the equity idea, although quite

2 The draft has not been identified.
novel, seems to elicit wide interest from even such conservatives as Senator Byrd.

5. That Point IV has been badly understood and sold, and that he believes his Board can do much to help us clear up this situation, particularly if it is merged with the other programs mentioned.

6. That he had not fully understood the relationship between the Point IV program and our negotiation for Treaties of Friendship, Commerce and Navigation, which was thoroughly discussed today.

(Made by Mr. Webb)

1. That Mr. Acheson and I had decided to insist in every way we could on a proper position for the Ambassador in the capital of foreign countries, but were prepared to be more flexible with respect to Washington organizational arrangements, although in the latter we did expect to express our views strongly as the arrangements were discussed.

2. That our efforts to obtain an international legal framework for commerce and trade are intimately related to the handling of the technical assistance program and that I was not prepared to say at this time that this relationship should be broken. In fact, I indicated my belief that the relationship of the Point IV program to the negotiation of Treaties of Friendship, Commerce and Navigation was perhaps more important than its relationship to other technical assistance programs.

3. That the next year or so would provide a real testing period as to the future of ECA and that no one could say at this time what shape or form its organization would take. Therefore, I did not consider it wise to transfer the Point IV program into a receptacle of unknown characteristics, but felt it would be much wiser to keep the Point IV program in the State Department until the outline of the ECA operation of the future became much clearer. I pointed out that we had with great effort gotten the Point IV program going, that it was producing good results, and that it should not be thrown into another agency until the ECA organization itself had settled down into whatever long-range pattern the future held in store.

4. That the central problem to which his report did not address itself was the problem of how the activities of a large number of agencies of the Government were coordinated and brought into line with the generality of over-all foreign policy. I told him that I was perfectly prepared to see ECA operate as an independent agency provided means of coordinating its activities and keeping them in line with over-all foreign policy were worked out, but that I thought it highly dangerous to set up a lot of new agencies reporting directly to the President until this problem of coordination were worked out.
I urged him to address his thought to this problem, indicating that we had to look at the over-all handling of foreign policy and could not confine our thoughts to one segment like economics, and that therefore we had to take a slightly different view than did he or others addressing themselves to some specific problem.

[6.] That a great effort had been made by Mr. Acheson and the staff of the State Department to provide in the Department a focal point efficiently organized for the coordination of foreign affairs activities throughout the Government. I pointed out that in two years we had made very great strides along this line, but of course recognized that much more had to be done. I pointed out that it would take about five years to perfect such an organization, but on the foundation of two years' work the coming year, or third year, would produce very real accomplishments if the whole mechanism were not broken apart prematurely. I pointed out also that the problem of coordination would exist even if it were raised to the Presidential level by having a number of agencies in the foreign policy field reporting directly to the President.

[6.] That, in the main, what Mr. Acheson and I were concerned with was some means of getting it understood that agencies and people dealing with foreign policy should come to the Secretary of State or the Department first for guidance before taking off on one line or another which they might then expect to pressure the Secretary to adjust himself to.

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Memorandum of Conversation, by the Secretary of the Foreign Aid Steering Group (Toner)

CONFIDENTIAL

[WASHINGTON,] February 27, 1951.

Subject: Foreign Aid Legislation

Participants: Messrs. James E. Webb
John Howard
Leroy Stinebower
Robert Barnes
Albert Toner

Mr. Webb explained that he intends to participate more closely in the preparations for the legislation. At the moment he was inter-

1 Director of the Executive Staff, Foreign Aid Steering Group.
2 Chairman of Task Force II (concerned with non-European areas), Foreign Aid Steering Group.
3 Assistant Chief of the Policy Reports Staff, Executive Secretariat.
ested in the principal issues being considered interdepartmentally and how the Department stands on its obligations to coordinate the preparations and get the bill to the Congress.

Funds for Europe

Mr. Webb said that the Bureau of the Budget is inclined at the moment to prefer a one-figure appropriation, subject to retreat to an alternative, if necessary, in the hearings. Mr. Webb said he would mention this problem, among other things, when he saw Mr. Lawton later in the afternoon. His feeling was that the issue was not vital to us; but he thought it would be very important to ECA in view of the difficulty of defining the different kinds of aid. If he were the Director of the Budget, however, he would be inclined, like Defense, to favor the two-figure arrangement.

Mr. Webb then telephoned Mr. Lovett of Defense, who personally gave strong support to the two-figure approach, commenting that the planning of military end items must be developed on a solid basis. He pointed out that these items will have to be justified from a sound program supported by their basic planning. He also believed that this alternative would be better received by the Congress.

After the telephone call, Mr. Webb said that the Budget Bureau evidently prefers the one-figure for reasons of flexibility and because of some feeling that the end items may be soft.

Mr. Howard reviewed the various agency positions on this problem.

Mr. Webb said that in his informal meeting with Mr. Lawton he would present the State view but felt obligated to explain Mr. Lovett’s position as well.

Mr. Howard mentioned the possibility of an interdepartmental meeting at the Under Secretary level, but the Under Secretary expressed doubts that Mr. Lovett would want such a meeting.

Mr. Howard made it plain that there would be plenty of separate figures in the justification but that the European problem is one of what to put into the bill. He felt personally that the issue is not really a major one and that the Under Secretaries should not be bothered with meeting on it. He believed that the Budget Bureau should decide the question and Mr. Webb appeared to agree.

Form of Budget Presentation

Mr. Howard explained that the Budget Bureau has asked us to present the programs not only on the basis of our judgment of Euro-

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*Frederick J. Lawton, Director of the Bureau of the Budget.
*Robert A. Lovett, Deputy Secretary of Defense.
pean requirements but also to show what the Europeans will commit themselves to do. Mr. Howard felt that this proposal did not make sense and that to adopt it would cost us another month. Mr. Webb agreed, commenting that our intention is to provide the Europeans with incentives to greater effort.

Mr. Howard said that Mr. Lawton wants the President to decide this question but that we should present our own views.

Mr. Webb said that he would discuss this problem at a later time with Mr. Lawton, if he were requested to do so by Mr. Thorp.

*State-ECA Relations*

Mr. Howard said that he understood that consideration of organizational relations between the two agencies is not progressing as it should, which could result in a delay on our final deadlines. He commented that it is still possible to go to the Hill early in April but that we are estimating a presentation date of April 15, assuming that the Budget proposal on European commitments does not prevail.

*Point IV*

Mr. Stinebower reviewed, at Mr. Webb's request, the grant aid projections for the Near East, South Asia and Latin America.

Mr. Webb asked what the effect would be if Point IV were separated out. He said he would like to see Point IV separate from ECA because of the forthcoming dispute over ECA's future. He felt reluctant to throw a going program into that struggle, now that we have appointed an Administrator and have gone through much hard work to get the program under way. He asked how our programs would be affected if Point IV were removed.

Mr. Howard said we have tried for an integrated economic program in each country.

Mr. Stinebower said that the most difficult question is whether Point IV is a regional program or whether Point IV would also have programs in areas in which ECA operates. He said that it would have to be presented to the Congress along with the others, in any case.

Mr. Webb expressed the opinion that the commercial treaty program is the principal element in the long range economic future and that Point IV is essential to it. Removing Point IV from the Department would threaten that program.

Mr. Howard explained that we have tried not to prejudge the administration of Point IV and ECA in planning the programs. He mentioned that we have different programs now operating in the same country, which the Congress does not like.
Mr. Stinebower reviewed the existing and proposed STEM missions for Mr. Webb. Answering Mr. Webb, he said that the relationship between UN technical assistance and the STEM’s would be worked out mainly at the country-level through our embassies.

After some discussion of State–ECA relations in the field, Mr. Stinebower felt that the biggest problem in the presentation would be in defining what to separate off as Point IV. It would be better, he felt, to allocate all of the funds to the President and let him make this decision.

Mr. Webb wondered whether it would be undesirable to limit Point IV to countries not receiving military aid, except for certain “border” countries.

In a discussion of the private investment possibilities of underdeveloped areas, Mr. Webb felt that all that is needed is a restoration of confidence and world stability, although it was agreed that the problem now is the high rate of return within the US on private capital.

Breakdown of Figures

Mr. Howard reviewed briefly the dollar breakdowns in the justification by area and major programs.

Mr. Webb said that in a similar meeting next week he would like to go over the programs and figures more closely. He also expressed an interest in studying the Point IV question further.

Reference is to the Special Technical and Economic Missions operated by the Economic Cooperation Administration in Southeast Asia.

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**Memorandum of Discussion Prepared by the Management Staff**

[WASHINGTON,] March 1, 1951.

Subject: Budget Bureau discussion with the President on foreign aid organization and State–ECA relations.¹

Set forth below is a summary of the points discussed with the President by the Bureau of the Budget on Wednesday, February 28. The President approved these principles but was not requested to initial the Bureau paper.²

¹ President Truman and Frederick J. Lawton, Director of the Bureau of the Budget, were present at this meeting. Other participants have not been determined.

² The undated paper was titled “Organizational Arrangements for Future Foreign Economic Assistance Programs.” A copy is in Department of State Administrative Files, Lot 54 D 291.
The Bureau of the Budget is drafting identical letters from the President to State and to ECA \(^8\) which will embody the principles outlined below and instruct the agencies to work out suitable arrangements along these lines.

The outline of the paper discussed with the President is as follows:

I. General:

. New foreign aid program reflects a marked shift of emphasis from general economic aims to support of military build up.
. Broad outlines of policy on substance of this program have already been laid down by the President—the major current issue is the organization of the Executive Branch to carry it out.

II. At present, there are two major agencies concerned with foreign aid:

. ECA for ERP and aid to South East Asia and South Pacific.
. State Department for Point IV, the allied military production portion of MDAP, and United States participation in the UN programs for aid to Korea, Palestine refugees and technical assistance.

III. There are three broad alternatives:

. Continue with the present arrangements unchanged.
. Abolish ECA and lodge ECA functions in the State Department.
. Convert ECA into an agency with general responsibility for foreign aid operations, with necessary interagency arrangements with State and Defense to insure that foreign aid programs support foreign policy and military production.

The third alternative (c) was recommended by the Bureau of the Budget.

IV. Functions:

. ECA would be the operating agency for all economic grant and technical assistance programs proposed in the foreign aid package bill.
. Point IV and II AA \(^4\) would be transferred to ECA, provided satisfactory arrangements for administering them could be worked out. The President indicated that his approval of the transfer was contingent on development of a specific plan satisfactory to him and which he would approve.

\(^8\) For text of the President's letter, April 5, see circular airgram, April 12, p. 290.

\(^4\) The Institute of Inter-American Affairs, established in 1942 and a United States Government corporation since 1947, was the agent for the administration of technical assistance by the United States to the other American Republics. For documentation on U.S. economic and technical assistance policy regarding the American Republics as a group, see vol. ii, pp. 1038 ff.
V. ECA would not be a permanent agency, but would continue in operation while the size and diversity of foreign aid operations warranted. The June 30, 1952, termination date would be eliminated.

VI. State–ECA Relations:

a. Leadership of the State Department on behalf of the President in foreign affairs across the board, including foreign economic aid, must be recognized.

b. ECA operations must be more closely coordinated by State. However, there should be no amendments of Sections 105, 108, and 109 of the ECA Act, but both agencies should interpret the Act in favor of closer coordination instead of the present interpretation of virtual independence of ECA.

c. The recent interagency memorandum on international security affairs and the Spofford terms of reference have settled several important aspects of State–ECA relations. Additional clarification is proposed through:

1. Provision that when the ECA Administrator and the Secretary of State disagree, no action should be taken pending resolution by the President.

2. With respect to control of funds, ECA would submit its budget estimate to the Bureau of the Budget, but would be required to coordinate with State in the preparation of its budget. Appropriations would be made to the President and funds would be allocated by the Bureau of the Budget on the advice of State.

3. Defense and Treasury would participate in foreign aid decisions through ISAC and NAC, respectively.

VII. In regional matters, the proposition should be established that OSR is part of the United States organization for NATO purposes. OSR should be the economic staff to Spofford. Relationships at the regional levels should generally follow those proposed for the country level.

VIII. Country Organization:

a. We should move toward integration of economic work in the country under a single head appointed jointly by State and ECA. The de-
tails and extent of actual integration are very complex and will take a long time to work out.

b. State, Defense, and ECA should retain existing vertical command channels for day to day operations, but there should be coordinated instructions for matters of common concern.

c. Where differences occur at the country level, no action should be taken pending referral of the issue to higher levels on the basis of a single statement.

d. The Ambassador is recognized as responsible for leadership and coordination of the whole United States Mission in the country.

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Editorial Note

A restructuring of Executive Branch organization for the preparation of foreign aid programs occurred during March 1951. Department of State Departmental Announcement 56 of March 16, 1951, reads in part as follows:

"Effective immediately, Colonel Charles H. Bonesteel is temporarily designated as a Special Assistant to the Secretary to assist in preparing the Foreign Aid Program for presentation to the Congress. Colonel Bonesteel will give full-time central direction and coordination within the Department to the final phases of the preparation of the Aid Program. In this capacity he will work with the Chairman of the Foreign Aid Steering Group, the Chairman of the Committee on International Security Affairs, and with appropriate officials of the Department and of other agencies."

Bonesteel, Executive Director of the European Coordinating Committee in London, the regional coordinating body for the Mutual Defense Assistance Program, returned to that position upon completion of the foreign aid presentation assignment.

As Special Assistant to the Secretary of State, Bonesteel served as the Department of State representative on a new Executive Group on Foreign Aid. Other members were Colonel George A. Lincoln, Special Assistant to the Secretary of Defense; and C. Tyler Wood, Deputy United States Representative in Europe of the Economic Cooperation Administration. The Executive Group, with offices in the State Depart-
ment, became the primary full-time group with responsibility for the preparation of foreign aid programs and Congressional presentation. The members of the new Executive Group attended meetings of the Foreign Aid Steering Group on March 22 and April 11. Thereafter, the Steering Group ceased to meet, its Task Forces having largely completed preparation of the Fiscal Year 1952 foreign aid programs. The Executive Group, meanwhile, met nine times between March 28 and May 4, concerning itself with unresolved questions relating to the programs and to matters of Congressional presentation. The records of the Executive Group are located in FRC Acc. No. 62A613, Box 124.

Secretary's Memoranda, Lot 53 D 444

Memorandum of Telephone Conversation, by Mr. Lucius D. Battle, Special Assistant to the Secretary of State

CONFIDENTIAL [WASHINGTON,] April 3, 1951.

Participants: Mr. Lawton
              Mr. Acheson

Mr. Lawton called the Secretary this morning to discuss with him the problem of ECA–State relationship and a paper which Mr. Webb has apparently shown to the Secretary. The Secretary said that he had been over the paper with Mr. Webb. It was all right so far as he was concerned. He thought he understood it and saw no objection to it.

Mr. Lawton said Mr. Foster was quite upset about the paper. Mr. Foster feels it would be the end of ECA as an independent agency and that it might be better to move ECA formally to the State Department. Mr. Lawton said that Mr. Foster was worried about the Cabot–ISAC Committee relationship and felt that in effect ECA was moved down to the country-desk level and would receive instructions from this group.

Mr. Lawton said that he thought that there must be planning on NATO and back-stopping for it and that there could be no proper coordination without “teeth in it”. He said that this proposal simply puts the teeth into the coordinating function and by the funds going to the State Department a real coordination could be effected.

Mr. Acheson said that he did not feel this proposal put ECA in anything like the position Mr. Foster felt it did. He mentioned that,

1 Chronological collections of the Secretary of State's memoranda, memoranda of conversations, and memoranda of conversations with the President for the years 1947–1953, retired by the Executive Secretariat of the Department of State.
2 See position paper, infra.
while he would be responsible for allocating, after receiving the recommendations of ISAC, there was still an appeal available by anyone who was dissatisfied to the President of the United States. Mr. Acheson said that he felt this should be stressed with Mr. Foster.

Mr. Lawton said that he planned on talking with the President this morning and that the President might want to talk to the Secretary and to Mr. Foster. Mr. Acheson said he would, of course, be glad to join any meeting, if it would be helpful. Mr. Lawton also mentioned that it might be desirable for Mr. Acheson, Mr. Foster, Mr. Harriman and Mr. Lawton to sit down together for general discussion in an effort to get an agreement on the plan. The Secretary said he would like very much to have Mr. Webb present if it were agreeable to the others, but told Mr. Lawton he thought that it would be helpful if he went ahead with his plans for discussion with the President today.

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Position Paper

[WASHINGTON, undated.]

Arrangements within the executive branch for the conduct of our foreign economic aid programs must be designed to insure that such programs give maximum support to our foreign policy objectives. Financial and budgetary procedures are an important part of those arrangements, and should, accordingly, take the following form.

First, foreign assistance funds should be appropriated to the President as has been the practice in past years. Second, foreign assistance funds should be allocated to the operating agencies in a manner which will give the operating agencies maximum flexibility in carrying out their responsibilities. At the same time, arrangements should insure maximum coordination of programs at the departmental level, but, in the event any issues are not resolved at that level, they should be presented to the President through the Bureau of the Budget. The allocations should be made, therefore, by the Secretary of State under procedures approved by the Bureau of the Budget; should be for

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1 This paper was presumably the result of an interdepartmental effort coordinated by the Bureau of the Budget (see memorandum of Acheson-Lawton conversation, supra). A notation at the top of the source text by Special Assistant Battle indicates that this paper had been seen by the Secretary of State. A covering memorandum, also by Battle, states that the paper had been discussed by Secretary Acheson and Under Secretary Webb on the morning of April 3, and expressed the belief that the paper was that discussed by the Secretary and Mr. Lawton.
periods of not less than a quarter year; and should be based on regional or functional programs developed by the operating agencies. In making these allocations the Secretary of State should secure the advice of the Director of International Security Affairs who would develop his recommendations in consultation with the International Security Affairs Committee. Allocations to participating agencies for administrative expenses will be determined by the President. Foreign assistance budget estimates should be submitted by the operating agencies to the Secretary of State for coordination and review by the Director of International Security Affairs in consultation with the International Security Affairs Committee, and for submission by the Secretary of State to the Bureau of the Budget. The operating agencies would carry the major part of the burden in presenting budget estimates in budget hearings before the Bureau of the Budget and the Congress. The Bureau of the Budget should seek advice from the operating agencies as well as the Department of State in making apportionments.

Secretary's Memoranda, Lot 53 D 444

Memorandum of Telephone Conversation, by Mr. Lucius D. Battle, Special Assistant to the Secretary of State

CONFIDENTIAL [WASHINGTON,] April 4, 1951.

Participants: Mr. Foster
Mr. Acheson

Mr. Foster telephoned the Secretary this afternoon in connection with the language under discussion in the President's letter. Mr. Foster said the last version of the situation is entirely satisfactory to him.

The Secretary said that Mr. Webb had told him about it and the Secretary had told Mr. Lawton that whatever he worked out would be satisfactory with him. The Secretary assured Mr. Foster that he didn't want to cause any pain and anguish to his brethren.

Mr. Foster said that the first thing to be done was for the Secretary to decide the broad decisions as to what is military end-item assistance and economic support, etc. Once those basic determinations have been made, Mr. Foster thought the Secretary would not think it necessary to have State Department officials look at each dollar that is spent. Mr. Foster said that, as he read the paper now, it will accomplish those broad purposes. The Secretary said that this was all right.

The draft under reference has not been identified, but for the final text of the President’s letter to the Secretary of State and the Administrator of the Economic Cooperation Administration, April 5, see circular airgram, April 12, infra.
Mr. Foster said that he felt both he and the Secretary were interested in the same thing—to get the job done. Mr. Foster said that he has told Mr. Lawton that the present paper is quite all right with him, and he will tell Mr. Lawton that he may proceed with the endorsement of the Secretary and Mr. Foster.

800.00 FA/4-1251: Circular telegram

The Secretary of State to Certain Diplomatic and ECA Missions

WASHINGTON, April 12, 1951—9:10 a.m.

This is a Joint State–ECA Message.

Quoted below for your information is a letter dated April 5, 1951 from the President to the Secretary of State and the ECA Administrator setting forth certain guidances on the administration of foreign aid programs. State and ECA recognize the need for further interpretation and will keep missions informed from time to time.

“The executive branch will shortly submit to the Congress proposals for foreign assistance programs for the fiscal year 1952. These proposals will reflect the changing circumstances in the international situation and will require adjustments in the arrangements which have been made for the administration of our foreign aid programs. This letter is concerned with certain adjustments in the roles of, and relationship between, the Department of State and the Economic Cooperation Administration in the administration of foreign economic and technical assistance programs.

“It is essential that all our overseas programs be fully coordinated with each other in support of our primary foreign policy objective, namely, the preservation and strengthening of the free nations of the world. To achieve this objective in the administration of foreign economic and technical assistance programs, the following policies shall guide the Department of State and the Economic Cooperation Administration.

“1. The scope and complexity of foreign economic and technical assistance programs and the need for maximum continuity and dispatch in their performance warrant the continuation of ECA as a separate agency to carry on such programs. The Congress should be requested to repeal the present date for termination of the ECA.

2. ECA should be made responsible for economic and technical assistance, as authorized by the Congress, to Western European countries and their dependent overseas territories in completing the European Recovery Program and in support of military programs under the North Atlantic Treaty. It should also administer Congressionally authorized economic assistance programs to countries in Southeast Asia and the Near East. In addition, ECA should be responsible for such special types of aid as economic assistance to Yugoslavia, and the food program for India. The ECA should provide economic staff work for the United States in connection with United Nations administered programs for Korea, the Palestine Refugees, and the International Children’s Emergency Fund. The ECA would consult, advise and assist the State Department in the exercise of the latter’s responsibilities as the primary channel of U.S. representation to the United Nations and its affiliated organizations with respect to those programs.

3. The Secretary of State, under my direction, is the Cabinet officer responsible for the formulation of foreign policy and the conduct of foreign relations, and will provide leadership and coordination among the executive agencies in carrying out foreign policies and programs. The ECA, like other agencies engaged in administering specific overseas programs, will need to advise and consult with the Secretary of State and his staff to facilitate this responsibility for over-all foreign policy and program coordination. In the event that there is disagreement between the Secretary of State and the ECA Administrator regarding proposed ECA policy or program actions, no action should be taken until a joint statement has been submitted and the issues have been resolved by the President.

4. Financial and budgetary procedures are an important part of the arrangements to insure that foreign economic aid programs give maximum support to our foreign policy objectives and should, accordingly, take the following form.

First, foreign assistance funds should be appropriated to the President as has been the practice in past years. Second, foreign assistance funds should be allocated to the operating agencies in a manner which will give the operating agencies maximum flexibility in carrying out their responsibilities. At the same time, arrangements should insure maximum coordination of programs at the departmental level, but, in the event any issues are not resolved at that level, they should be presented to the President through the Bureau of the Budget. Accordingly, the Secretary of State, after recommendation from the International Security Affairs Committee where appropriate, should make
the broad decisions concerning the use of funds as between (a) military end-item assistance and economic support and (b) major political areas. The Secretary of State should make allocations of funds to the operating agencies under procedures to be approved by the Bureau of the Budget. There should be an initial allocation early in each fiscal year of the bulk of the available funds, a moderate balance being reserved for adjustments later in the year to preserve flexibility. Allocations to participating agencies for administrative expenses will be determined by the President.

"Foreign assistance budget estimates should be submitted by the operating agencies to the Secretary of State for coordination and review by the International Security Affairs Committee and thereafter submitted by the operating agencies to the Bureau of the Budget. The operating agencies would carry the major part of the burden in presenting budget estimates in budget hearings before the Bureau of the Budget and in the Congress. The Bureau of the Budget should seek advice from the operating agencies as well as the Department of State in making apportionments.

"3. Existing arrangements for policy and program coordination (including the International Security Affairs Committee) as provided in the interagency memorandum of understanding approved by me on December 19, 1950, shall be effectively maintained.

"6. The ECA Office of Special Representative in Europe should provide the economic staff work required by the U.S. Deputy in the North Atlantic Treaty organization. As previously determined, the U.S. Deputy shall provide leadership among U.S. regional representatives in Europe to achieve a coordinated political-military-economic effort among our overseas representatives in the North Atlantic Treaty organization. In the event that differences occur between the U.S. Deputy and the ECA Special Representative in Europe which cannot be resolved by them, no action should be taken until the issue is jointly submitted to and resolved in Washington by the two agencies concerned.

"7. To obtain maximum efficiency and economy, to avoid duplication or uncoordinated effort, and to preserve the long-range economic objectives of the Organization for European Economic Cooperation, we should promote integration of the economic work of the North Atlantic Treaty organization and the Organization for European Economic Cooperation.

"8. At the country level all U.S. representatives to that country must speak and act in a consistent manner. The U.S. Ambassador is the representative of the President of the United States to the country and is
responsible for assuring a coordinated U.S. position. He should be fully supported in the exercise of this responsibility by all U.S. representatives to the country.

"9. To prevent duplication and to assure maximum efficiency and coordination, wherever there is an ECA Mission in a country concerned with the general economic development of that country, our objective should be an integrated U.S. economic staff in the country serving all U.S. needs. While the specific organizational arrangements may vary from country to country, this objective can best be met by having the officer in charge of such an integrated staff serve as both ECA Mission Chief and as principal economic officer in the Embassy. The State Department and the ECA, with the guidance of the Bureau of the Budget, should work out measures to accomplish the objective.

"10. General policy and program directives from ECA to its missions overseas should be substantively coordinated with the State Department and identified as coordinated instructions.

"11. The changing nature of our international programs makes effective arrangements for coordination at the country level increasingly important. The Ambassador should see to it that the ECA Mission Chief is fully and currently informed on matters which affect the ECA program. The ECA Mission Chief in a country should keep the Ambassador fully and currently informed of ECA activities. He should consult with the Ambassador on matters involving U.S. policy or program determinations affecting the country. This does not mean supervision by the Ambassador of day-to-day ECA operations; such supervision is the responsibility of the ECA Mission Chief. Where the Ambassador objects to a proposed action by the ECA Mission Chief or his staff and the issue is not resolved at the country level, the question shall be referred to higher administrative levels by a joint written submittal, and the Ambassador may, if he so desires, suspend the action until the question is resolved.

"The foregoing establishes the major framework within which the Department of State and the Economic Cooperation Administration can work for the sound organization and administration of our foreign assistance programs. I shall expect the two agencies, with the Bureau of the Budget providing general leadership on my behalf, to develop specific arrangements in accordance with this general guidance.

"I am sending an identical letter to the Economic Cooperation Administrator."
Memorandum by Colonel Charles H. Bonesteel, III, Special Assistant to the Secretary of State, to the Under Secretary of State (Webb)

TOP SECRET

[WASHINGTON,] April 14, 1951.

Subject: Status—Preparation Foreign Aid Presentation.

1. Bureau of Budget markings on most of Titles II, III and IV were received Friday and revisions of programs are under way in accordance with the agreed procedure.

2. On Title I, ECA is putting its figures to the Bureau of the Budget Monday or Tuesday. The Bureau hopes to start hearings Wednesday or Thursday and give us markings as soon as possible thereafter, probably about April 24. This will leave a terrible job to try to finalize and reproduce the Presentation documents by April 30.

3. There are still a number of problems which worry us. The most important of these are:

a. We do not have a satisfactory American estimate of the costs of the NATO Medium Term Defense Plan plus essential non-NATO defense costs of European NATO countries. We have made a rush estimate of these costs which indicate total costs, from now on out, ranging in the order of $66.5 billion to $73.5 billion. The presently projected program—both end-item and ECA aid—do not cover the straight time-phased deficiencies indicated for FY '52 when realistic European capacity to finance is taken into account. We must have some sound and rational explanation of this for Congress. We are exploring the idea of suggesting a meeting of the State, Defense and ECA top level with Mr. Harriman to rationalize this problem. I will let you know our suggestion very shortly.

b. The proposals on organization and administration are not yet to our mind effective. The President's letter leaves many areas fuzzy. The Executive Branch must tell a clear story to Congress on the following points, among other:

(1) The procedures for allocating funds (Defense is likely to protest the President's letter in this regard);
(2) The jurisdiction of ISAC in regard to all foreign aid programs;
(3) The mechanics for integrating grant and loan projects in countries;
(4) A scheme for integrating activities in foreign nations for development and procurement of strategic raw materials.

1 Titles II, III, and IV of the proposed foreign aid legislation dealt with the Near East and Africa; Asia and the Pacific; and the American Republics, respectively.

2 April 13.

3 Title I concerned itself with aid to Europe.

4 For documentation on the Medium Term Defense Plan, see vol. III, pp. 1 ff.

5 For text of the President's letter to the Secretary of State and the Administrator of the Economic Cooperation Administration, April 5, see circular airgram of April 12, supra.
I am at a loss to suggest how to whip these organizational problems. The Bureau of the Budget supposedly has them in hand, but, to the best of my belief, are not doing the job required. Our predictions that the completion of studies on physical feasibility of the program and its impact on the U.S. economy would be a final bottleneck are confirmed. Work is actively underway between ECA, Defense, Mr. Harriman’s office, ODM and CEA, but it will be a miracle if we have the answers in time to incorporate them in a Presentation Book⁶ to be printed by April 30. We are, as is Mr. Harriman’s office, “needling” this operation as best we can.

C. H. Bonesteel, III

*The documents comprising the presentation book used by the Executive Branch for Congressional hearings are located in FRC Acc. No. 62A613, Boxes 124 and 128.

700.5—MAP/4-1751

Memorandum by Colonel Charles H. Bonesteel, III, Special Assistant to the Secretary of State, to the Under Secretary of State (Webb)

SECRET

[WASHINGTON,] April 17, 1951.

Subject: The “Working Doctrine” for the Foreign Aid Presentation

1. Attached are two copies of the “working doctrine” which you originally dictated some time ago.¹

2. This present version incorporates the ideas of Paul Nitze² and Mr. Harriman and has been cleared in general with Messrs. Lovett and Foster and General Bradley³ in addition to Mr. Harriman and Paul Nitze.

3. We do not anticipate any particular widespread use of the doctrine, but it has been extremely helpful in permitting us to get on the beam. If you agree with the paper in its present shape, you may wish to show a copy to the Secretary.⁴

¹The attachments do not accompany the file copy. The source text of the document which is attached is located in FRC Acc. No. 62A613, Box 124.
²Director of the Policy Planning Staff.
³General of the Army Omar N. Bradley, Chairman of the Joint Chiefs of Staff.
⁴No evidence has been found to confirm that the paper was seen by the Secretary of State.
Statement of Working Doctrine for Presentation to Congress of Foreign Aid Programs

SECRET

MEMORANDUM FOR THE EXECUTIVE GROUP
Colonel Bonesteel
Ambassador Wood
Colonel Lincoln

[WASHINGTON, April 16, 1951.]

1. There is urgent necessity for a foundational working doctrine from which will be derived the many detailed decisions required to finalize the Presidential submissions to the Congress on foreign assistance programs. There follow guide lines for such a doctrine:

2. The United States holds the position of leadership of the free world in a vital struggle for survival. To meet our responsibilities requires a tremendous effort in production, resources and personal service during the next 2-4 years, and a probability of a continuing substantial effort thereafter. The U.S. security program, including foreign assistance elements thereof, must be such as to assure sustained effort and continued support by the U.S. public and Congress. Therefore, projects presented to the Congress in the foreign assistance program must have both intrinsic merit and demonstrable importance to national security and fundamental national interest.

3. The U.S. position today requires a program which:

   a. Will accomplish, as rapidly as feasible, the simultaneous build-up of military strength in being of:

      (1) the United States,
      (2) the other North Atlantic Treaty Nations,
      (3) in terms of operational requirements, those other areas in the Far East and Middle East, as well as Germany and Yugoslavia, now threatened by the Soviet system, whose loss would be of critical importance to our national security, and
      (4) those elements of Latin American armed forces which can provide military strength essential to hemisphere defense.

   b. Will permit the build-up of general strength in the free world to be planned and executed to provide:

      (1) production and facilities directly required for military forces and necessary support in depth, including bases,
      (2) economic foundations capable of sustaining short and long-term military preparedness, with particular emphasis on the quick development on the part of those countries and regions having major economic potentials to a position of self-support of their defense efforts.
c. Will provide reasonable assistance to underdeveloped areas to help them help themselves to develop their resources, productivity and strength, thereby deterring further internal subversion or aggressive adventures by communist forces, giving a sense of positive purpose through association with the more developed democracies, and laying the foundation for cooperation with these areas that will expedite effective development and use of their resources including scarce and strategic materials in their own interest and in the interest of an expanding defense requirement and expanding world trade.

d. Is aimed at attaining maximum realistic contributions by each free nation to the sum total of free world military strength and the development of their capabilities and potential, singly and mutually.

4. Finalizing of this program for Congress will take into account the necessity for adjustments as compared with previous programs to reflect the important changes which have taken place since the aggression in Korea. Among major changes are:

a. The change in the international economic situation, including the improvement in the external financial position of many countries, the scarcity of raw materials and of commodities desired by raw materials producing areas, and of increasing the production of scarce raw materials.

b. The scarcity of many materials and finished goods in the U.S. will necessitate defense priorities to obtain these items for all exports of such items including those financed by foreign loan and grant programs.

5. In order to have a program of maximum effectiveness under the changed conditions since Korea, it must have:

a. Sufficient flexibility to permit resources to be used in such a way as to contest most effectively the shifting tactics of communism.

b. Realistic appreciation of fundamental political factors in other free nations.

c. The integrated utilization of economic, military, political and spiritual resources of the United States, powered and guided by efficient streamlined organization and teamwork in the Government and in the field.

6. Planning will include maximum efforts to eliminate administrative clogging of the functioning of the U.S. programs. Emphasis will be placed on gaining, as an integral part of building the mutual security to which the U.S. will be contributing so heavily, the maximum cooperation from all free nations in development, distribution and conservation of scarce resources.

7. The basic concept of U.S. tactics is to build U.S. power in being, to encourage the maximum effort to build strength and stability in friendly countries, and to exert psychological, economic, and other pressures to interfere with the accomplishment of communist programs.
The Administrator of the Economic Cooperation Administration (Foster) to the President

CONFIDENTIAL

WASHINGTON, April 18, 1951.

DEAR MR. PRESIDENT: The expression of confidence in the Economic Cooperation Administration, in the assignment of further responsibilities, and in the description of the framework of operation with the Department of State as set forth in your letter of April 5, 1951,\(^2\) is gratifying to every member of this organization. As its Administrator, I will strive to guide the organization along the lines you have directed and to continue to merit this confidence.

A provision of the repeal of the present terminal date of the ECA has been included in the draft of the Mutual Security Assistance Act.

Every appropriate measure is being taken, under the guidance of the Secretary of State, to promote the integration of the economic work of the North Atlantic Treaty Organization and the Organization for European Economic Cooperation.

Coordination of policy and program directives is effected at all levels between the staffs of the Department of State and the ECA. Regionally in Europe, the U.S. Special Representative is a member of the European Coordinating Committee under the chairmanship of the U.S. Deputy; in each country, the ECA Chief of Mission works under the leadership and general guidance of the Ambassador, and supports him in assuring a coordinated U.S. position in that country. I will see to it, with all the means at my command, that the ECA continues to work in this relationship with the Department of State, and that ECA Mission Chiefs in the full spirit of your letter advise and consult with the Ambassador on matters involving foreign policy and program coordination.

Planning is already well advanced for further integration of the work and effective utilization of the staffs of the ECA Missions and the economic sections of the diplomatic missions. We have found from experience, as you indicate in your letter, that there are various ar-

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\(^1\) On April 26, the source texts of this letter and the letter appearing infra were transmitted to William J. McWilliams, Director of the Executive Secretariat, Department of State, by Gordon E. Reckord, Executive Secretary of the Central Secretariat, Economic Cooperation Administration, accompanied by a memorandum of transmittal which reads as follows:

"We have been asked by the Administrator to transmit to the Department of State the attached copies of his letter to the President, and therefore request that the letters be brought to the attention of the Secretary.

There are two letters which were sent on the same day with the thought in mind that the President might wish to make Mr. Foster's reply public. The first letter (identified as Attach. 1) could then be released to the press. You will note that the second letter (Attach. 2) is still classified Confidential." (700.5 MAP/4-2651)

\(^2\) For text, see circular airgram of April 12, p. 290.
rangements, depending on the circumstances in a particular country, by means of which this purpose can be accomplished.

Since receiving your letter, I have asked the Director of the Budget for guidance on certain questions which have arisen in its interpretation. I will communicate with you further as soon as these matters have been clarified.

Respectfully yours,

WILLIAM C. FOSTER

CONFIDENTIAL

WASHINGTON, April 18, 1951.

DEAR MR. PRESIDENT: With further reference to my letter of this date I feel, for instance, that we should have more specific definition of the countries in Southeast Asia and the Near East in which you have indicated ECA will be responsible for special technical and economic assistance programs.

We have also taken up with the Bureau of the Budget certain other questions such as the relation of Export-Import Bank loans to total country programs, handling of foreign requirements, procurement and development abroad of strategic and other essential materials, and control of trade with the Soviet area.

The experience gained in World War II, confirmed in recent operations of the ECA, has demonstrated that the handling of foreign requirements and economic development activities in a country provides bargaining power in the development and procurement of essential materials in that country. It is thus desirable that these interrelated functions be assigned to the same agency in respect to each particular country.

I mention these matters here only because of the necessity of the Executive Branch reaching decisions which will enable a clear-cut, and convincing budget submittal to the Congress by the end of this month.

Respectfully yours,

WILLIAM C. FOSTER

1 Regarding this letter, see footnote 1, supra.
2 Supra.
Memorandum by Colonel Charles H. Bonesteel, III, Special Assistant to the Secretary of State, to the Under Secretary of State (Webb)

CONFIDENTIAL

WASHINGTON, April 23, 1951.

Subject: Organization for the Mutual Security Program

Attached is a rather drastic memorandum which the “Executive Group” is submitting to you. I should tell you that it represents a good deal of soul searching and is in no way motivated by “Departmental” attitudes on the part of any of the three of us.

We sincerely believe that when the Mutual Security Program is presented to Congress as a global, new, and positive approach to the heightened tensions in the world, it must be accompanied by something more than a patchwork organizational structure. The organizational issues to be met are very plain. We believe that the time has come to “grasp the nettles” and that not to do so will greatly increase the difficulties in securing passage of the Program.

We had in mind that, if you agree to this memorandum as a basis for discussion, it should be given Messrs. Foster, Lovett, Harriman, and Lawton, and that they should then meet with you, within the next few days, to agree on concerted recommendations to the President.

This matter is urgent. The stir being created in the press and on the Hill by the President’s letter of April 5 is exacerbating the situation.

Could we see you on this matter at your earliest convenience—preferably before 4 p.m. today, when we must meet with the White House offices to review draft of the President’s Message, which includes statements on organization.

[Annex]

Memorandum by the Executive Group on Foreign Aid Presentation to the Under Secretary of State (Webb)

CONFIDENTIAL

[WASHINGTON,] April 23, 1951.

Subject: Organization for Administering the Mutual Security Program

The Problem

1. It is the considered opinion of our group that a clear exposition of a sensible organizational arrangement for implementing MSP is

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1 Regarding President Truman’s message of May 24 proposing foreign aid in the form of a “Mutual Security Program,” see editorial note, p. 317.

2 No record of the proposed meeting has been found in Department of State files.

3 For text, see circular airgram, April 12, p. 290.

4 No records of the meetings under reference have been found in Department of State files.
essential to an adequate and successful presentation of the program to Congress. This has been confirmed from many sources, including informal contacts on the Hill.

2. A revision of the proposed chapter on organization for the presentation document has been prepared by a group working under the chairmanship of Mr. Burton of the Bureau of the Budget. This document is confused, unclear, and would only emphasize to Congress that within the Executive Branch there is not a comprehensive and effective organizational concept for implementing MSP.

3. The President's letter of April 5 on organization has not clarified the basic issues involved in establishing an effective organizational arrangement.

4. The President's letter has reached the press and has evoked critical comment, not only from the press, but also from public and private organizations and individuals.

5. The time remaining before presentation of the President's message to Congress on MSP is so short that it will take extraordinary action to improve the present situation.

Facts and Discussion

6. There is no basic issue taken by any of those concerned with the organizational problem to the fundamental premise that the State Department should exercise leadership, guidance, and in the final instance, control—subject only to Presidential determination if other interested Cabinet officers object—over all elements of the foreign policy of the United States and over the policies and principles to govern the operations of other agencies involved in overseas activities insofar as they affect Foreign Policy considerations.

7. Confusion and conflicting ideas exist, however, as to arrangements for policy coordination and the assignment of operational responsibilities under established policies and principles.

8. There are two principles which, we believe, should govern organizational arrangements for carrying out the MSP. They are:

a) The arrangements should be so designed as to assure that all U.S. operative agencies abroad carry on their activities in accordance with U.S. foreign policies and objectives common to all. This means effective coordination and genuine agreement by all concerned on these policies, and a system for general review of operations to see that they are, in fact, conforming to such policies.

b) The organizational arrangements should be as simple as possible and lead to the best and most rapid furtherance of U.S. objectives, with least expenditure of American resources in either money, manpower, or physical materials.

9. These principles should be applied to the present confused organizational picture. There are seven principal problem areas which need clarification. These are listed hereafter; first, the questions aris-
ing from the President's letter of April 5, and, second, the remaining issues.

The President's Letter

10. The question of one "Overseas Economic Aid Agency". Both the Gordon Gray Report \(^5\) and the Rockefeller Report have specific recommendations to the effect that a single Overseas Economic Administration should be established. We are not yet aware of the recommendations of the Brookings Institution.\(^6\) However, in our view, the whole concept of a global foreign aid program makes it imperative that the question be faced now. We believe there is need for a comprehensive Overseas Economic Aid Agency to carry out the operations of administering such aid abroad. It seems to us, further, that there are not sufficient reasons to justify continuing duplicative separate organizations involved in foreign aid and assistance such as TCA and the ECA's organization for technical assistance, particularly in light of the need for better U.S. organization to develop the increased production by foreign countries of strategic materials. We recommend that ECA be made the sole agency administering foreign economic aid and that urgent consideration be given to the transfer of TCA and IIAB to the ECA, taking care to preserve appropriate authority and prestige for Dr. Bennett \(^7\) and his staff within the ECA. We believe this can be done.

11. The question of the Allocation of Aid Funds. The President's letter states: "... the Secretary of State, after recommendation from ISAC where appropriate, should make the broad decisions concerning the use of funds as between (a) military end-item assistance and economic support and (b) major political areas". It is understood that this decision, although its scope and intent has been much misunderstood, was reached without consultation with the Department of Defense and has raised objections there. We do not believe this question is substantively of major importance, but as it seems to be interpreted by the public and by Congress it may be difficult to handle. If it would be interpreted, as we believe it must, to mean allocations only within the legislatively permitted flexibility between programs and between Titles of the Act, it becomes less important. If further it is recognized that it does not prohibit either the Secretary of Defense or the Administrator

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\(^6\) The Administration of Foreign Affairs and Overseas Operations, a report prepared for the Bureau of the Budget by the Brookings Institution, was submitted in June 1951.

\(^7\) Henry G. Bennett, Director of the Technical Cooperation Administration. The TCA, under the general direction of the Secretary of State, administered the technical cooperation program (Point Four) authorized by the Act for International Development (Title IV of the Foreign Economic Assistance Act of 1950, Public Law 855, 81st Cong.).
of the ECA from protesting to the President a decision made by the Secretary of State to which they do not agree, it is even less important. It does not, therefore, seem to us to warrant the political fight it will evoke on the Hill. We recommend, therefore, that in the President’s message, it be explicitly stated that there is no intent to alter the status and authority of the Secretary of Defense and the ECA Administrator, a fact evidenced by their continued responsibility to appeal to the President in any case in which they find themselves unable to accept the allocations of funds made by the Secretary of State.

12. Functions of ISAC. The President’s letter leaves it unclear as to whether ISAC will continue to operate under its existing charter, which limits its activities to “Security Affairs”, or whether it should be the over-all interdepartmental coordinating mechanism on all assistance programs of whatever nature. In the formulation of proposed programs for MSP we have found, for instance, that the military and economic programs for Asia were not adequately related. Specifically, in the Formosa program we found that the end-item program was based on the assumption that certain items essential to make the military program effective would be covered in the economic programs. They were not—to the tune of many millions of dollars. We recommend that ISAC clearly and explicitly be given comprehensive responsibility for the coordination of foreign assistance programs, both military and economic including technical cooperation programs, for all regions of the world.

The Other Urgent Issues

13. The question of “primary operating responsibilities” for operating agencies. In the past there has been considerable duplication of effort and much jurisdictional argument arising from the Department of State and other agencies screening in detail the technical work of agencies charged with primary responsibilities for operating programs. The Interdepartmental agreement establishing ISAC, approved by the President on December 19, 1960, established in its paragraph 7 the primary responsibilities of the operating agencies. When ISAC is considering the allocations of funds for carrying out programs or is approving programs, we recommend that the State and Treasury Departments should accept, with a minimum of double-checking, the technical statistics and recommendations provided by the agencies with operating responsibility and should confine their reviews to broad judgments on major issues. The pre-occupation of the Chairman and State member of ISAC should be to expedite the evolution of clear basic policies and principles, related to our overall Foreign Policy objectives, to govern operations under the MSP, and to achieve proper balance in the allocation of funds. He should not require his State Department staff to duplicate the detailed technical work performed by agencies with operating responsibility, nor to
clear, in advance, technical operating instructions to the field within the framework of established policy. He should, however, be given for information copies of all such instructions when dispatched and his staff should review them to see that they do not diverge from established policy. If any instructions should so diverge, he should initiate immediate and appropriate remedial action.

14. The question of the proper relating of technical and grant economic assistance programs with the making of Export-Import Bank, International Bank and other loans. The implementation by the U.S. of a program for technical assistance and economic development grant aid in an underdeveloped country without there being the closest relationship between the implementing agency and the U.S. agency (and international agency) responsible for making governmental loans to the same country makes little or no sense. This is especially true in countries—and there are many—whose credit position is good and which are accruing gold and dollar reserves. We believe that in each underdeveloped country, the effort should be made, principally by the country government but with technical assistance from U.S. personnel (or International Bank personnel) if needed or justified by the U.S. national interest (or United Nations interest), to work out an overall development program for the country. This slowly evolving program would give proper and specific account of the varying sources of funds—the government’s, private capital, Bank loans and U.S. technical assistance and grant aid. In cases where U.S. political interests necessitate grant aid to “spark-plug” needed action, this should be taken into account. We believe Congress will wish to be assured that we are in fact moving to establish such procedures. This has not been true, to any substantial extent, in the formulation of country programs in the proposed MSP. We recommend, therefore, that the current consideration by the N.A.C. of this question be expedited and be aimed at effecting in the near future satisfactory working relationships between and among the Export-Import Bank, the International Bank, the ECA, the Department of State and the Treasury.

15. The question of a consolidated U.S. organizational arrangement for increasing the development and production of strategic raw materials in foreign countries. At the present there are a great many U.S. agencies involved in this area of activity, but there is no clear assignment of responsibility for the foreign operations in any one agency. In view of the vital importance of this subject to our national security and the obvious importance of relating our foreign assistance programs, particularly in underdeveloped areas, to the attainment of U.S. objectives in this regard, we believe Congress will wish to be

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For documentation on U.S. policy regarding the procurement of strategic materials, see pp. 1 ff.
assured that necessary reorganization to this end is under way. Accordingly, we recommend that urgent attention be given this question by the Executive Branch, that appropriate action be taken to expedite the necessary studies and that a recommendation, including the designation of one agency, possibly the ECA, to be responsible in this field, be made to the President on this matter at the earliest feasible date.

16. The question of the organizational arrangements necessary to assure that "claims" by foreign countries for allocations of scarce materials and goods from the U.S. are presented and acted upon by agencies of the U.S. Government in the way best designed to promote the U.S. national interest. This is a most complicated question and will require a considerable time to work out adequately in all of its ramifications. We mention it because we believe the success of the whole concept of the MSP will depend more on the availability for transfer to other countries of actual goods and materials from the U.S. at the times they are needed than upon the mere appropriation of funds for the program. The problem encompasses more than the availability just of the materials to be shipped under grant aid and includes those essential items needed by countries no matter how paid for. The obtaining for the U.S. of requisite amounts of strategic raw materials is implicitly involved. We recommend that continued attention be paid this question by the Executive Branch to the end that arrangements adequate to cope with the problem can be effected as rapidly as feasible.

800.00-TA/4-2451

The Director of the Bureau of the Budget (Lawton) to the Secretary of Defense (Marshall)

WASHINGTON, April 24, 1951.

MY DEAR MR. SECRETARY: On April 5, 1951 the President addressed a letter to the Secretary of State and the Economic Cooperation Administrator defining the relationship of these agencies in the administration of foreign aid programs.2

Representatives of the Department of Defense have informally raised the question with members of the Budget Bureau staff as to whether language in paragraph 4, outlining a procedure for allocation of funds, had the effect of modifying the provisions of Executive Order 10099 dealing with the administration of the Mutual Defense

1 Copy transmitted to the Secretary of State.
2 For text, see circular airgram of April 12, p. 290.
Assistance Act of 1949. The language in question reads as follows:

"First, foreign assistance funds should be appropriated to the President as has been the practice in past years. Second, foreign assistance funds should be allocated to the operating agencies in a manner which will give the operating agencies maximum flexibility in carrying out their responsibilities. At the same time, arrangements should insure maximum coordination of programs at the departmental level, but, in the event any issues are not resolved at that level, they should be presented to the President through the Bureau of the Budget. Accordingly, the Secretary of State, after recommendation from the International Security Affairs Committee where appropriate, should make the broad decisions concerning the use of funds as between (a) military end-item assistance and economic support and (b) major political areas. The Secretary of State should make allocations of funds to the operating agencies under procedures to be approved by the Bureau of the Budget. There should be an initial allocation early in each fiscal year of the bulk of the available funds, a moderate balance being reserved for adjustments later in the year to preserve flexibility. Allocations to participating agencies for administrative expenses will be determined by the President."

The specific question which has arisen is whether the phrase "where appropriate" in the foregoing paragraph relieves the Secretary of State of the responsibility placed upon him by Executive Order 10099 for consultation with the Secretary of Defense in making allocation of funds under the provisions of that Order. The President’s letter does not revise the requirements outlined in the Executive order, but describes in detail the procedures and working relationships of the agencies in the day-to-day administration of foreign aid programs. There well may be cases where the Secretary of State would prefer to carry out his responsibilities under that order in direct consultation with the Secretary of Defense and the Economic Cooperation Administrator; however, I think there is general agreement that this consultation should take place insofar as practicable through the International Security Affairs Committee established with the President’s approval on December 19, 1950 and reaffirmed in paragraph 5 of the President’s letter of April 5.

I hope that this letter will serve to clarify the President’s position with respect to the questions which have been raised. I am sending you a copy of the full letter for your information.

Sincerely yours,

F. J. Lawton

* See editorial note, p. 265.
Memorandum by Colonel Charles H. Bonesteel, III, Special Assistant to the Secretary of State, to the Deputy Under Secretary of State for Political Affairs (Matthews)

TOP SECRET

[WASHINGTON,] May 1, 1951.

Subject: Possibility of Substantial Decreases in Planned MDAP End-Item Shipments to Foreign Countries, Including NATO Countries

1. The Bureau of the Budget, after examining the National Defense Budget, has raised serious question as to whether there will be sufficient expansion in military production in the U.S. during the coming fiscal year to justify asking for MDAP funds to anything like the extent presently contemplated. They have further raised the question as to whether actual deliveries to foreign countries can be maintained or increased during FY 1952. They have built up some statistical figures and graphs, based on the Defense budget presentation, which tend to support their questions, at least on a first, superficial basis.

2. We had a meeting on Saturday morning of persons immediately concerned with this problem, including people from Defense, State, ECA, Budget and Harriman's office. We decided we needed first to get the facts as clear as possible. This is underway and we hope to have much better information in a day or so, at which time we hope to pull together the whole matter and present it for highest level consideration.¹

3. Among the studies being made is one on the implications abroad of a substantial curtailment of expected MDAP end-item deliveries. I have written a draft of such paper and attach it hereto. I would appreciate any comments you might wish to make on it as soon as feasible.

4. The implications of the Budget questions, if they be true, are great. They might even imply considerable revision in a great many NSC documents. They would certainly imply a need for a "Munitions assignment" arrangement to handle American military production, at least during that period of eighteen months or so before the flow of finished items is sufficient to take care of all contemplated needs.

5. When the full story is pulled together we may wish to present it to the Secretary, and such persons as he designates. It might also be necessary to arrange a meeting between the Secretary, General Marshall ² and the JCS, if the situation is as bad as the Budget analysis implies. We are hopeful that it will not be so bad but cannot yet tell.

¹Notes on the meeting of Saturday, April 28, were contained in Executive Group document P-3, not printed (FRC Acc. No. 82A613; ISA/MDAP Files, Box 124). No documentation on subsequent higher level consideration of this subject has been found in Department of State files.

²George C. Marshall, Secretary of Defense.
Draft Paper by Colonel Charles H. Bonesteel, III, Special Assistant to the Secretary of State

Top Secret
Doc. P-3(d)

Executive Group
Foreign Aid Presentation

The Implications of Substantially Delayed Deliveries of MDAP End-Items

(Written in response to paragraph 3(d), Exec. Group Doc. P-3)

The Problem

1. A superficial analysis by the Bureau of the Budget of U.S. military production schedules, derived principally from the National Defense Budget for FY '52, indicates that very small expenditures for MDAP end-item programs can be made in FY '52. In the history of MDAP, “expenditures” have closely paralleled actual deliveries to recipient countries. If this continues to be true, it is required to analyze the political and other implications of a sharp curtailment of MDAP end-item deliveries during FY '52 to the NAT countries and other foreign countries expecting U.S. military assistance.

Discussion

2. End-item deliveries to non-NATO countries have been programmed on a basis approximating that of operational requirements (except for Greece, Turkey and Thailand). Drastic curtailment of the shipment of these operational requirements could dangerously affect the containment of Communist aggression in Asia and the Middle East. The loss at this time of Indonesia or Formosa—or the expansion of successful civil war in the Philippines—would jeopardize the retention of all of sub-Asia within the Western World. The loss, progressive or immediate, of sub-Asia would deprive the Western

*Copies of this memorandum were transmitted to the following individuals: Lincoln Gordon, Assistant to W. Averell Harriman, Special Assistant to the President; Colonel George A. Lincoln, Assistant to the Secretary of Defense and Defense representative on the Executive Committee on Foreign Aid; C. Tyler Wood, representative of the Economic Cooperation Administration on the Executive Committee; William F. Schaub, Deputy Chief of the Division of Estimates, Bureau of the Budget; Mr. Thomsen of the Bureau of the Budget; Lyle S. Garlock, Assistant Comptroller for Budget, Department of Defense; Robert O'Hara, Chief, Foreign Program Branch, Budget Division, Department of Defense; Major General Stanley L. Scott, Director, Office of Military Assistance, Department of Defense; Charles A. Coolidge, Acting Deputy Director, International Security Affairs; William H. Bray, Jr., Office of International Security Affairs; George W. Perkins, Assistant Secretary of State for European Affairs; and Paul H. Nitze, Director of the Policy Planning Staff.

*Not printed.
World of strategic materials and trade essential to the preservation of the security and economic viability of the West.

3. Substantial reductions in expected MDAP end-item deliveries to NATO countries in the coming Fiscal Year would have a less immediate, but potentially worse, effect on the national interest and security of the United States. Some of the more important resultant to such a situation are set forth hereafter.

4. The implications of a drastic reduction in expected MDAP end-item deliveries to NATO countries in the near future must be considered against the background of United States policies regarding the North Atlantic Treaty as evidenced by our actions since the Treaty was first considered. The United States was a prime mover in the creation of the concept of a security treaty among members of the North Atlantic community. The United States, evidencing bold leadership, developed the treaty and obtained its ratification by the governments concerned, very largely on the basis that the acceptance of “collective defense” was the only answer by the sovereign democracies of North America and Europe to the threat of outright or piece-meal aggression by the Soviets. Because of the economic weakness of Europe at the time of the ratifications of the Treaty, it was implicit in its concept that the United States would help provide a substantial portion of the arms required to give the treaty realistic validity. This is made almost explicit in Article III of the Treaty. The ratifications of the Treaty by the Parliaments of its European members were courageous declarations on their part of their considered decisions to oppose Communist force by the collective strength of the North Atlantic Treaty countries, rather than to depend on the wishful thinking of neutrality. These decisions were not easy to make considering the almost total lack of strength at the time in Western Europe. It was recognized, however, that the European countries, in themselves, did not have the immediate capability to produce the physical armament necessary to create the degree of strength required for the successful deterring of aggression or for opposing Soviet force with the force of the North Atlantic community.

5. Economic Implications. The United States has, since ratification of the Treaty, been forcefully insisting on increases in the defense efforts of our North Atlantic Treaty partners. The present financial measures of defense effort on the part of many of the NAT countries remain, in terms of percentage of national income, considerably below that of the United States. There is no question but what greater defense budgets could be safely supported by most of the NAT countries if the political situation in the countries was such as to obtain the support of majorities in Parliaments to vote such budgets. On the other hand, the present financial efforts, when related to the margins of safety essential to political stability and to the economic viability
needed to support defense efforts, are not too far out of line. If it becomes generally believed that the United States is insisting on an excessive proportional effort in Europe which would have drastic effects on the local economies—as is being suggested by the Bevan \(^5\) "insurrectionists" in England—and if, at the same time, U.S. arrangements implied in past NATO planning to provide substantial amounts of military equipment did not seem to be met, there could be widespread dissatisfaction among segments of the European public. This dissatisfaction might be dangerously increased by Communist and other accusations that the United States was selfishly forcing disproportionate burdens of defense on economically weaker partners without regard to their essential economic viability, at the same time that it was going back on the "bait" it used to snare them into the Treaty. Despite the speciousness of such propaganda, there is no doubt but what it could appreciably affect the "will to fight" in certain countries. As the results of decreased availabilities of raw materials and the inflationary aspects of defense production in Europe became more pronounced, these economic implications could become more and more serious.

6. Manpower Implications. The United States has been a leader in the NATO in trying to lengthen terms of conscription and training by other NAT countries. The argument has been energetically advanced by the U.S., multilaterally and bilaterally, that the modern soldier needs at least two years' training before he is adequately fitted to fight as a member of a large unit. The argument frequently advanced by European countries to the effect that it was not politically wise in Europe at this time to draft men if they could not be given the equipment with which to train, has been brushed aside repeatedly by saying that sufficient equipment, at least on training scales, could be provided in the near future. It is unfortunately true, however, that European countries, being so near the Iron Curtain, resist the suggestion that they scatter available equipment among training establishments instead of keeping it in combat ready units. This argument cannot be completely ignored when one considers the shortness of time which would be available for mobilization in case the Russians started to march. Unless steady, increasing amounts of basic military equipment become available in Europe, to keep abreast of the increased manpower called to the colors, serious political and psychological strains may result. Certainly, the forward momentum of defense efforts in Europe would receive a set-back and the public reaction in Europe might be dangerous to the continuance of the North Atlantic Treaty as a dynamic mechanism for security.

\(^5\) Aneurin Bevan, Minister for Labour and National Service, resigned from the British Cabinet in April to protest defense policies.
7. Political Implications. It is proper to assume that there is an increasing “will to resist” building up in Europe. This has not come about spontaneously, but has been slowly built through the combination of many political, military and economic factors. It has been helped most by the knowledge that, largely by U.S. end-item aid, Europe has gradually been getting the arms with which to fight. It is very hard to develop a will to fight Russian tanks with bare hands. The somewhat weak and vacillating governments in many of the European countries have lacked persuasive arguments on which to rest energetic and positive defense programs before their Parliaments and people. There has, however, been slowly developed an increasing willingness on the part of Cabinets to risk political defeat before Parliaments in the effort to get greater defense efforts—a willingness based on an increasing popular appeal for the development of collective strength in which United States end-item assistance plays an essential part. Irresponsible opposition parties, however, could seize on a substantial reduction in expected U.S. assistance to upset existing governments for petty, internal party-politics. The results of a series of governmental defeats on the issue of increased defense efforts would be dangerous to the national interests of the U.S.

8. Morale Implications. Communist propaganda has been concentrating for more than a year on developing neutralism in Europe. The Soviet “Peace Offensive” has, with some success, complemented this objective. Despite these Soviet propaganda policies, however, there has been a growth in morale and determination in Europe over the last several years. This has come about, in large part, because of a growing feeling that American arms deliveries were substantially increasing the ability of Europe to defend itself with modern and adequate weapons. If there suddenly developed a hiatus in arms deliveries from the United States, communists and confused nationalists might create such doubts as to the reality of Europe’s growing ability to defend itself that a public reaction toward neutrality could result. There is a dangerous, vicious circle inherent in such a possible development. Any pronounced increase in such sentiments in Europe would produce increasing doubt in American opinion, including Congress, as to the “guts” of the Europeans, leading to the possibility of decreased American support to the strengthening of NATO—which in turn would increase the possibilities of neutralism.

Conclusions

9. Unless we are to abandon a vast investment, made in the national interest, toward filling the vacuum of power in Western Europe, the above implications must be given full consideration. It seems clear that arrangements should be made within the U.S. Government to sustain, until full U.S. production has been reached, a flow of arms during the Fiscal Year 1952, from the United States to the European
members of the North Atlantic Treaty carefully balanced with the other vital aspects of our national defense. Such allocating arrangements must, of course, also provide for appropriate allocations to the danger spots in Asia and the Middle East.

Secretary's Daily Meetings, Lot 58 D 609

Summary of Meeting With the Secretary of State

[Extract]

SECRET

Participants: Mr. Acheson Mr. Armstrong
               Mr. Matthews Mr. Reinhardt
               Mr. Nitze Mr. Harriman
               Mr. Cabot Mr. McWilliams
               Mr. Barrett Mr. Battle

[WASHINGTON,] May 3, 1951.

Item 2. Foreign Aid Bill

Mr. Harriman reported that Mr. Murphy is now beginning to work on the draft of the President’s message on the Foreign Aid Bill. Mr. Murphy’s thought is that there should be more emphasis on economic aid, especially to undeveloped areas, than the Bureau of the Budget has allowed. Mr. Murphy believes that it is a sound position for the President to go to the Congress with a substantial amount for economic aid for underdeveloped areas with justification that this is a good way to build a world free of war even though the amount may be cut.

After considerable discussion, it seemed to be the consensus that we should go up with a substantial amount of economic aid which we thought defensible.

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1 Chronological collection of the records of the Secretary of State’s Daily Meetings with top Department of State officials for the years 1949–1952 as maintained by the Special Assistant to the Secretary of State.
2 Prepared by William J. McWilliams, Director of the Executive Secretariat.
3 Edward W. Barrett, Assistant Secretary of State for Public Affairs.
4 W. Park Armstrong, Jr., Special Assistant to the Secretary of State for Intelligence.
5 G. Frederick Reinhardt, Director of the Office of Eastern European Affairs.
6 Charles S. Murphy, Special Counsel to the President.
7 For information on President Truman’s message of May 24 proposing the Mutual Security Program, see editorial note, p. 317.
Memorandum by the Director of the Management Staff (Heneman) to the Deputy Under Secretary of State for Administration (Humelsine)

CONFIDENTIAL

[WASHINGTON,] May 8, 1951.

Subject: Summary of Administrative Aspects of the Mutual Security Program


A. Scheme of Legislation—The MSA provides for appropriation of funds to the President to be administered under the provisions of the following existing legislation:

The Economic Cooperation Act of 1948, as amended, (ECA).

B. Contemplated Programs—Program authorization is on a regional basis—Europe, Near East and Africa, Asia and Pacific, and the American Republics. Within each of these four areas separate authorizations are contemplated for military and economic assistance as follows:

Title I—Europe—Separate appropriation proposed for military and economic assistance with limited transferability (present consideration is 5 per cent of total for both programs) between them to be administered under the MDAA and ECA legislation, respectively.

Title II—Near East and Africa—provides for separate appropriation for military assistance to Greece, Turkey and Iran, and permits the President to utilize up to 10 per cent of this amount for military assistance to any other country of the Near East if he deems it necessary for the security of the United States, to be administered under the MDAA. A separate appropriation is provided for economic and technical assistance in Africa and the Near East to be administered, as the President shall direct, under the provisions of the ECA or AID. Contribution up to a certain amount may be made to the United Nations for its Palestine Refugee Program from this authorization.

Title III—Asia and Pacific—Separate authorization for military assistance is provided for the “general area of China” to be administered under Section 303 (a) of the MDAA. Separate provision is made for economic and technical assistance to be administered, as the President shall direct, under the ECA or AID. In addition, provision will be made for contribution to the United Nations Program for Korean Relief (UNKRA).

Title IV—American Republics—Separate provision is made for military assistance to be administered under the provisions of the

3 For information on existing foreign aid legislation, see footnote 3, p. 267.
MDAA and for technical assistance to be administered under the provisions of the AID and II A legislation.

Title V—General Provisions—Among others, the MSA contains the following important general provisions:

(1) A power of limited transferability (10 per cent of the funds in any one title presently contemplated) between titles is granted to the President.

(2) The President is authorized to contribute up to a certain amount of the funds authorized for economic and technical assistance under Titles I–III to the United Nations for its technical assistance program.

(3) Provision for a $20,000 per annum job for the Director of S/ISA, which is in addition to the $16,000 and three $15,000 positions provided for by Section 406 (c) of MDAA. Provision is also made for super grades to carry out the purposes of the MSA.

II. Proposed Administrative Arrangements.

A. Operation of Programs.

European Programs—The military assistance program under Title I will be operated by the Department of Defense and the Economic Assistance Program (including programs in DOT’s) by ECA.

Non-European Programs—The military assistance programs contained in Titles II–IV will be operated by the Department of Defense and the operation of the economic and technical assistance programs will be divided between State (TCA and II A) and ECA as follows:

State will have responsibility for the programs in the countries of Latin America, Near East (with the exception of Greece, Turkey, Iran and Israel), Egypt, Ethiopia, Libya, and Liberia, where the programs consist primarily of technical cooperation—and ECA will have responsibility in all other countries, where the programs consist primarily of direct aid for consumers needs and capital development. There may be Point Four programs in these ECA countries, but Point Four will be operated in the field through the STEM or other ECA mission.

B. Organization for Program Review and Coordination.

European Programs—The International Security Affairs Committee (ISAC) will continue as the Inter-Agency policy, program and coordination arrangement for the European Programs.

Non-European Programs—The ISAC coordinating mechanism will be extended to include all military and economic programs outside of Europe. Considerations are under way at present for the reorganization of ISAC to include these programs.

C. Procedure for Program Review and Funds Control.

The President’s letter of April 5, 1951,² states that the Secretary of State, after recommendation from ISAC where appropriate, should

² For text, see circular airgram of April 12, p. 290.
make the broad decisions concerning the use of funds as between (a) military end-item assistance and economic support and (b) major political areas and that he should make these allocations to the operating agencies under procedure to be approved by the Bureau of the Budget. The MSA appropriates all funds to the President according to Titles with limited transferability among the Titles and in certain instances within each Title. Pursuant to this it is proposed that the following procedure for the review of programs and control of funds will be followed:

1. The operating agencies will prepare country economic and military aid programs for submission to ISAC for “review and coordination.”

2. On the basis of the agreements reached in ISAC the operating agencies will prepare a financial plan and a supporting funding request for the accomplishment of the program.

3. ISAC shall recommend to the Secretary of State the approved programs together with supporting financial plans.

4. In accordance with existing procedures (Budget—Treasury Regulation No. 1) the Secretary of State shall consolidate such financial plans and submit to the Bureau of the Budget a request for apportionment of funds (Standard Form No. 131) for each appropriation.

5. A request for apportionment shall be justified by the operating agency and assisted from the Department of State.

6. The Bureau of the Budget shall make apportionments for each appropriation to the Secretary of State.

7. The Secretary of State shall allocate funds on the basis of apportionment made by the Budget Bureau and in accordance with funding requests submitted by the operating agency.

8. Each operating agency shall submit financial reports required by Budget—Treasury Regulation No. 1 to the State Department which shall prepare the necessary consolidation for submission to the Budget Bureau.

The above summary is based largely on the following documents which are attached for your further edification:

1. The President’s letter of April 5, 1951, setting forth the general pattern of State-ECA relations for the program.
2. Mr. Foster’s letter to the President of April 18.
3. A letter from the Bureau of the Budget to the Secretary of Defense of April 24, 1951, clarifying the meaning of the part of the President’s letter dealing with allocation of funds.
4. An A/MS staff memorandum of April 27, outlining steps contemplated for program review and funds control.
5. An A/MS staff memorandum of April 23, outlining formula for division of responsibility between State and ECA for economic assistance to underdeveloped areas. This proposal is substantially the one agreed to by Mr. Webb after talking to Dr. Bennett.

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² Ante, p. 298.
³ Ante, p. 303.
⁴ Not printed.
⁵ Not printed, but for documentation on the Point Four Program, see pp. 1641 ff.
Memorandum by the Representative of the Department of Defense on the Executive Group on Foreign Aid (Lincoln) to the Under Secretary of State (Webb)

CONFIDENTIAL

[WASHINGTON,] May 15, 1951.

Here are the “Essential Points of Mutual Security Program”, which I promised I would attempt to draft.

You suggested that some outline such as the attached might be the basis for discussion with Mr. Richards¹ this afternoon with the thought that we might want to learn more about the best method of approach to Senator George² and other members of Congress.

[Annex]

Paper Prepared by the Representative of the Department of Defense on the Executive Group on Foreign Aid (Lincoln)

CONFIDENTIAL

[WASHINGTON,] 15 May 1951.

Essential Points of Mutual Security Program

1. The Program relates and integrates practically all economic aid and military aid on a world-wide basis to attain the maximum security return for taxpayer’s dollar. It is part of the U.S. preparedness program.

2. It is founded on experience, organization and authorizing legislation of ECA, MDAP and Act for International Development. It is to be stressed that ECA, with European recovery practically achieved a year ahead of schedule, is now to be directed in major part to economic support of increased military strength.

3. The program has been worked up in the form of four titles, each dealing with a geographic area—Europe, Middle East and Africa, Asia, and Latin America. There is a fifth title of general provisions, including U.N. contributions.

4. As reported to BOB, approximately three-quarters is arms aid; most of the remainder is ECA aid designed to make possible increased military effort and military production. A comparatively small proportion is Point IV type aid designed to help people to help themselves—thereby reducing political and social unrest while generating increased production.

¹Representative James P. Richards of South Carolina became Chairman of the House Committee on Foreign Affairs on May 15, succeeding John Kee of West Virginia who died on May 8.
²Senator Walter F. George of Georgia, Member of the Senate Foreign Relations Committee.
5. The Point IV funds are primarily to provide skilled advice and some demonstration equipment to help backward countries now trying to increase their productivity.

6. The great part of the funds for Asia are for support, either direct or indirect of forces opposing Communism—Thailand, Indo-China, Philippines, and principally Formosa. These countries do not have the industry to produce or money to buy the arms. Communist revolt and/or a heavy arms load creates a need for some economic aid.

7. The funds for Europe, including Greece and Turkey, are almost entirely for increased military strength to oppose Communism.

8. Funds for North Atlantic Treaty countries are programmed to be consistent with plans to support General Eisenhower’s mission. These countries have the manpower; they can support the forces once raised. They can’t produce the initial equipment unaidered.

9. Some problems of the bill:

a. Tie-in between military plans, arms aid and economic aid;

b. How best to energize European military production;

c. Prior legislative history places Greek-Turkish economic aid in Title I and arms aid in Title II;

d. Tie-in between arms aid program, the military budget, and U.S. production programs;

e. Organization

(1) Point IV in State or ECA

(2) Coordination of program in Washington to assure that military, economic and political factors are tied together;

Note that the allocation responsibility given Secretary of State in 5 April letter is really limited to 5 per cent of funds in Title I—as bill is now drafted. This responsibility is really exercised in ISAC.

f. Handling of Germany, Spain and Yugoslavia.

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**Editorial Note**

On May 24, 1951, President Truman transmitted a message to Congress containing recommendations for a Mutual Security Program. For Fiscal Year 1952, the President recommended military assistance amounting to $6.25 billion ($5.24 billion for Europe) and economic assistance of $2.25 billion ($1.65 billion for Europe). The message reads in part as follows:

“This Mutual Security Program brings together our various foreign aid programs, including the arms aid of the Mutual Defense Assistance Program, economic assistance for Europe—now being directed primarily to support of rearmament—and our economic aid to underdeveloped areas under the Point 4 concept. Every one of these programs has proved its worth.

“In preparing the present recommendations, each of these separate programs has been revised in the light of the emergency situation that
exists in the world and the extraordinary demands that are being placed on our Nation. The amounts, the geographical areas, and the purposes of the aid have all been chosen in order to bring about the greatest possible increase in the security of the United States and the whole free world.

"Under this program, the United States will send tanks, guns, and planes to a number of free countries, in Europe and other parts of the world, which are building up armed forces against the threat of Communist attack. We will also send economic help to a number of countries—economic help ranging from machinery and materials with which to make weapons, to seeds, medicine, and technical assistance with which to conquer communism's allies of starvation and sickness."

The Mutual Security Program was to be administered under existing arrangements established by Congress in legislation authorizing previous military and economic assistance programs. The Department of Defense would continue to administer military aid, the Economic Cooperation Administration economic aid, and the Technical Cooperation Administration technical assistance. Coordinated policy guidance would be provided by the interdepartmental International Security Affairs Committee.

For the full text of the President's message, see Public Papers of the Presidents of the United States: Harry S. Truman, 1951, pages 302–313, or Department of State Bulletin, June 4, 1951, pages 888–890.

Pursuant to the President's message, the Executive Branch provided Congress with information and basic data on the proposed Mutual Security Program, including draft legislation. For text, see The Mutual Security Program for Fiscal Year 1952: Basic Data Supplied by the Executive Branch, Committee Print for the use of the House Committee on Foreign Affairs and the Senate Committee on Foreign Relations (Washington, Government Printing Office, 1951).

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700.5 MAP/5-2851

Memorandum by the Under Secretary of State (Webb) to
the President

SECRET

WASHINGTON, May 28, 1951.

Subject: Transfer of Fiscal Year 1951 Title I Funds in the Amount of $14,800,000 to Title II, and $75,489,107 [79,489,107] to Title III of the Mutual Defense Assistance Act, as Amended.¹

The continuing review by the Department of Defense of the changing military situation in various theaters, in some of which hostilities are now going on, has revealed the necessity for undertaking immediately programs of increased military assistance to Indochina, Turkey, and Greece in the respective amounts of $79,489,107, $15,800,000,

¹By letter of June 8 to the Secretary of State, President Truman approved the recommended transfer of funds (700.5 MAP/6-851).
and $2,000,000. The increased program for Indochina, and most of
that for Turkey, had been heretofore programmed for a later time.
The increased Greek program had not been considered necessary under
earlier conditions.

It is considered advisable to provide this increased aid immediately
for the reasons set forth below.

**Indochina**

On June 27, 1950, you directed the acceleration of military assist-
ance to the forces of France and the Associated States in Indochina. This
This increase has been governed by the tactical requirements of
our own forces and of another area holding a supply priority above
that of Indochina, and by the growth of forces in Indochina which
can use the equipment supplied them.

The operational needs of the French ground forces presently en-
gaged in combat in the Tonkin area have increased urgently and
unexpectedly for certain categories of equipment and ammunition.
To meet these needs there is required $49,520,000.

The activation of native forces in Indochina during calendar year
1951 has increased faster than anticipated. To provide equipment for
these forces, for which funds have not been made available previously,
there is required $10,639,107.

To provide the French forces in Indochina with twenty-three land-
ing craft and six picket craft, which, because of accelerated require-
ments due to increased operational needs should be delivered earlier
than previously contemplated, there is required $7,000,000.

The French have urgently requested a B-26 light bomber squadron
to bolster forces campaigning against the Viet Minh. To achieve the
greatest effectiveness this year, these aircraft should be delivered in
time for use during the winter dry season. $12,300,000 is required for
this program.

**Turkey**

To advance the delivery date of a submarine tender needed to
increase the mobility of the Turkish submarine fleet previously fur-
nished by the U.S., there is required $8,000,000.

To provide common use items urgently needed to support increases
in the Turkish armed forces, there is required $7,800,000. It was pre-
viously contemplated that these items would be paid for with ECA
Fiscal Year 1951 funds. The Bureau of the Budget has recently de-
termined, however, that they are properly chargeable to Mutual
Defense Assistance Funds.

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2 For documentation on U.S. policy with respect to Indochina, including ma-
terial on military assistance, see vol. vi, Part 1, pp. 332 ff.; documentation on
U.S. relations with Greece and Turkey appears in volume v.

3 For documentation on U.S. policy with respect to Indochina during 1950,
including material on military assistance, see Foreign Relations, 1950, vol. vi,
pp. 800 ff.
Greece

To provide a portion of the harbor defense equipment for Souda Bay Crete, recently set by CINC NELM as the highest priority for Greece, and upon which long production lead-times require the earliest implementation, there is required $2,000,000.

The foregoing programs total $79,489,107 for Title III, and $17,800,000 for Title II. There are $4,000,000 available in Title III Fiscal Year 1951 unprogrammed funds. There are $3,000,000 available in Title II Fiscal Year 1950 and 1951 unprogrammed funds. To secure the balance required to meet the programs proposed above, the Departments of State and Defense recommend that, by signing the memorandum attached as Annex A, you transfer from funds appropriated for use in accordance with Title I of the MDA Act, as amended, $75,489,107 to Title III (appropriation symbol 1110049) and $14,800,000 to Title II (appropriation symbol 1110046). Such a transfer is authorized by Section 408(c) of the Act, as amended.

Although, as a general rule, it is considered undesirable to divert any significant amount of funds from their intended use in Europe, it is believed desirable to do so in this instance.

The long-term objective of assisting the creation of an integrated military force of the North Atlantic Treaty powers (Title I) involves the transfer of large amounts of complex new equipment (having in many cases long production lead-times) coordinated with the provision of assistance to increase indigenous military production. These measures must all be carefully coordinated with expanding European mobilization programs. This concept differs from that governing military assistance to the Far East and to a lesser extent from that governing military assistance to the Middle East. The military situation in Asia ranges from full scale combat operations in Korea and Indochina, through the threat of invasion in Formosa, to minor police action in other countries.

Pressure from the North on the Near East is relentless. The threat of a limited, Soviet-inspired, satellite attack along North Korean lines is ever present in that area.

Accordingly, the needs of these areas, unlike Europe's, are largely for individual items or installations required for immediate and specific operational purposes.

In the present case, therefore, it is believed that the temporary diversion of a relatively small amount of funds from use in Europe to use in the Far and Middle East will not seriously affect the build-up of European defenses. This is so partly because of the short-term unavailability of many of the items required by our European partners. On the other hand, the situation in the Far and Middle East and the nature of the items required to meet these situations are such that it

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4 Not printed.
is greatly in our interest to fill immediately the programs here proposed.

It is recommended that you allocate $79,489,107 out of appropriation symbol 1110049 to the Department of Defense for use under Section 302. All the funds transferred to Titles II and III will be used to implement the above programs, subject to refinements to be approved by the Director, International Security Affairs. The Department of Defense (and the ECA in the case of the program of common-use items for Turkey) will prepare and submit fiscal and supply reports on these programs to the Department of State, under procedures approved by the International Security Affairs Committee.

Section 408(c) of the Act, as amended, also provides that notice of any action thereunder shall be given by the President to the Committee on Foreign Relations of the Senate, the Committee on Armed Services of the Senate and the House, and the Committee on Foreign Affairs of the House.

I have attached as Annex B a copy of a draft letter on this matter which I recommend you transmit to the interested Chairman.

JAMES E. WEBB

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Not printed.

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ISAC Files, Lot 53 D 443

Memorandum by the Foreign Supplies and Requirements Committee

RESTRICTED

FSRC Doc. 6

WASHINGTON, June 6, 1951.

FOREIGN ECONOMIC DEVELOPMENT PROJECTS AND PROGRAMS

Any determination of which foreign development projects or programs contribute sufficiently to U.S. policy objectives to warrant sup-

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Basic collection of documents, action summaries, memoranda of meetings, and related records of the International Security Affairs Committee (ISAC), 1951, retired by the Executive Secretariat of the Department of State.

The Committee on Foreign Supplies and Requirements was established on January 1, 1951, to advise the Director of Defense Mobilization regarding foreign requirements for supplies produced in the United States and U.S. requirements for supplies from foreign sources. William C. Foster, Administrator of the Economic Cooperation Administration, was Chairman of the Committee; Willard L. Thorp, Assistant Secretary for Economic Affairs represented the Department of State. Other agencies represented included the Departments of Defense, Treasury, Interior, Agriculture, Commerce, and Labor; the Defense-Production Administration; the Economic Stabilization Agency; the Export-Import Bank; and the office of W. Averell Harriman, Special Assistant to the President.

This memorandum was circulated in the International Security Affairs Committee as document ISAC D-3/8, June 11, with the notation that it contained the basic policy guidance for agencies interested in sponsoring or examining foreign economic programs or projects.

See Annex A [Footnote in the source text. Annex A, containing extracts from public statements by President Truman on foreign aid, is not printed.]
port in the form of government priority or directive assistance, must
necessarily be flexible as supply conditions change and as actual expe-
rience accumulates. Sound appraisal of each project's contribution is
especially important so long as the U.S. mobilization plan utilizes only
a single rather than multiple dividing lines to determine essentiality
in terms of priority assistance.

The following discussion and statement of policy guides applies to
foreign projects or programs regardless of whether they are financed
abroad or in the U.S. by government loan or grant, by the IBRD, or
by private enterprise.

Two general groups of considerations should be taken into account
in the formation of policy, as follows:

(1) Considerations affecting decisions on the basic need of foreign
projects for U.S. support and assistance:

(a) The paramount consideration should always be the contribu-
tion of a particular development project toward the stated general
United States policy of providing for the maximum strength and secu-

(b) Projects for increasing foreign production, whether entirely
new or expansions of existing facilities, may frequently depend for
their effectiveness (unlike the normal situation in the United States)
upon simultaneous expansion of power, transport, communication and
other supporting facilities, such as health, education and sanitation.

(c) Many nations have been dependent in recent past years on
varying amounts of essential U.S. products, and chronically have suf-
furred deficit balances of dollar payments. In many such cases, they
have required U.S. economic assistance. Therefore, foreign de-
velopment projects which can result in more exports and more self-support
can make a permanent contribution to an expanding world economy
in the long run, as well as a present contribution of materials for the
common mobilization effort.

(d) Projects in friendly foreign countries may be of direct value
in reducing the dependence of themselves and other friendly coun-
tries upon supplies from Soviet-bloc sources.

(e) The natural tendency is for most American producers of equip-
ment and supplies for projects, in periods of shortage, to favor their
established customers.

(f) There is a real value to the United States, and to the free
nations collectively, in maintaining the long-run political and psycho-
logical advantages of the Point IV Program, which would be
jeopardized if long-term development programs abroad were to cease
for want of materials and equipment. Individual projects may in
addition make particular contributions to political stability, internal
resistance to subversion, and to short-run economic improvement
leading to higher living standards.

(2) Considerations affecting decisions on the degree and extent of
priority or directive assistance needed in individual cases:

(a) Some projects require assistance for only a minor portion of
their total needs of short-supply items, either because the projects
have already received substantial deliveries or because requirements
have been or will be available from non-U.S. sources. Such require-
ments thus have a special degree of importance.

(b) Failure to complete foreign projects already under construc-
tion could be wasteful of materials and potential production. There
may be cases in which a speeding up or redirection of projects would
be wiser than a “start from scratch” elsewhere. Or, conversely, re-
results in terms of actual production may be obtainable much more
slowly from some proposed foreign undertakings than from a similar
expenditure in the United States or in another country.

(c) Certain short supply items of equipment may be obtainable,
for use in foreign projects, from foreign sources without interference
with other equally essential demands. Such use may or may not be
desirable, in the light of the guiding principle that all facilities within
the free nations for producing critically needed types of equipment
should, to the fullest extent feasible, be used first for the most essen-
tial purposes. The fact that there is financing or ownership by Ameri-
can agencies of a particular project should not affect the choice of
sources of supply for needed equipment or materials.

(d) Although in general the contribution of a project to free world
strength is the basic criterion, and not the particular sponsorship or
ownership of a project, there may be cases where ownership, bene-
ficiaries, or sources of financing may be of such nature as to be un-
desirable in terms of the best interests of the United States and/or
of those nations actively associated with the United States in common
defense planning. A careful preliminary check with the proper gov-
ernmental agencies will avoid a frontal issue when a project is being
given formal review.

(e) Other considerations which will apply in varying degree to
particular projects include:

(i) the indirect contribution of a given project to defensive
military strength;

(ii) the degree of political and transport risks involved in the
location of the project;

(iii) the special importance of increased agricultural produc-
tion in particular areas;

(iv) the efficacy of controls over the outflow of materials or
products to Soviet-bloc countries in the particular nation or area
where the project is to be located.

Preliminary Determination of Scope of Assistance

A peculiar problem arises in cases where a decision to finance, or
not to finance, a given project is to be reached by an American govern-
mental agency, by American private financing agencies, or by Ameri-
can corporations. The decision itself may in some cases turn on the
likelihood that needed priority or directive assistance will in fact be
obtainable when a subsequent formal presentation is made. Therefore,
a careful preliminary survey is of great importance in order to deter-
mine whether the project will qualify under the general standards
indirected [indicated] herein and to be explicitly applied by the operat-
ing agencies concerned.
There is a second danger to be avoided in the making of financing commitments before the scope of assistance is finally determined. Regrettably, foreign governments or other sponsors of development projects have in the past interpreted a decision by American agencies to extend financial assistance as an irrevocable decision to supply the needed materials and equipment from American sources. The preliminary survey indicated above should minimize the number of cases of embarrassment and ill-will resulting when assistance in obtaining equipment is, rightly, not forthcoming for an already-financed project.

**Policy Guides**

In setting forth the following general policy guides to be followed by all United States government agencies dealing with foreign economic development projects, no effort is made to formulate or to repeat similar standards of essentiality and other tests to be applied to domestic American projects. Nor is it the intention to specify assistance for foreign projects differing from that available for, or accorded to, domestic projects of equal essentiality, except where peculiar circumstances encountered in meeting foreign needs may make it necessary. Adequate procedures are available within the mobilization agencies to provide review in the same forum of foreign and domestic projects, and to provide for the maintenance and operating requirements of existing foreign enterprises which are essential in a sound economy.

The policy guides to be applied by the agencies concerned are as follows:

1. Foreign development projects shall be generally supported and facilitated in a manner conforming to the general policy laid down in the statement of Foreign Allocations Policy approved by this committee.

2. After a critical examination utilizing the considerations and standards indicated above, and parallel with the current examination of similarly essential domestic projects, priority and/or directive assistance equally effective with that currently available to highly essential domestic projects shall be provided for foreign development projects (either new, or expansions of existing facilities) if they will result in:

   a. direct military production of friendly nations, as required within the limits of military objectives to which the United States has agreed, including the time-phasing, the location of facilities, and the beneficiaries of the planned production;

   b. essential support for the military production described in (a);

   c. production, or required support for production, of highly essential materials or products which are, or are expected to be, in critically short world supply;
(d) production of clearly essential products or services for the
civilian economy of friendly nations, but assistance shall be confined
to those cases where it is needed only for procurement of a minor
portion of the total quantity of short supply items.

(3) Projects other than those described in paragraph (2) which
will, (a) expand essential civilian services or facilities, particularly
those which form part of a long-term development program, (b) re-
duce future dependence upon military or economic assistance by the
United States, (c) reduce future dependence upon Soviet-bloc sources
of supply, or (d) help to prevent political deterioration in nations or
areas essential to free world strength, shall be given needed priority or
directive assistance providing that a critical examination and an in-
vestigation of domestic producers’ schedules show that such action will
not interfere with military production, defense-supporting produc-
tion, or with projects for expanding output of critical materials.

(4) In determining the form and extent of priority assistance re-
quired for foreign projects, account should be taken of the possible
reluctance of domestic producers, during periods of shortage, to fill
foreign orders at the expense of established domestic customers unless
clearly directed to do so.

(5) The nature and objectives of a project, and not the source of
financing nor the ultimate owners and beneficiaries within the free
world will ordinarily be the tests by which to determine essentiality
and the need for assistance; but the particular circumstances of owner-
ship or sources of equity financing, and the likely beneficiaries of re-
sulting production or service must be examined, and should be of such
nature as to promote the current over-all diplomatic and military
objectives of the United States or those of nations closely allied with
the United States in common defense planning.

(6) The United States should promote by all practicable means the
adoption of criteria similar to the foregoing by friendly foreign in-
dustrialized countries capable of supplying equipment and products
for economic development projects and programs, and the exchange
of information relating thereto with the United States through ap-
propriate channels.
SECRET
UM N-360

Progress Report on MDAP

1. Mr. Bell explained that MDAP has been in existence for about two years. However, it was almost the first of 1950 before the program actually began to operate. We have had three appropriations during fiscal years 1950 and 1951. The first was $1.3 billion, the second $1.1 billion, and the supplemental appropriation was $4 billion. All but $500 million has been obligated. The program has been primarily grant aid, including end-items, training, and aid to production. The end item program has been divided among EUR, FE, and NEA. For Europe, or Title I, $4.3 billion has been programmed and $1.2 billion has been programmed from excess. Of the $5.1 billion, 65 percent has been obligated as of April 30, and $600 million has been shipped. The recipients have been Belgium, Denmark, France, Italy, Luxembourg, Netherlands, Norway, Portugal, and the UK. Included in this program has been money for the Yugoslav food program and for the development of three stockpiles for Austria, Germany, and Yugoslavia. Title II includes Greece, Turkey, and Iran. $495 million has been programmed, with the addition of $48 million from excess. Of the $543 million, 63 percent has been obligated as of April 30, and $125 million has been shipped. Title III includes Korea, Philippines, Burma, Indochina, Indonesia, Formosa, and Thailand. $562 million has been programmed plus $25 million from excess. Of the $587 million, 45 percent has been obligated as of April 30 and $121 million shipped as of that time. $56 million has been obligated for four special projects. All but $25 million of this amount has been programmed and this will be handled this week.

2. Mr. Bell explained that 17,500 officers and enlisted men have been trained or are in training, including 5,000 officers and 12,500 enlisted men. About 5,000 men have been trained overseas and 12,500 men in this country. As between titles, 13,500 from Title I countries have been trained; 2,836 from Title II; and 1,180 from Title III. As between the services, 5,298 have been trained for the Army; 8,326 for the Navy; and 3,861 for the Air Force. The Army and Air Force figures will probably increase in the future.

1 Additional information on MDAP operations is contained in the four semiannual reports by the President to Congress covering the period October 6, 1949–October 9, 1951; see Report to Congress on the Mutual Defense Assistance Program (Semi-annual) (Washington, Government Printing Office, 1950–1952).

2 John O. Bell, Assistant Director for Program Management, Office of International Security Affairs.
3. On the economic side, Mr. Bell explained that we over-anticipated our needs. Approximately $230 million has been programmed and will be obligated by June 30 for Belgium, Luxemburg, Denmark, France, Italy, Netherlands, Norway, and the UK.

4. With respect to reimbursable aid, 43 countries have been given such aid, and 530 requests for such aid have been requested. $171 million sales have been made and $368 million are in process. The bulk of the aid has been given to Canada.

5. Mr. Bell explained that during the past six months, we have worked very closely with ECA on economic aid. We have handled European countries as a single package. This approach has made our negotiating position much more effective. We have made some efforts to relate economic aid to the increase in production in the individual countries. Mr. Bell explained that we have attempted to give assistance to countries requiring imports for their defense effort. In other words, we have attempted to get adequate priority treatment for certain countries. We have also attempted to refine the economics of some of our operations. For example, we have set up two depots to serve as common overhaul bases which have saved the U.S. Government $200 million. We have also made some contribution to the expansion of plants in the United States. Mr. Bell explained that we are attempting to resolve the problem of buying military equipment in Europe, but so far no substantial volume has been produced by these efforts.

6. Mr. Bell stated that the forecasts for delivery had to be taken with many reservations, depending upon Korea, production, etc. The 1950 program should be delivered by June 30, 1951; the 1951 program should be delivered by June 30, 1952; and the 1952 program may be delivered by the end of 1952. We have worked with the military, and we have been assured that 7 percent of the Army items will be given to MDAP and 30 percent of Air Force items. Of course, this percentage will vary among the individual items. Mr. Bell explained that the Defense Department is giving MDAP a concurrent priority with Korea.

7. In response to a question by Mr. Webb, Mr. Bell explained that the slowness of delivery in the initial stages of the program was serious. However, recent deliveries have had a definite impact, especially on the morale of foreign troops. The upswing in deliveries should continue to have a favorable impression upon the countries involved.

8. Mr. Rusk asked whether it was possible or necessary to have some inter-governmental action to control trade in arms. Mr. Bell explained that there is a general system in Europe whereby governments will check with the Defense Production Board of NATO to see whether countries need military equipment which is in excess in a given country. However, basically, the problem is inadequate government control.
9. Mr. McFall \(^3\) pointed out that congressmen are worried about the lag in the delivery of equipment. He suggested that we be prepared to explain the lead-time required for deliveries and the reason for certain lags. He also suggested that it might be wise to put pressure on the North Atlantic Council to develop a method of clearing defense budgets through NATO. He felt that if we could develop such a plan, which would be similar to EPU, this would affect the reaction of the Congress to the program. Mr. Martin \(^4\) pointed out that the sales of military equipment are now cleared through EPU. The basic problem is one of availability of money which makes the countries disinclined to procure outside of their own economies. Mr. Nitze pointed out that the Europeans are putting up a large share of the manpower which places a severe burden on their defense budgets and makes them have less money available for procuring military equipment. Mr. Bell pointed out that we would not be reluctant to have the defense budgets go up insofar as the manpower problem is concerned. For example, the pay scale for officers and non-commissioned officers in France is so low now that it is difficult to recruit a good force.

10. Mr. Webb asked whether our problems within the Government on this program were working out satisfactorily, including adequate machinery and organization for executing the program. Mr. Bell explained that our relationship with the military on end-items has been good. He believed that the amount of detail which we were requiring was excessive but this is now being changed. The economic side is more difficult since we are dealing with a poorly defined area. However, now we are approaching a rational distribution of functions and our desire is not to go into detail with ECA. However, we cannot dissipate our bargaining power with countries involved in the MDAP program. Mr. Webb asked how our relations were with other countries and whether it would be to our advantage to develop a multilateral distribution system for the aid. Mr. Bell explained that we are moving rapidly toward a multilateral distribution system for economic aid but no definite agreement has been reached on the military side. Mr. Webb pointed out that we need to develop a strong U.S. overseas team so that they could do a large share of the job abroad. In effect, he was suggesting that we decentralize as much of the program and operations as we can with adequate backstopping in Washington. Mr. Bell stated that we were attempting to move in this direction. Mr. Martin added that Defense has been reluctant to delegate or decentralize powers to responsible officers overseas.

\(^{3}\) Jack K. McFall, Assistant Secretary of State for Congressional Relations.

\(^{4}\) Edwin M. Martin, Director of the Office of European Regional Affairs.
Summary of Events Prepared in the Office of the Director of International Security Affairs (Cabot)\(^1\)

SECRET

[WASHINGTON,] June 23, 1951.

CURRENT DEVELOPMENTS IN INTERNATIONAL SECURITY AFFAIRS

[Here follows discussion of subjects other than the Mutual Security Program.]

THE MUTUAL SECURITY PROGRAM

The Mutual Security Program for Fiscal Year 1952 recommended by the President in his message to Congress of May 24,\(^2\) brings together the various existing foreign aid programs, including MDAP, ECA assistance for Europe, and economic aid to underdeveloped areas under the Point IV concept. The total funds required under the MSP would be divided as follows:

<table>
<thead>
<tr>
<th>Economic (in millions)</th>
<th>Military (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>1,650</td>
</tr>
<tr>
<td>Middle East and Northern Africa</td>
<td>125</td>
</tr>
<tr>
<td>Asia</td>
<td>375</td>
</tr>
<tr>
<td>Latin America</td>
<td>22</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>78</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,250</strong></td>
</tr>
</tbody>
</table>

The military aid for Greece and Turkey is included in the amount for the Middle East. The amount of the economic aid for Europe includes the economic aid for Greece and Turkey. For convenience, the estimated requirement for administrative expenses for the entire program—approximately $78 million—is shown as a single figure under economic aid.

The amounts requested for economic aid include $13 million to be furnished the United Nations and the Organization of American States for their technical assistance programs.

The President also recommended that the lending authority of the Export-Import Bank be increased by one billion dollars in order that full use might be made of the opportunities for loans, especially to develop strategic materials.

No administration bill covering the program is being officially transmitted to the Congress. However, a draft of a suggested Mutual Security Bill proposes, and the Administration is recommending that the new legislation provide that the aid requested should be furnished under the basic authority contained in those other laws under

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\(^1\) Circulated for information as ISA News Letter No. 2.

\(^2\) See editorial note, p. 317.
which foreign assistance has heretofore been made available. It is also proposed, however, that there be several amendments to these underlying acts, among which the following are the most important:

1. All forms of economic aid, including economic aid directly related to increased production abroad, would be included in the economic aid figure, and no sums for additional military production (AMP) would be included, as in the past, in the amount for military aid. This means that under the new Bill, it would be possible for funds to be made available under the ECA Act to be expended for objects which are prohibited under the MDA Act, namely, for construction of foreign factories or the provision of equipment, other than production equipment, for maintenance of such factories, for compensation for any country for diminution of export trade resulting from increased military production, or to pay for personal services rendered in any such factory other than U.S. technical assistance.

2. The authority to provide military aid to non-NATO European countries, which is contained in 408(c) of the MDA Act, is considerably broadened and made simpler of administration. Similarly, authority is provided to extend economic aid to non-OEEC countries under certain circumstances. Spain and Yugoslavia are thus added to the European countries presently eligible for economic assistance. Limited transferability between funds available for use under the MDA Act and funds available under the ECA Act is also sought.

3. Authorization is provided, upon certain prior determination of the President, for the transfer of military grant aid to countries of the Near Eastern area of up to 10% of the funds made available for military assistance to Greece, Turkey and Iran.

4. A program of up to $40 million in military grant aid to Latin American countries is authorized.

5. Up to 10% of the funds made available for use in one area under one Title of the Act can be transferred for use in any one of the other areas covered by another Title of the Act. However, funds so transferred may not be used to furnish any kind of assistance except the kind authorized to be furnished in the section from which the funds were transferred.

6. The use of Title I funds for paying the expenses of U.S. participation in NATO, including the U.S. contribution toward the expenses of SHAPE, would be authorized.

7. Contributions to the UN and Organization of American States for technical assistance programs carried out by those agencies, continuing the authority contained in the Act for International Development, would also be authorized.

8. An appropriation for the U.S. contribution to the UN Korean Reconstruction Agency (UNKRA) would be authorized. The amount of the U.S. share is $162,500,000.

9. The provision of an additional $450 million worth of excess military equipment and materials would be permitted. With this amendment, the amount of excess equipment which may be transferred without change to the MDAP appropriations would reach a cumulative total of $1,150,000,000.

10. The value of outstanding, unfunded procurement contracts which may be outstanding at any one time under the reimbursable aid program would be raised from $100 million to $500 million.
11. Certain amendments to facilitate the use of patents and technical information are also proposed.

(For further details on the MSP, see the "Presentation Book", which has been sent to all missions.)

It is expected that hearings on the Mutual Security Bill will start on June 26 in the House Committee on Foreign Affairs, after certain of the Committee members have returned from their trip to Europe. Hearings before the Senate Committee on Foreign Relations and Armed Services combined are not expected to commence until after the MacArthur hearings are over.

Since the preparation of the presentation material for the MSP is virtually complete, the interdepartmental “Executive Group” which coordinated this work has been dissolved and Colonel Bonesteel, its Director, is returning to his regular post in London. Mr. Cabot, Director of ISA, from now on will be responsible within the State Department for direction of the presentation of the MSP to Congress, and for coordinating the work of the Department with that of other agencies in the presentation.3

Since the enactment of the MSP will probably be delayed for several months, the Bureau of the Budget is making plans for interim legislation. It is hoped that a joint House-Senate resolution will be enacted to extend the authority to commit funds under existing legislation not exceeding an amount at the annual rate at which funds have been obligated under the several acts during the last quarter of Fiscal Year 1951.

[Here follows discussion of other subjects.]

ORGANIZATION

U.S. Organization for Administering the Mutual Security Program

The following is the text of a memorandum forwarded by the Director of International Security Affairs to Congressman McCormack 4 on the organizational plans for the Mutual Security Program.

June 11, 1951.

“A number of recent reports have suggested changes in the organization needed to administer foreign aid. Various organizational schemes have been proposed. The plan of organization adopted pursuant to memorandum approved by the President on December 19, 1950 5 and contemplated by the new proposed Mutual Security Program seems most likely to achieve over-all objectives of foreign policy at minimum cost.

3 Executive Branch organization for the presentation of the Mutual Security Program to Congress was set forth in Department of State Announcement 125, effective June 13; for text, see Department of State Bulletin, July 9, 1951, p. 53.
4 Representative John W. McCormack of Massachusetts, House Majority Leader.
5 See editorial note, p. 265.
"It is generally recognized, and past experience has certainly demonstrated, that the actual operation of either military or economic aid—the mechanics of laying out a detailed program, of procurement or the financing of procurement, and the follow-up on the use made of the aid—is a specialized job that requires a specially equipped operating agency which can give full attention to it. Determination of arms needs is a military determination and must be done by military men. Arms procurement and military training are also jobs for military men. These should be the primary responsibility of the Department of Defense, as they have been under previous military aid programs. Similarly, the ECA has done a very commendable job in carrying out the Marshall Plan. It has an effective team trained in economic and production problems and has a great fund of information on European production capacities. To lose or impair the usefulness of this team would set back the effectiveness of the economic aid portion of the Mutual Security Program by many months.

"The basic problem of organization is how to tie together military aid and economic aid so that they will complement each other in operation and give most effective support to our total foreign policy. The primary objective of military aid is to arm and train the forces of friendly nations. Military aid has been the responsibility of the Departments of Defense and State. The primary objective of economic aid has been to prevent economic collapse and acceptance of Communism. Economic aid has been the responsibility of ECA. Now most economic aid will be directed toward the objective of increased military production.

"Increased European military production is of great importance to the American taxpayer. This increase is unlikely if the policy of eliminating from arms aid those items which can, within a reasonable time, be produced in the recipient country is not enforced. No country is likely to go to the trouble and expense of producing what it can get from us free of charge. Therefore, when the arms requirements of a country have been determined, they are screened so we will not furnish items which can be produced either in the recipient country or a neighboring country. When necessary, economic aid is adjusted to help the recipient carry the added burden of producing, or buying from its neighbor, items screened from the military aid program. It is evident that we cannot carry out this policy and get countries to build up their own production unless the arms and economic aid programs are coordinated. The logical place for coordination responsibility is in the Department of State where the two programs meet and where each respectively must of necessity be coordinated with the overall foreign policy of the Government.

"The need for either military aid or economic aid depends on the role a country is expected to play in the mutual security plans, the size
of the forces it should maintain, the mission of these forces and the political and economic factors which condition its efforts. Judgment cannot be made solely on military or economic or political grounds. It must embrace all of these. It must be a composite judgment to which the Defense Department, the State Department and the ECA all contribute.

"Foreign aid must also be judged in relation to other instruments of our foreign policy. All aid can be useful in determining the courses recipient governments will take toward mutual security, including larger defense budgets, forces and production. While aid of course is extended without strings attached, the U.S. does take into account the willingness of other governments to make their own contributions to mutual defense. These contributions take many forms in the economic, political, and military field—not all directly related to the mutual aid program. We must use our total power, including our aid programs, effectively and avoid exhausting it on objectives of low priority. To do this, our negotiations must be coordinated so that all aspects of our relations with the recipient country harmonize with and contribute to the general foreign policy objectives, particularly in the international security field. Often our aid programs are in large part designed to supply the United States' contribution to the collective security effort, the nature of which is determined through multilateral negotiations in NATO or some other international body.

"Although the total of aid is used for the total of our objectives, one cannot first determine the total and then divide it between military and economic aid, for economic and military aid needs are determined by entirely different processes and have different significance. Primarily, the process of determining military aid is to determine what arms are needed for the forces committed to our mutual security and when these arms will be needed. The timing of appropriation and obligation of funds for arms is different from the timing of deliveries of arms. This is due to variable time between placing the order and getting delivery of items of varying complexity. It is thus not feasible to allocate arms aid at the time of obligation in the same manner as with economic aid.

"Military aid and economic aid have a quite different significance per dollar. In fact, we do not tell recipients the dollar value of military aid. Some items from surplus are valued at a small fraction of the cost of similar items from new procurement. To bargain with military aid on a dollar basis would jeopardize our whole security program. We cannot afford to deny weapons to forces which desperately need those weapons. To do so would sacrifice our own security.

"Military aid and economic aid must be considered separately but related each to the other. A composite judgment is necessary to get maximum effectiveness in support of national policy. Although the
Department of State will be charged with the responsibility for coordination of aid under the proposed Mutual Security Program, this does not imply direct control. It is expected that aid will be coordinated through the International Security Affairs Committee on which the three agencies—Defense, State, and ECA—will be represented (also Treasury and Mr. Harriman’s office). Agreement in this Committee must be unanimous. Failing agreement, matters can be referred to the Cabinet level (Foreign Mutual Aid Steering Committee), or to the President. Actually, experience of the last four months has shown a remarkable degree of unanimity in the Committee. The Chairman has, in fact, been able to resolve all problems submitted to the Committee without reference to the President."

Secretary’s Memoranda, Lot 53 D 444

Memorandum of Telephone Conversation, by the Personal Assistant to the Secretary of State (Evans)

CONFIDENTIAL [WASHINGTON,] June 27, 1951.

Participants—Secretary Acheson

Mr. William Foster, ECA

The Secretary telephoned Mr. Foster to discuss the handling of ECA in his testimony before the House Foreign Affairs Committee on the Foreign Aid Bill.¹

The Secretary said we should not fight to not have ECA wound up. He thought he should follow the lead of the President’s message and the draft bill, and what he should say was that the President has suggested that the method of dealing with the question of ending or continuing ECA should be the one which permits the least dislocation. The President’s recommendations allow the Committee to go into the whole question, consider the various alternatives, and make up its own mind; the original idea of ECA can be adhered to or changed. The Secretary said he thought it was bad to have rumors about what the Committee is going to do. There is now a fine, going concern, and, if there is a lot of talk about what is going to happen to it before the Committee makes up its mind, the whole ECA admin-

¹The House Committee on Foreign Affairs held hearings on the Mutual Security Program between June 26 and July 31. Secretary of State Acheson testified on June 26, 27, and 28, followed by Secretary of Defense Marshall (June 29 and July 2), W. Averell Harriman, Special Assistant to the President (July 3), and ECA Administrator Foster (July 10–11). Numerous additional administration witnesses as well as other individuals appeared during the course of the proceedings. For the record of testimony, see Mutual Security Program: Hearings before the Committee on Foreign Affairs, United States House of Representatives (82d Cong., 1st sess.). The text of Secretary Acheson’s prepared statement of June 26 also appears in Department of State Bulletin, July 9, 1951, pp. 46–52.
istration will be unsettled. The Committee should be able to make up its minds, without rumors, and then take the action it determines upon.

Mr. Foster said he thought that was right, and he agreed that the more talk there was, the more difficulties ECA would have. He suggested that the Secretary might be able to lean a little more heavily on the advantages of keeping the going concern of ECA in being than he, Mr. Foster, could. He thought he should be almost neutral, although his personal judgment was that it is better to go on with ECA, since by doing so, less momentum would be lost. He thought the Committee would probably come out with that judgment.

The Secretary again said he thought that care should be taken not to be too blatantly insistent that ECA should not be ended; for he thought that would be the surest way of bringing the Committee to the decision to end it. Mr. Foster said he was quite certain that was true.

700.5 MSP/7-1751

Memorandum by the Director of International Security Affairs (Cabot) to the Secretary of State

TOP SECRET

[WASHINGTON,] July 17, 1951.

Subject: Mutual Security Program Appropriations

Problem

The problem of what Mutual Security Program (MSP) funds we should request for Fiscal Year 1953 can be approached from three directions: (A) requirements; (B) availability of military equipment, raw materials, etc., which will determine our ability effectively to utilize funds, and (C) political atmosphere which will influence our ability to get appropriations. Obviously, (B) and (C) will depend very largely on the sense of urgency which prevails and this in turn will depend on the course of events and especially Soviet hostile acts and threats.

Discussion

A. Requirements

We base our estimates for Western Europe on the recent studies of the feasibility of meeting the Medium Term Defense Plan (ISAC Document 4/7a)\(^1\) which you discussed with the President. Those studies indicate that a major step-up in the procurement of military equipment should occur in Fiscal Year 1953. We estimate that about $9 to $13 billion should be used by us to procure military equipment in the United States and Europe in that year for European NATO

countries and Western Germany and perhaps another $1.5 billion for non-NATO countries, including about $500 million for Spain and Yugoslavia.

These estimates for the European NATO countries assume that about the same magnitude of procurement will be required in Fiscal Year 1954 and that the time needed to produce and deliver military equipment in that year will be 12 months. If we decide to take more drastic steps to ensure meeting MTDP requirements on the target date, a portion of the Fiscal Year 1954 funding should be brought forward to Fiscal Year 1953 to get production under way in that year so deliveries can be effected in Fiscal Year 1954.

In addition to the $10.5 to $14.5 billion needed for equipment procurement in Fiscal Year 1953, economic aid requirements are estimated at $2.5 billion, of which almost $2.0 billion is needed for Western Europe, including Greece, Turkey, Spain and Yugoslavia. No difficulty is anticipated in effectively utilizing these funds.

B. Ability Effectively to Obligate Funds.

The rate at which we can effectively obligate MSP funds to meet the requirements depends on the needs for our own forces and the total production of military equipment, which, in turn, depends on the scope and timing of industrial mobilization.  

Although the Department of Defense has not committed itself as to its Fiscal Year 1953 requirements, it was originally understood that funds already appropriated plus those currently requested for Fiscal Year 1952 would be adequate to meet major equipment and construction requirements for the build-up of United States forces, with the exceptions of war reserves and of Air Force requirements, which are currently based on a strength of 95 wings. Procurement and production scheduling called for meeting the major portion of these requirements before the end of Calendar Year 1952; again with the two exceptions noted above. These estimates, however, are not in consonance with recent talks we have had with Messrs. Lovett and McNeil which indicated higher total requirements for our own forces than current requests would indicate.

Consequently, if the United States Services do not increase their force strengths above present plans or increase their requirements for war reserves, presently planned industrial mobilization targets will be adequate, on the average, to meet promptly and in full MSP requirements after December, 1952.

There are elements of indeterminacy, however, as to the timing and degree of industrial mobilization in the United States:

First, the Department of Defense will probably not have firm schedules of procurement for the bulk of its Fiscal Year 1952 funds

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*For information on United States defense mobilization efforts, see pp. 1 ff.
*Wilfred J. McNeil, Assistant Secretary of Defense (Comptroller).
FOREIGN ASSISTANCE PROGRAMS

until September, 1951 at the earliest. Until this information is available, it will not be possible to make decisions on the build-up of military production in the United States.

Second, some time before the end of this Calendar Year, decisions will have to be reached as to the rate of military production expansion. At the present time military production in the United States has reached the rate of almost 1.5 billion dollars a month and by June, 1952, the delivery rate on military production is scheduled to rise to 4 billion dollars a month. A decision will have to be made as to what point production will level off so that United States industrial facilities can be operated in a state of readiness for prompt mobilization under war conditions. There is a conflict between the need for accelerated efforts to produce military equipment between now and December, 1952 and the longer term need of maintaining industrial facilities in a state of readiness for war mobilization.

Third, with the growing possibilities of a truce in Korea, we must reckon with the inevitable tendency toward a slack-off in mobilization efforts. This tendency will first take the form of seeking to reduce the targets and to postpone the dates for planned arrival at those targets. This third factor is by far the most significant factor in any determination as to the capabilities of the United States economy to meet both United States mobilization and MSP requirements in Fiscal Year 1953.

So far as MSP is concerned, there are factors to compensate partially for a tendency of slack-off in United States defense production. If a Korean truce is obtained, the rate of consumption of United States military equipment will decline. These savings in equipment, however, have already been largely discounted in the planning of requirements for United States military forces. Second, the Department of Defense may be willing to take greater risks by making stock sales of military equipment to MSP in advance of deliveries of new production. At the present time the Department of Defense is releasing many items of equipment to MSP countries about 90 days in advance of replacement deliveries from new production. If this period were extended from 90 days to 180 days, the rate of deliveries could be stepped up. This policy would ensure a closer relationship between the obligation of MSP funds and equipment deliveries, but from the over-all point of view would not solve Defense's basic problem of stepping up the rate and volume of military production. Third, greater efforts and risks might be taken to procure military equipment with United States funds in Europe. This step might ensure a more rapid obligation of MSP funds, but it is doubtful, since European military production is not at a high level, that deliveries of equipment would be greatly accelerated.
Conclusion

On the requirements side, Fiscal Year 1953 should be the year of great effort to procure and produce military equipment for MSP requirements. About $10.5 to $14.5 billion of such equipment should be procured. On the capabilities side, the basic difficulties arise from the fact that psychological and domestic political factors may prevent the attainment of planned rates of acceleration of defense efforts. If these domestic, psychological and political factors are overcome and if we get adequate appropriations so that the Department of Defense is able to schedule promptly and firmly its procurement requirements, the United States industrial mobilization facilities and organization will produce the equipment needed to meet MSP requirements.

Recommended Courses of Action

1. Although the subject is currently under review in the NSC Staff, you should be prepared to re-affirm the urgency and importance which you attach to meeting the MTDP targets in full and on time. This means that MSP requirements in Fiscal Year 1953 should be substantially larger than in Fiscal Year 1952.

2. In discussions with the Department of Defense, you might indicate that the larger MSP Fiscal Year 1953 requirements for equipment should continue to be kept in mind in Defense’s programming of its own requirements and scheduling of production. If Defense decides to go into heavy procurement for its war reserves in Fiscal Year 1953, you might indicate that full consideration should be given to the possibility of assigning a higher priority to MSP procurement and deliveries than to war reserves.

THOMAS D. CABOT

700.5 MAP/7–2151

Paper Prepared in the Department of State

CONFIDENTIAL

ADMINISTRATION OF THE MUTUAL SECURITY PROGRAM

A. SUMMARY OF TESTIMONY TO DATE

1. Secretary Acheson stated that the present setup is working well and should continue. However, if the Committee desires to change present arrangements that should be done only after it has become thoroughly familiar with the whole program. The Secretary stated that, if essential, the name and functions of ECA could be changed

1 Regarding the hearings on the Mutual Security Program which began before the House Committee on Foreign Affairs on June 26, see footnote 1, p. 334.
but the Committee should weigh the danger of disrupting a going concern.

2. Cabot urged the present setup be continued on the ground that end-items and economic aid are parts of foreign policy and State is the only logical place for them and foreign policy to be coordinated.

3. Foster said the present setup will work adequately with the improvements now planned for it. However, in response to queries he stated that there are four possibilities:

1. Present setup.
2. New agency for all economic programs.
3. New agency for economic and military programs.
4. State Department to be replaced by a Department of Foreign Affairs with four branches: (1) Military Aid; (2) Economic Aid; (3) Information; (4) Foreign Policy.

He seemed to indicate a preference for a setup headed by an administrator rather than a committee, and said that a new agency could handle military end-items as well as economic aid if the technicalities of procurement did not prevent it.

4. Hoffman was strong for a new independent agency to handle economic and military aid. The agency would administer economic aid directly; control the funds for military aid; and would allocate them to Defense for procurement. Its relationship to the Defense Department would be like the present relationship between State and Defense with respect to MDAP. It would also decide whether military items would be made in the U.S. or abroad. The agency would have a veto on Exim Bank loans and would be a member of the Executive Committee of the International Bank. The administrator must have cabinet rank in order to effect coordination.

5. Rockefeller strongly favored a single agency for all economic aid, particularly with respect to Point IV and other underdeveloped areas programs, development of essential materials, and encouragement of private capital. He stated that military end-items should be handled as now, except that the new agency should help the military in offshore procurement. He suggested that the Bureau of the Budget should study how much of export controls and procurement should be placed in the new agency.

6. Tracy Voorhees presented the recommendations of the Committee on the Present Danger, whose views are similar to those expressed by Mr. Hoffman, summarized in 4, above.

7. Perkins said that many agencies of the government were involved in the programs and that positive machinery is required for coordination so that only the most critical issues reach the top. He said the

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2 Paul G. Hoffman, Director of the Ford Foundation; Administrator of the Economic Cooperation Administration, 1948–1950.

3 Vice Chairman, Committee on the Present Danger; Under Secretary of the Army, 1948–1950.
present way is not bad. It should be improved if possible, but we must
be careful of drastic changes, since a three or four month let-down
would be very serious. In discussing the relationship of policy to
operations, he said the present State–ECA relations were satisfactory.
However, the provision for State Department policy guidance should
perhaps be strengthened.

B. TRENDS IN COMMITTEE HEARINGS

On the basis of Committee reaction to the above testimony and in-
formal conversations with members of both Houses on this subject,
the following appear to be the main trends:

1. Termination of ECA. The Committee wishes to terminate ERP
and there is strong sentiment for ending ECA earlier than June 30,
1952. However, there is a desire to create a successor agency to operate
the economic part of MSP. This is in contrast to the Administration
proposal that ECA be continued for that purpose.

2. A new agency for economic programs. There is considerable feel-
ing that the successor agency to ECA should have broader functions
in the economic field than those contemplated for the ECA under the
Administration plan. These functions apparently would include all
aid to underdeveloped areas, including Point IV; economic aid to
Europe; and probably an expanded role in development and procure-
ment of strategic materials, in foreign lending, and in foreign claim-
ancy. Hoffman, Rockefeller, and Voorhees have been strong for this
concept and it is incorporated in a bill drafted by Senator Lodge.4
These trends are in contrast to the Administration proposal which
would keep Point IV in State; would retain ECA; would not make
ECA a global agency; and which has not to date contemplated cen-
tralizing foreign claimancy and materials procurement and develop-
ment in a single foreign operating agency.

3. A new agency for economic and military programs. There also
appears to be very considerable support for the Hoffman–Committee
on the Present Danger proposal which provides that “foreign policy
would be made by State” but that there be a single overall agency
controlling both the military and economic aid. The agency would
operate economic aid and allocate funds to Defense for procurement
of military end-items. The economic and military aspects of MSP
would be unified under the Administrator of the proposed agency,
who would have Cabinet status. Some Committee members have ex-
pressed concern about the effect of this proposal on the State Depart-
ment and have stated a desire to preserve the Department’s policy
function in relation to such an agency.

4 Senator Henry Cabot Lodge, Jr., of Massachusetts; Member of the Senate
Foreign Relations Committee.
4. **Field organization.** There has been little attention to the field organization. Prevailing Committee sentiment appears to subscribe to the concept that the Ambassador is the senior U.S. representative in a country. However, the advocates of a new economic agency or a new overall foreign aid agency have in mind special missions abroad of the ECA type which would reflect the expanded responsibilities of the new agency. In addition, the Lodge bill provides for area “Special Representatives”, responsible to the Administrator, who would “coordinate diplomatic and special missions” in their areas with respect to foreign aid matters and who would represent the U.S. at international organizations.

5. **Control and allocation of program funds.** The Lodge bill provides for appropriations to the President. Other proposals are not clear on this point. Under the Hoffman-Committee on the Present Danger proposals, funds would be allocated by the Administrator of the new agency. This is a departure from the present practice with respect to MDAP and the line taken by the Administration.

6. **Coordination of economic and military programs.** The Hoffman-Committee on the Present Danger proposal unifies the economic and military aspects of the MSP under the Administrator of the proposed agency. The Lodge bill provides for an advisory committee to the Administrator (ISAC), which would be under the chairmanship of the Administrator. This is contrary to the line taken by the Administration.

7. **Relation to the Battle Bill.** The Battle Bill proposes that the President appoint a Mutual Defense Assistance Officer to direct the use of foreign aid in order to lessen East-West trade. Pending the appointment of this officer, the Bill provides that the Director of the Mutual Defense Assistance Program shall exercise this function. Under the Committee on the Present Danger recommendations, the Administrator of the proposed overall agency would become the Mutual Defense Assistance Officer to be established by the Battle Bill.

C. **ACTION CALLED FOR**

The situation appears to have reached a point where the Administration must decide what action to take to influence Congressional thinking concerning the Mutual Security Program. Hearings in the House Committee are scheduled to be finished this week. Committee sentiment both on the mark up of the bill and on the form of organization is solidifying. Several drafts of legislation are already in

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*Reference is to H.R. 4550, sponsored by Representative Laurie C. Battle of Alabama, which was approved as the Mutual Defense Assistance Control Act of 1951, October 26, 1951 (Public Law 213, 82d Cong., 65 Stat. 644). For text, see Mutual Security Act of 1951 and Other Basic Legislation, pp. 115-120. For documentation on United States policy regarding East-West trade, see pp. 983 ff.*
existence and being discussed. It appears desirable that steps be taken, including the following:

1. Check various sources to determine Congressional sentiment as accurately as possible.
2. Mobilize the full political force of the Administration to support whatever line of action is determined upon after making the check called for in the paragraph above. This would include making use of the political strength of the White House, interested Cabinet members, and others.
3. Give assistance to key House Committee members, particularly Richards and Vorys.  
4. Indicate to the Committee that, although we still believe the Administration proposal is the soundest course to follow, we will be glad to cooperate with the Committee in working out the details of a bill for the purpose of preserving the program and the Department’s foreign policy function. 

*Representative John M. Vorys of Ohio; Member of the House Foreign Affairs Committee.

The Deputy Director of International Security Affairs (Coolidge) to Senator Henry Cabot Lodge, Jr.

WASHINGTON, July 23, 1951.

Dear Cab: Thanks a lot for sending me your draft bill creating a single agency to administer the Mutual Security Program. While I have discussed it with a few people here, I have not felt at liberty to ask our legislative drafting experts to go over it, and so my comments don’t cover problems of technical detail.

My comments are on the premise that Congress will insist on a single agency, though as you know I think the logic is that the State Department should continue to coordinate and to allocate funds. The views of Hoffman et al are based on the erroneous belief that the State Department “operates”. Even if Point IV is to remain in State, it is largely organizing personnel from other departments to operate the programs.

My comments are as follows:

1. You have fitted the agency into existing legislation very neatly; I was afraid that to create a new agency which does more than the ECA now does would require a complete rewrite of that Act.
2. You are right in having in Defense the operation of the military end-item program. For the new agency to attempt to do that would create the greatest confusion, duplication and inefficiency.
3. As I see it, the big problem is how to ensure that the new agency will not take over the direction of the foreign policy of the United States (e.g., FEA in the last war). It is not enough to say that ECA

1 The draft bill does not accompany the source text. It was not introduced by Senator Lodge.
did not do so, for at least three reasons. First, ECA was a temporary organization, with an expiration date of June 1952. Second, it had a much smaller field of operation than will the new agency, which will have new responsibility for military aid, cover far more countries, and will be beset by the political problems which the creation of NATO produces. Third, ECA has been headed by two men of unusual character and breadth. So the performance of ECA is in my view no gauge of what a future administrator, with the all too common desire to enhance his power, will do as the head of a permanent agency distributing a lot of money annually to most of the free nations throughout the world.

4. Ways to meet this danger, which I believe to be very real (even after discounting my connection with the State Department), are not easy to prescribe. The following might help:

a. Place a time limit of say four years on the existence of the new agency. Congress would then take a look at the whole situation at the end of that period. Incidentally, this might stimulate the foreign countries to greater effort by making it clear that we don't propose to carry them forever. Probably we will wish to continue many Point IV programs and some aid to a few countries, but they could be continued in a shrunken agency or transferred back to State as then seems best.

b. Give to the Bureau of the Budget the allocation of funds to the Department of Defense and the new agency. This would not reinstate the power which is now alleged to exist for the State Department to run off with the ball, but at the same time would prevent the new administrator from doing so.

c. Strengthen the language regarding cooperation between the new administrator and the Secretary of State, so that the former must follow the guidance of the latter in matters of foreign policy.

5. In connection with the above problem, I query the advisability of establishing in the Act a series of regional economic ambassadors. It seems to me they would inevitably dominate our ordinary ambassadors in the region. The one in Europe is bad enough and has worked principally because it has been filled by such broad gauge men. I believe that the present system abroad is working as well as the frailty of human nature permits and that such problems as have arisen are due to clashing personalities and would have arisen within a single agency.

These comments are purely personal. I know the matter is complex enough so that they do not cover all the problems which the change you propose will create, but I hope they will be of some help to you. Let me know if I can do more.

I hope the trip was worth while.

Sincerely yours,

CHARLES A. COOLIDGE

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2 A party consisting of nine members of the Senate Foreign Relations Committee, including Senator Lodge, visited Europe from July 7 to July 23 to obtain a first-hand report on the effectiveness of the United States aid program, the European production and defense effort, and related matters. A similar fact-finding mission, consisting of 18 members of the Foreign Affairs, Armed Services, and Appropriations Committees of the House of Representatives had visited European countries from June 9 to June 18.
CONFIDENTIAL

Memorandum of Conversation, by Mr. Lucius D. Battle, Special Assistant to the Secretary of State

[WASHINGTON,] July 24, 1951.

Senator John Sherman Cooper called me today and discussed the forthcoming Senate hearings on the Foreign Aid Bill. He said that he had talked to several of the Senators who had returned from Europe recently. He wanted to pass on what he had learned from them as possible help to us in the hearings.

Senator Cooper said he was more hopeful after talking to them and seemed to think the trip had been useful. He then went on to mention several points which he thought we should be prepared on, which might come up in the hearings. These points are as follows:

1. The Senators will want to know the basis by which amounts required are decided on. He said that the Senators had tried to find out at General Eisenhower's headquarters and were told there that the figures had been sent here. He said they would ask who determined the amount needed, why, when, et cetera.

2. Some of the Senators are concerned because appropriations for fiscal '50 and fiscal '51 have not actually been used. Senator Cooper said that he knew that contracts might have been let for the use of these funds but he said that some of the Senators could not understand why we needed additional appropriations when we had not used the appropriations for the two preceding years.

3. The Senator mentioned that some of the Senators are inclined to spread the appropriation over a period of two years. He said that their thought was that if more money was required, we could go up for a supplemental appropriation. The Senator thought we should be ready to answer this line of argument.

4. The Senator mentioned the problem of organization. He said there was considerable interest in this and said we could expect questions on it.

In connection with "4" above, Senator Cooper said that he was impressed with the arguments of Mr. Rockefeller in his recent testimony.

I thanked Senator Cooper profusely for the information.

Lucius D. Battle

1 Consultant to the Secretary of State; a United States Senator from Kentucky, 1946–1948.
Conclusions and Recommendations Approved by the National Advisory Council

SECRET

Document No. 88

[WASHINGTON,] July 27, 1951.

FINANCIAL POLICY ASPECTS OF FISCAL 1953

MUTUAL SECURITY PROGRAM

(1) Gold and Dollar Reserves of Recipient Countries

(a) Europe

1.—U.S. foreign economic assistance under present conditions should be determined primarily by considerations of mutual defense. The present policy of not extending grant assistance to European countries for the purpose of increasing gold and dollar reserves should be continued. Where an increase in reserves occurs or where such an increase seems probable, taking into consideration net receipts of dollars from all sources, including military expenditures, the situation will require the most critical examination.

2.—Where, in the opinion of the US, failure to provide dollar aid would prejudice mutual security, such aid should not be withheld merely because the US anticipates that one of the effects of such aid would be to increase the reserves of the recipient country.

3.—In general countries participating in the defense effort should not be required to reduce the present level of reserves as a prerequisite for receiving US aid.

4.—Where the country is making a satisfactory contribution to mutual defense, an unanticipated accumulation of reserves occurring as a result of the vigorous application of appropriate economic and financial policies should not automatically result in the reduction of aid.

(b) Underdeveloped Areas

Aid to underdeveloped areas is generally intended to increase total resources available for economic development and creation or expansion of essential social services. It is not generally intended to cover balance of payments deficits. Although grant assistance may be given

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1 Master files of the records of the National Advisory Council on International Monetary and Financial Problems, 1945-1958, as retired by the Bureau of Economic Affairs, Department of State (FRC Acc. No. 71A0632, Item 70, 15 boxes).

2 These conclusions and recommendations constitute NAC Action No. 482, taken by the Council at its 151st Meeting, July 27, in response to a letter from President Truman to Secretary of the Treasury John W. Snyder (Chairman of the NAC), not printed. The President requested financial policy recommendations for use in planning for the Mutual Security Program for Fiscal Year 1953, updating as necessary the decisions of NAC Action No. 442, December 26, 1950 (described in extract from Current Economic Developments, January 2, 1951, p. 260).
in appropriate cases to underdeveloped areas for the purpose of financing internal costs of development it is in general unlikely to have substantial influence on the trend of reserves in such areas. Therefore, presently conceived programs for the underdeveloped areas do not appear to present major questions relating to levels of reserves.

(2) Counterpart Policy

(a) Europe

1.—For Military Goods and Services. It is recommended that, as in the past, counterpart deposits should not be required by recipient countries for military goods and services given on a grant basis. This policy would also appear appropriate for other areas.

2.—For General Economic Assistance. It is recommended that counterpart deposits should be required for all direct grant assistance. It is also recommended that legislation permit the use of counterpart funds directly for military expenditures where such use would most advantageously facilitate the defense effort.

(b) Underdeveloped Areas

1.—In view of the diverse nature of the programs and the varying political and economic circumstances in such areas as the Middle East, South Asia, and Southeast Asia, it is recommended that the administering agencies of grant assistance economic programs should have substantial discretion in determining the extent to which counterpart funds may be appropriately required country-by-country and on the terms and conditions under which counterpart may be expended.

2.—In general, it is recommended that counterpart deposit for grant assistance be required at least in those cases where the goods supplied are to be sold through private commercial channels either directly or by the recipient government. In some instances a policy of requiring counterpart deposits for the full amounts of goods supplied may be desirable if in fact this policy should be of value as a means of influencing general monetary and economic policies and facilitating economic development.

3.—Generally, it would appear desirable that where counterpart deposits are required the amounts should be commensurate in value to the dollar costs of the goods supplied. Commensurate value would be determined by appropriate exchange rates in accordance with existing NAC actions.

4.—It is suggested that counterpart deposits be made available to meet the United States local costs of administering the programs but that no fixed percentage of proceeds need be assigned for such costs nor that the United States attempt to use such funds for general administrative expenditures of this Government.
(3) Loan-Grant Policy*

I. Economic Assistance

(a) Europe

For the last three years the Council has recommended that extraordinary assistance to Europe should be on a grant basis. There appears to be no reason for changing this policy during the coming year.

(b) Underdeveloped Areas

1.—Insofar as physical availabilities will permit, it is proposed to foster economic development in some countries at a rate which may be faster than they might undertake exclusively on a loan basis. Grants may be required to influence the character as well as the rate of development.

2.—For fiscal 1953 loans should be extended by the established lending institutions, namely the Export-Import Bank and the International Bank for Reconstruction and Development, under their usual terms and conditions. The Executive Branch should not request authority or appropriations from Congress for special categories of loans.

3.—Where countries are in a position to service loans, bearing in mind their longer range development needs, and the projects are of the appropriate type, the programs should be put on a loan basis. It will be necessary to review the proposed programs country-by-country to determine the amounts which the individual countries might finance on a loan basis.

II. Military Goods and Services

Military goods and services should be provided on a grant basis or against cash payment, not on a credit or loan basis.

*The principles set forth in this section are not designed to cover the financing of strategic and critical materials. The financial terms and conditions for facilitating production of strategic materials are covered in NAC Document No. 1151 (Revised). [Footnote in the source text. Document No. 1151 is not printed.]

800.00 FA/8–351: Circular airgram

The Secretary of State to Certain Missions Concerned With the Mutual Security Program

WASHINGTON, August 3, 1951—2:50 p.m.

Hearings Mutual Security Program before House Foreign Affairs Comite were completed July 31 and began in Foreign Relations

1 Sent to 67 posts.
Comite Thur, July 26.\(^2\) Washington witnesses included large number top State, ECA, Defense officials and Harriman. Field officials testifying included: Ambs Spofford, Katz,\(^3\) Mr. Batt,\(^4\) Gens Gruenther,\(^5\) Kibler,\(^6\) Arnold,\(^7\) Frederick,\(^8\) Mr. Holmes\(^9\) (Pt. IV, India).

Public witnesses included Messrs. Hoffman, Rockefeller and Voorhees (principally on org), Berle,\(^10\) Clayto,\(^11\) Wadsworth (statement on NE Aid), Lipsky\(^12\) and Nathan\(^13\) (ZOA), Schwartz\(^14\) (UJA), Pickett\(^15\) (Friends), Van Kirk\(^16\) (Wld Council Churches), and Msgr. McMahon\(^17\).

Trip to Europe appeared increase greatly Members’ appreciation complexity problems involved programs, understanding of them. Many assertions by members how well diplom, econ, mil, treas officials overseas worked together. Many favorable comments on caliber officials abroad, all participating agencies and American officials regional organizations. Both Comites much interested in creation new single agency to administer all aid programs (or all econ programs and AMP, but not military end-item asstee) proposed by several public witnesses. Dollar amount of programs questioned strenuously and Bill introduced in House yesterday by Chairman Richards\(^18\) with following cuts:

\(^2\) Hearings occurred before the Senate Foreign Relations Committee on July 26, 27, and 30, and before joint sessions of the Foreign Relations Committee and the Armed Services Committee between July 31 and August 9. These proceedings are recorded in *Mutual Security Act of 1951: Hearings before the Committee on Foreign Relations and the Committee on Armed Services of the United States Senate* (82d Cong., 1st sess.).

\(^3\) Milton Katz, U.S. Special Representative in Europe, Economic Cooperation Administration.

\(^4\) William L. Batt, Chief of the ECA Mission in the United Kingdom; U.S. Representative on the NATO Defense Production Board.

\(^5\) Lt. Gen. Alfred M. Gruenther, USA, Chief of Staff to the Supreme Allied Commander Europe (Eisenhower).


\(^7\) Maj. Gen. William H. Arnold, Chief, Joint American Military Mission for Aid to Turkey.

\(^8\) Maj. Gen. Robert T. Frederick, Chief, Joint United States Military Aid Group to Greece.

\(^9\) Horace Holmes, agriculturalist for the Department of State and the Department of Agriculture.

\(^10\) Adolph A. Berle, Jr., Assistant Secretary of State, 1938–1944.


\(^12\) Louis Lipsky, Chairman, American Zionist Council.

\(^13\) Robert Nathan of the American Zionist Council.

\(^14\) Joseph J. Schwartz, Executive Vice Chairman, United Jewish Appeal.

\(^15\) Clarence E. Pickett, Honorary Secretary, American Friends Service Committee.

\(^16\) Walter Van Kirk of the National Council of Churches of Christ in the United States.


\(^18\) Reference is to H.R. 5020, introduced by Representative Richards on August 1. It was not reported by the House Committee on Foreign Affairs. Regarding the position of the Executive Branch on H.R. 5020, see letter from Secretary of State Acheson to Representative Richards, *infra*. 
cut $700 million. Title I (Eur) mil-265, econ-285; Title II (NEA and Independent Africa) no cut; Title III (SOA and FE): econ-50 millions, UNKRA-100 millions (leaving 12.5 and 50 of FY '51 ECA money); Title IV (ARA)—no cut.

Efforts recipient countries and probable duration aid programs received much attention. All Comite members for retaining ECA personnel, many for including all tech coop efforts in any new independent operating agency, however appeared to appreciate need for long-term tech coop programs, long-run encouragement foreign investment.

Other subjects of particular interest to Comites: trade with Soviet bloc (Kem Amendment,10 Battle Bill, etc.); possible inclusion termination date in legislation. Eur: Portion of econ aid not attributable to armament effort; state of European morale; level and adequacy European contribution defense program; limitations on European effort, especially per capita real incomes and living standards; prospects mil and econ aid to Spain; German contribution defense program; progress toward European integration; resultant incrs intra-Eur exchange; possibilities use presently unused productive capacity; further spreading benefits aid programs to low income group; extent of aid to Yugoslavia and participation by European partners in Yugo aid program; Yugo domestic policies and attitudes toward West; info efforts accompanying aid; Greece–Turkey ties to NATO; size of U.S. troop contribution SHAPE relative European contribution; organization of NATO.

(House Comite) NEA: settlement Iran oil controversy; reintegration Palestine refugees; size of Israel, Arab States programs; refusal Pt. IV by Syrian Govt;

FE: whether or not countries themselves are initiating requests for aid; specific accomplishment of STEM, MAAG programs; effect ceasefire near 38 parallel; efforts other countries re UNKRA; details on cost, nature specific programs. (Comite considering making this data public.)

ARA: bases of selection of countries receiving mil aid; whether Arg, Gunt would receive mil aid; possible dissatisfaction of Govts with size of mil aid, econ aid.

Pt. IV: possibility of overlapping of bilateral and multilateral (UN, Colombo, etc.), ECA and TCA programs; extension service work (eg. India).

ACHESON

10 The Third Supplemental Appropriation Act of 1951 (Public Law 45, 82d Cong.) contained an amendment introduced by Senator James P. Kem of Missouri which provided for a ban on economic aid to countries which shipped strategic materials to Communist-bloc countries. For documentation on the implementation of the Kem Amendment, see pp. 993 ff.
The Secretary of State to the Chairman of the House Committee on Foreign Affairs (Richards)\

WASHINGTON, August 7, 1951.

My Dear Mr. Richards: My attention has been called to H.R. 5020, a bill "To promote the foreign policy and provide for the defense and general welfare of the United States by furnishing assistance to friendly nations in the interest of international security", which you introduced in the House of Representatives on August 1, 1951.\(^2\) I have also read your accompanying explanatory statement.

First of all, I wish to state my pleasure at your strong endorsement of the purposes of the Mutual Security Program and your forcefully expressed opinion that this program is essential for the security of the United States. In the second place, I would like to express my personal appreciation for the painstaking, thorough and objective manner in which you and your Committee have conducted the hearings on this program and the exhaustive way in which you have been exploring the important and intrinsically difficult problems of national security for which the program seeks to provide some answer.

At the same time, I must indicate my concern over the large reduction which your bill would make in the amounts of aid which were recommended in this program as it was submitted to the Congress by the President. In doing so, I am voicing the joint concern of myself, Secretary of Defense Marshall, the Administrator of ECA, Mr. William Foster, and others in the Executive Branch who are responsible for this program. In our opinion, these reductions would have an adverse effect on the success of the program and would, for this reason, run counter to our national interests. As a consequence, I am convinced that we must have failed in our presentation to bring out, or properly to emphasize, the facts, figures and supporting arguments which, in our judgment, compel such a conclusion. In this letter, therefore, I should like briefly to summarize our position and to indicate our readiness to furnish any additional testimony or information which the Committee might find helpful.

Before addressing myself to the specific reductions which you have recommended, I would like to say a few words about the program as a whole and the manner in which it was constructed.

First, I want to reiterate a statement which I made when I appeared before your Committee—that the size of the program does not reflect requirements but that rather, on the contrary, its size was drastically reduced below requirements because of limitations in readily available

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\(^1\) Drafted by John H. Ohly, Assistant Director for Policy and Program Development, International Security Affairs.

\(^2\) H.R. 5020 was referred to the House Committee on Foreign Affairs, which did not report it.
equipment, supplies and technical personnel. In other words, the amounts of assistance recommended by the Executive Branch do not begin to fill those foreign needs which, if it were not for current scarcities in military equipment and other materials of aid, our national interests would dictate should be met in full.

Thus, the military aid which we actually requested had already been severely cut back from requirements as they were developed by our military authorities. Our production experts determined that any larger total military aid appropriations, when considered in conjunction with our own military appropriations, would not in fact result in the production of any larger quantities of military equipment during this fiscal year than under the program proposed. The limitation here is the capacity of American industry, operating at the present level of mobilization, to carry out a bigger production program during 1952 than the one which is called for by a combination of the President’s proposals for our own military establishment and for foreign military aid. We believe the present military aid program to be feasible, but we wish, because the requirements certainly so demand, that it might be materially increased. Similarly, in the case of economic and technical assistance, we have been confronted with serious world-wide shortages in raw materials, machine tools, industrial equipment and technicians, and these shortages have handicapped us in developing programs of an economic and technical character which are adequate fully to accomplish our objectives.

The program which was submitted represents the product of nearly a year’s work on the part of some of the ablest people in the Executive Branch of the Government. It is one of the most carefully prepared programs that has ever been transmitted to the Congress. Requirements were developed in great detail through exhaustive field studies and thoroughly screened. These requirements were considered in conjunction with the requirements of our own defense establishment and the civilian economy after equally careful studies had been made of our resources and productive capacity. The amount of the program was repeatedly cut back, representing the elimination or deferment of less urgent requirements because of limitations in resources. One of these progressive cutbacks is reflected in the difference of more than $1,150,000,000 between the amount for foreign aid contained in the President’s Budget Message and the amount proposed in the specific program now before you.

If time were not crucial, the further sizeable reductions which you propose might not have the same adverse consequences that we believe they now do. Under such circumstances the meeting of requirements could be phased over a longer period. Today, however, time is crucial, and the future of our nation will depend upon how well we use the time that we still have available to build strength in places where
strength is critical to the survival of free nations. The longer that situations of great military, political and economic weakness prevail in various areas of the free world, the longer will we face the risk that Soviet exploitation of these situations will precipitate a third world war or cause the loss of peoples that are vital to the position of the free nations. If the free world had already attained the degree of strength which, over the next few years, the Mutual Security Program should help to create, the possibility of other Korea's would be vastly reduced, as would the danger that vital regions will fall prey to Soviet subversion. Until the day when this level of strength has been achieved, and can be maintained, the present danger does not merely continue, it increases, because the Soviet world is relentlessly seeking to improve its military posture and has accelerated its efforts to capitalize on the poverty, sickness, ignorance and frustration which prevail in many areas of the free world where our technical and economic assistance could do so much in helping to remove these conditions and in giving their peoples a hope for the future. Time, therefore, is vital in this whole field, and we cannot afford to postpone until tomorrow any of those measures which we have the capacity and national interest to undertake today.

I turn now to the specific consequences which would flow from the particular reductions that you have suggested.

In the case of Europe, your bill would reduce the aggregate amount available for foreign assistance by $550,000,000—$265,000,000 in military aid funds and $285,000,000 in the funds available for economic assistance. It is our considered judgment that this reduction would seriously affect our efforts to build military strength in Europe and set back the present, already much too extended timetable for raising and equipping the forces which are required by General Eisenhower.

I can best explain the reasons for the foregoing conclusion by reviewing the processes by which the amounts proposed by the President were arrived at in the first instance. As you know, the North Atlantic Treaty Organization has developed, and the participating governments have approved, a military plan which calls for the creation within a specified period of forces which will be capable of withstanding aggression against the North Atlantic Treaty area. The general size and composition of these forces has been initially defined; the cost of raising, maintaining and equipping them has been roughly estimated; and the general magnitude of the capital equipment requirements for them has been calculated. In addition, estimates have been made of the extent to which the European NATO members can, during the specified period, and upon the assumption that U.S. economic assistance of a marginal nature will be continued, pay for the support, training, equipment and facilities which such forces will need. With these several calculations in hand, it has been possible to make a rough
approximation of that portion of the total capital equipment requirement which may need to come from, or be financed directly by, non-European sources, principally the United States. The military assistance funds requested by the President would make possible one of several successive installments for meeting this total amount.

Subsequent screening of this plan by General Eisenhower may result in some reduction in these requirements, but it is also possible that such a review may indicate the necessity for an increase. Subject only to this qualification, I am in a position to assure you, after considering the time period within which the plan should be completed and the long lead-times involved in producing military equipment, that the military assistance proposed by the President for the forthcoming year represents a disproportionately small slice of the total requirements. The proposed slice would be much larger if our productive capabilities appeared adequate, at the present level of mobilization, to make it larger. The physical requirements exist, and they cannot be disregarded. They are among the hard facts with which we must contend if we are to reach the end which we seek. Any reduction in the funds which we have sought can therefore only postpone, not alter the necessity for, the fulfillment of these requirements. Such a postponement, moreover, while it in no way increases the ultimate saving to the United States, does have the effect of decreasing, and by a disproportionately large amount, the security which the United States might otherwise attain. For one thing, it lengthens the period of serious war risk by deferring the day when strength adequate to deter or repel aggression will exist in Europe. Moreover, failure to deliver this equipment on the schedules which have previously been worked out can upset the plans for the raising and training of forces which have already been agreed to by our North Atlantic Treaty partners. Thus, it can retard the process of European mobilization, for the raising and training of forces must go hand in hand with the provision of equipment, and the former must invariably be slowed down as the rate of deliveries is reduced. Such a cut would, in addition, make it much more difficult, out of the equipment to be produced from the funds included in this legislation, and in the event that future developments should make this advisable, to divert any substantial quantities to Germany or other non-NATO countries.

The reduction in economic aid would, if anything, have equally adverse effects on the rearmament of Europe. As we have constantly stressed, one of our principal purposes in this program is to help the Europeans to carry as much of the rearmament burden as they can without undermining the basic economic and social structure which we and they have worked so hard to create through the European Recovery Program. Such an approach not only increases the speed with which we can obtain real strength in Europe but also reduces the pe-
period during which the maintenance of this strength will require continued assistance from this country. The proposed reduction will slow both of these processes.

Our economic aid has been, and will continue to be, marginal in the sense that it represents those resources which the Europeans do not have and cannot obtain for themselves, but which they require in order to develop and make the fullest use of their own resources. Our economic assistance as administered has had a multiplying effect in that a dollar's worth of such assistance, when coupled with the manpower, materials and facilities already available in Europe, has resulted in increased output many times in excess of that dollar. In this way the productive capacity of Europe has been greatly increased, and this increase is largely responsible for the fact that Europeans have been able to carry the significant burdens of rearmament that have already been undertaken. Since consumption, on the average, is close to the minimum level, any further significant increases in the European defense effort are dependent upon continued increases in production output. A reduction in assistance can only lead to a reduction in the ability of the Europeans to increase their output and thereby to provide greater amounts for defense purposes. The result, here again, will be a postponement of the day when these nations can be self-sufficient, with a probable consequent increase in the total ultimate cost to the United States, and a postponement of the time when General Eisenhower will have the necessary military strength behind him.

While it is true, as you have indicated, that European defense production has grown more slowly than we had originally hoped and expected, progress has been substantial, and a large number of the early physical and technical obstacles to the acceleration of this process have now been or will shortly be removed. With their removal, the big remaining obstacle for the Europeans is the problem of financing—the problem of mobilizing resources of their own which are sufficient to support this production together with all the other military tasks they must perform. Since the economic aid proposed for the NATO countries is already based on optimistic assumptions concerning the defense burdens which each of these countries can finance for itself, the suggested reduction can have no other effect than to limit the military efforts which these countries will be able to make during the year ahead. Moreover, because of the multiplying effect of our economic assistance, to which I referred above, the reduction will curtail these efforts by more than the dollar value of the economic assistance which is withheld. At a time when each one of the participating nations should do everything of which it is physically capable, it would be unfortunate if our aggregate effort should fall
seriously short of the total effort which, through the judicious use of U.S. economic assistance, would otherwise be possible.

In the case of the Far East and South and Southeast Asia, the proposals contained in your bill would reduce the aggregate amount of authorized economic assistance from $375,000,000 to $225,000,000, or a reduction of 40%. $100,000,000 of the total cut would be reflected by the deduction of this amount from the authorization for $112,500,000 in new funds which was requested by the President for relief and reconstruction work in Korea. The other $50,000,000 would constitute an approximately 20% decrease in the $262,500,000 recommended for economic and technical assistance in South and Southeast Asia, Formosa and the Philippines. The total reduction would necessitate a revision in our present plans, and such revision would, in our opinion, decrease our ability to attain important national security objectives in this critical region.

In this vast area, an expanse embracing nearly 30% of the world's population, the economic programs as they were submitted are, when measured against our vital interests in the area and the needs of the area, of modest proportions. They represent only 3% of the amount which has been proposed for the Mutual Security Program as a whole. Their relatively small size was again dictated by limitations in available materials and technical personnel and by the extent to which available aid could be effectively utilized, under the conditions existing in these countries, to advance the security of the free nations. Over 80% of the total amount requested has been programmed for four countries—Formosa, the Philippines, Indochina and India—where either the size of the need or the critical character of the immediate situation, or both, necessitate the largest effort in terms of assistance. In most of the remaining countries in this area, the planned programs are so small that any appreciable reduction therein would materially reduce, if not eliminate, the value of proceeding with them, and yet their abandonment would, we believe, be detrimental to our efforts to build real strength in this important corner of the world. Consequently, as a practical matter, all or substantially all of the $50,000,000 cut would necessarily come out of the present programs for the four countries which I have mentioned. I shall therefore review the specific results that would follow if this were done.

The assistance proposed for the Philippines is designed to make possible the implementation of the long-term recommendations of the Bell mission for the recovery and stabilization of the Philippine economy. This mission made the most careful study of the situation existing in the Philippines and its conclusions have been endorsed both by this government and by the Philippine government as a sound approach to the economic problems of this new country. A portion of these recommendations concern far-reaching and politically difficult
actions to be taken by the Philippine government itself. Many of these actions have already been taken, and they have been taken in the faith that other recommendations in the report—those calling for actions by the United States—would also be carried out. Failure on the part of this government to undertake these actions would be viewed as a breach of a moral commitment, and would make more difficult, and delay, the economic recovery which the report envisaged. Since the problems of the Philippines, including the problem posed by the Communist guerrilla forces, are in large measure a product of the country's economic plight, failure to address the evil at its root will prolong the situation which now exists. Moreover, the military assistance which we are providing to assist in eliminating the Communist guerrilla threat will prove useless in the long run if the conditions which have given rise to and nourished the Huk movement are permitted to continue. We risk this result if any appreciable portion of the proposed $50,000,000 cut were taken from the Philippine program.

I hardly need to stress the importance of Formosa or to describe the difficult economic burden which has been imposed on this small island by the necessity of maintaining not only a civilian population which has been augmented by refugees from the mainland, but also a military force in the neighborhood of a half million men. We are attempting by the provision of large quantities of military assistance to make these people relatively secure in the event of any attempted Chinese Communist invasion. This effort will be impossible of success, or at least meaningless in the end, if economic conditions in Formosa should seriously deteriorate or if the country should be unable to provide the basic support required by the military forces. The economic aid which we have proposed has a two-fold purpose—first, to make it possible for the Chinese government to feed, clothe, provide the facilities for, and otherwise to maintain during the coming year, the military forces to which we are furnishing equipment and, second, to increase the capacity of this island to become self-supporting at the earliest possible future date. The application of all or some part of the $50,000,000 cut to the projected Formosan program would therefore have either one or both of the following consequences: (1) extend the future period during which Formosa would be dependent on outside economic assistance or (2) deprive the Formosan forces, with all the adverse effects on morale and military effectiveness which this would entail, of certain essential maintenance support. The overstrained Formosan economy cannot carry the entire military load without our help.

In Indochina the battle for Southeast Asia is now being bitterly waged. Much of the country is a theater of active military operations; and on the outcome of these operations may hang the fate of free Asia. At the moment, 150,000 French Union troops, together with slowly
increasing forces of the Associated States, are holding their own. It is nonetheless clear that even with our military assistance, it will be difficult to continue to hold in the future, not alone to improve the situation, unless a number of other developments occur. Unless the governments of the Associated States can deal with the problems of relief that are created by the scorched earth tactics of the guerrillas, can develop institutions which are responsive to the needs of their people, can raise and support additional forces of their own to augment, and eventually to replace, the French Union troops, and can commence projects which promise a better future for their subjects, the situation will become hopeless. At their present stage of development, and beset by widespread hostilities and subversion, these new states are unable to take all of these steps without the kind of technical and economic assistance that we have proposed in the current program. The value of our military assistance in the solution of current military difficulties will be materially lessened unless this complementary economic and technical aid is also provided. The application of all or an appreciable portion of the $50,000,000 reduction to the Indochina program would thus materially detract from the attainment of our objectives.

The problems of India have had the special attention of your Committee on several occasions during the last six months, and I need not belabor them. The continued freedom of its 350,000,000 people from Soviet control is obviously a matter of great moment to the rest of the free nations. In relation to its importance, population and needs, the amount of aid which we have recommended is the minimum needed in order to begin an effective attack on India's central problem—the shortage of food. We believe it is necessary to expand, and to complement with essential supplies, the small technical assistance projects which we already have under way and which have shown such promise, projects which are directed almost entirely to increasing the production of food. In addition, it is important to effect a rapid increase in the base of Indian agriculture—to expand India's agricultural "plant capacity" by clearance of new land, by ground-water irrigation of land that is now marginal, and by the expansion of capacity to produce and use fertilizer. The application of all, or any appreciable portion, of the $50,000,000 reduction to this program would make the implementation of these measures impossible.

As a practical matter, therefore, this reduction, if it is allowed to stand, would necessarily eliminate, or seriously impair, the programs which have been planned for one or more of the above four countries and, in doing so, materially hamper our efforts to build strength in Asia. Without such strength, Asia is likely to be lost to Soviet Communism, and such loss would do incalculable damage to our capacity to defend ourselves. Although some of the projects which are proposed
are long-range in the sense that they will take a number of years to come to fruition, they are essential to this strength, and if they are not commenced now, in this critical period when the future of the free world is being shaped, the reasons for commencing them, and the opportunity to commence them, may well be lost. The free countries may then already have been absorbed in the Soviet sphere.

I am also concerned over the effect of the proposed cut of $100,000,000 in the authorization of funds for Korean relief and rehabilitation upon the morale of the Korean people, upon their willingness and ability to continue resistance to Communist control, and upon the contributions which other countries have made or pledged for the relief and rehabilitation of the Korean people. I fully sympathize with the considerations which led you to propose this reduction, but I believe that those which I am setting forth below should be controlling.

The Korean Government and people are already familiar with the proposed $250,000,000 program of the United Nations, and with the fact that the United States, subject to the approval of the Congress, has pledged $162,500,000 toward this program. The Korean people will not understand the failure of this government to authorize an appropriation equivalent to the United States pledge and will be disturbed over the implications of this failure for their future. Only the hope of an eventual improvement in their serious economic plight, a hope which is symbolized in the proposed United Nations program, has sustained their morale and will to endure their present hardships and sufferings. During this period of armistice negotiations, moreover, they are particularly apprehensive over the long-run intentions of the United States and the United Nations with respect to their country. The recent announcement of arrangements between the Unified Command and the United Nations Korean Reconstruction Agency has been extremely helpful, according to our Ambassador, in persuading the Koreans that there was no intention to desert them.

I hardly need emphasize the intimate relationship between the morale of the Korean civilian population and the success of the armies operating in Korea, if warfare continues, and of its similar relationship to the maintenance of political stability, if warfare should cease. I believe that the effect of low morale or disillusionment upon Korean cooperativeness in military and political negotiations, and upon their determination by their own efforts to create military and economic strength, is also evident. The results of low morale could be disastrous and largely undo the accomplishments of our costly military efforts.

I should also stress that an indication of Congressional unwillingness to authorize the full amount pledged by the United States to the
United Nations Korean Reconstruction Agency (UNKRA), subject to Congressional approval, would have an unfortunate effect on the similar legislative actions which are required at this time in other countries in fulfillment of their own pledges. It would also certainly affect our expectation that additional countries will contribute to the financial support of this undertaking. In addition, the United States must not overlook the fact that certain other nations have already made their pledges good. To name only one, Canada has paid its contribution of $7,250,000. The United Kingdom, its contribution of $28,000,000 authorized by Parliament, has indicated that its pledge was made with the anticipated United States contribution in mind, and that its payments will be governed by the payments made by the United States. I therefore think that if the United States fails to exercise leadership by fulfilling its moral commitment to this undertaking, such action will have an adverse effect on the promised or anticipated contributions of other nations, whereas forthright action now in accordance with our pledge is likely to stimulate such contributions. Such a development might, in view of our residual responsibility to the Republic of Korea, result in a greater total cost to the United States in the long run.

While the date for commencement of a major program cannot yet be fixed, it is likely that it will be under way sufficiently early in the current U.S. fiscal year so as to require large amounts available for prompt commitment. The United States contribution will require action by the Appropriations Committees as well as by the committees concerned with foreign affairs, and there is a danger that funds could not be made available in time if the full authorization were not now approved.

The United States should, by authorizing the full contribution now, honor its moral obligation. In this way it will affirm its good faith and give an important vote of confidence to these heavily burdened people who have suffered some $2,000,000,000 in war damage to their homes, farms, hospitals and businesses.

I hope that the foregoing review of the effects of the proposed reductions is sufficiently explicit and detailed to provide you with a clear understanding of the reasons for our concern over your proposals and of the importance which we attach to an authorization for the full amounts requested. If it fails to do so, we are prepared to appear at any time to furnish further explanations.

Sincerely yours,

Dean Acheson
FOREIGN MILITARY AND ECONOMIC ASSISTANCE

I. SUMMARY

1. No development in the world situation is considered by ISAC to have diminished the importance or urgency of completing the foreign economic and military assistance programs by the target dates outlined in Annex 2 of NSC 68/3.²

   a. With respect to the European NAT countries, the Medium Term Defense Plan (MTDP) continues to be the basis for programming military and related economic assistance.

   b. Prompt and adequate measures need to be taken to arrest the general deterioration of the situation in the Near East, particularly in Iran, the Arab States and Israel.

   c. In the Far East the United States aid programs together with the struggle against aggression in Korea have played an important part in stemming the tide of Russian-inspired subversion and conquest; but much remains to be done and it is too early to predict that the favorable developments will continue.

2. United States end-item assistance already programmed through Fiscal Year 1952 to meet requirements of the MTDP totals about $10 billion and is related primarily to the unit equipment requirements for forces to be available by July 1, 1952.

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¹ Serial master file of National Security Council documents and correspondence and related Department of State memoranda for the years 1947-1961, as maintained by the Executive Secretariat of the Department of State.

² This report was prepared as part of the response to a directive by President Truman circulated through the National Security Council on July 12 (for text, see p. 102) calling for a report on the status of United States programs for national security. The report was to be completed by August 1 for purposes of Fiscal Year 1953 budget planning. The present paper was drafted by a working group of the Foreign Aid Committee (FAC), a subcommittee of the International Security Affairs Committee (ISAC). It was approved by ISAC on July 30 as document ISAC D-20b and transmitted to the NSC Senior Staff on the following day with the notation that it was only a preliminary study and would be the object of continuing review by ISAC.

³ On August 8, the NSC approved Report NSC 114/1, "Status and Timing of Current U.S. Programs for National Security." The annexes accompanying NSC 114/1, consisting of detailed studies of programs, were circulated for information. The present report was circulated as NSC 114/1, Annex 2. For the text of NSC 114/1 (p. 127) and additional documentation on its preparation, see pp. 1 ff. Additional documentation on FAC and ISAC development of this annex on foreign assistance is in Lot 53 D 443, ISAC Files.

a. Deliveries of equipment, for many reasons, have been slow but are now accelerating; and deliveries of Army equipment financed with Fiscal Years 1950 and 1951 appropriations, are expected to be completed by June 1952.

b. The Fiscal Year 1952 program includes about $1.0 billion to meet the military equipment requirements of the non-NATO countries. Deliveries to these countries, with the exception of Indochina, are slow due to the shortage of matériel in relation to global commitments.

c. In Fiscal Year 1951, $1.23 billion of direct economic aid was allotted to the European NATO countries, while their military efforts totaled $6.0 billion dollars; and for Fiscal Year 1952, $86 billion of direct economic aid has been requested to be used primarily to support a $9.0 billion military effort by the European NATO countries. About $712 million is proposed to be furnished in Fiscal Year 1952 to other European countries, including Yugoslavia, which are not members of NATO.

d. Other economic aid programs for the non-European countries total about $600 million in Fiscal Year 1952; and the major portion of these funds will be directly applied to strengthening the capabilities of these countries to resist internal and external aggression.

3. The primary difficulties being encountered in completing programs include the following:

a. Insufficient political cohesion and of resoluteness on the part of many governments to take the necessary measures constitutes a serious barrier to realizing in full the objectives of our economic and military assistance programs. In Europe, these factors are reflected more in the caution with which defense expenditures are being undertaken; while in many non-European countries, they enfeeble efforts to improve the internal security situation and to execute programs of economic improvement.

b. In continental Europe, a significant difficulty in completing the MTDP in successive annual installments arises from the inadequacy of the efforts of these countries to increase their military equipment production. Munitions production capacity is available; but financing is not available in sufficient amounts. The ISAC considers this problem one of the most urgent facing it.

c. The volume and rate of military equipment deliveries from the United States have been below expectations and still further below the level of essential requirements. As a result, the incentives to raise the forces on schedule are being weakened. Recently established targets, however, call for deliveries of the Fiscal Year 1952 program by December 31, 1952, with the exception of certain aircraft and other items requiring long periods of production. The ability to hold these delivery schedules depends greatly on the trend of defense production in the United States.

d. In the non-European areas, shortages of United States trained personnel, as well as export goods, are becoming acute and are inhibiting the rate of program accomplishment.

4. As to adequacy and timing of our foreign military and economic assistance programs, the judgments which emerge from a preliminary reexamination of present objectives and programs of United States
foreign economic and military assistance, initially outlined in NSC 68/4 and Annex 2 of NSC 68/3, indicate that:

a. The central issue concerns the position which the United States should take toward the accomplishment by the target date of the North Atlantic Treaty Medium Term Defense Plan.

(1) Recent study by the United States of the cost of the MTDP indicates that the plan, if carried out as scheduled, together with non-NATO military costs of the European NATO countries, would involve a total cost over the four years from mid-1950 to mid-1954 of approximately $72 billion, divided into $40 billion of major materiel requirements and $32 billion of other costs. These estimates include costs of German participation; and exclude costs of United States and Canadian troops that would be included in the MTDP forces under JCS plans. These recent estimates show a significantly higher cost than did the study contained in NSC 68/3.

(2) Total United States assistance for Fiscal Years 1953 and 1954, even if provided at the annual rate requested of the Congress for Fiscal Year 1952, would, together with any present reasonable expectation of European defense efforts, leave a substantial deficiency in the completion of the MTDP requirements.

(3) If the over-riding objective is the military build-up of the size and by the dates contained in the MTDP, the United States should be prepared to furnish assistance after Fiscal Year 1952 in an amount whose outside limit can now be estimated at about $25 billion. Until the re-examination of the MTDP, now underway, has proceeded further; no estimate can be given of the extent to which adjustments and economies in that plan may reduce the size of the deficiency. To the extent that adjustments in the military plan permit cost reductions or extended target periods, this amount can be less; to the extent that European morale and political cohesion improve, it may also be less. Nevertheless, it is probable that United States assistance will be required during Fiscal Years 1953 and 1954 at an average annual rate greater than that requested of the Congress for Fiscal Year 1952 if the program is to be substantially accomplished on schedule. Moreover, the bulk of the funds should be obligated during Fiscal Year 1953 in order to permit the necessary flow of deliveries in 1953 and 1954. Therefore, the funds required to be obligated by the end of Fiscal Year 1953 would be substantially larger than the appropriations requested for Fiscal Year 1952.

b. Little scope is available either for significant reductions in the magnitude or for postponing the target dates of our aid programs to the non-European countries. Economic and military assistance requirements for the non-European countries, while substantial in the aggregate, approach the minimums in terms of both magnitude and timing which are needed to arrest deterioration in the situation, particularly in the Near East, and, in the cases of Asia and the Pacific, and Latin America, to lay a firm base on which more far reaching development and increased military strength can be built in the near future. Particularly for the Near East and Asia regions, United States assistance requirements should not be delayed as to timing.
A. Objectives and Status of Assistance Programs

5. The basic United States objective in NATO Europe is the accomplishment of the Medium Term Defense Plan (MTDP) which has a target date for completion by July 1, 1954. The MTDP is the basis for programming military and related economic assistance to the other NATO countries.

6. The salient features and implications of the MTDP which are relevant to the discussion are as follows:

a. The MTDP for ground, naval, and air forces in being by mid-1954 represents the agreed aggregate defense force objective of the 12 NATO countries. Individual nations have accepted certain commitments toward the meeting of the aggregate force objectives. The commitments are not firm, but were undertaken subject to financial and economic feasibility, and in the expectation of receiving large but yet unknown amounts of external assistance. The following are the main points about the commitments:

   (1) In the aggregate they are substantially less than the totals indicated in MTDP.

   (2) The commitments taken together do not represent balanced forces within the total represented by the commitments, the shortfall beneath MTDP being proportionately much greater for air than for ground, with naval force commitments intermediate in shortfall.

   (3) It is estimated that present military budgets and U.S. end-item deliveries taken together will provide for less than the total cost of the fiscal year 1952 installment under the commitments.

   (4) Although a major aspect of the MTDP is the force levels to be in being upon completion of the build-up scheduled for mid-1954 the force levels in being at intermediate times during the build-up period are of obvious importance.

Although military discussions have been undertaken on closing the gap in the air forces, conclusive action on the governmental level has not yet been reached toward enlarging the national commitments to fill out the MTDP. The U.S. is initiating multilateral negotiations in the Standing Group on additional force commitments by introducing a specific U.S. proposal for additional national commitments broken down by country and by type of force. The U.S. position was derived from ISAC agency studies in conjunction with JCS proposals.

b. The MTDP represents a basic strategic requirement, rather than a rigid plan or a detailed plan. It is subject to re-examination and adjustment; and its details remain to be further developed by the Supreme Commands of NATO. General Eisenhower and his staff are undertaking, during the current summer, the first major re-examination of the ground and air plan and are expected to complete this phase of their work during September of this year. It is to be expected that SHAPE and the other NATO Supreme Commands will continue to treat the Plan as flexible and subject to modification in the light of experience and changing circumstances or opportunities.
c. The MTDP is a military plan; but its effective accomplishment requires economic strength and resolute political action.

The demands on European economic resources arising out of the MTDP are creating serious economic pressures in Europe, and those pressures will increase. Moreover, after the initial four-year military build-up embodied in the plan has been completed, the maintenance of force levels reached under that plan will continue to exert substantial pressure on European economic resources over an indefinite period.

Resolute political action is not assured. In at least two major European NATO countries there is serious internal danger from strong Communist parties; in several other countries political cohesion is threatened by economic factors. The dangers of severe price inflation and reduced or unimproved living standards consequently threaten the political framework within which the MTDP must be accomplished in many countries. U.S. assistance must have as one of its objectives the maintenance or improvement of political stability.

d. The United States is a participant in the NATO Medium Term Defense Plan and shares in both the advantages and the responsibilities of accomplishing the Plan. Since the United States is within the joint enterprise and committed to work for the achievement of a commonly agreed plan, we cannot neglect our responsibilities nor ignore the consequences of our actions on the other members of the North Atlantic community. The magnitude of the problem of achieving the MTDP, as will be indicated in Section D, concerns both the efforts which our Treaty partners make and those which we undertake. Consequently the discussion in this paper is concerned primarily with the Medium Term Defense Plan and our economic and military aid programs are considered within that broader context.

e. The estimated cost of accomplishing the MTDP is significantly greater than that given in Annex 2, NSC 68/3. As indicated in Section D, below, the United States must decide the course of action which we should take to achieve our basic objectives in the NATO.

7. The status of current economic and military aid programs for Fiscal Years 1951 and 1952 follows. During this period, as well as in Fiscal Year 1953 and 1954, economic aid will be used to support increasing defense efforts by European countries. Economic aid has, in Fiscal Year 1951, been devoted also to recovery purposes under the Marshall Plan initiated in 1948. Since the Marshall Plan goals have now been substantially reached in all except a few European countries, it is contemplated that economic aid will be used for the purpose of building economic strength, primarily to support a long-term military effort in Europe.

8. In Fiscal Year 1951, about $930 million of direct economic aid was allotted to the continental European NATO countries (excludes Western Germany, Greece and Turkey), while their military efforts totalled $3.5 billion. For Fiscal Year 1952, about $860 million of direct economic aid has been requested of the Congress to be used primarily
to support a $5.2 billion military effort by these countries. For the United Kingdom about $300 million of economic aid was allotted in Fiscal Year 1951, while its military effort amounted to $2.5 billion; no economic aid has been specifically requested for Fiscal Year 1952; although the UK military effort is expected to rise to $3.8 billion. Economic aid to Western Germany is expected to drop from $385 million in Fiscal Year 1951 to $175 million in Fiscal Year 1952; while Germany’s military effort (in the form of occupation costs in Fiscal Year 1951) is expected to rise from $1.2 billion in Fiscal Year 1951 to $2.1 billion in Fiscal Year 1952.

9. For the European NATO countries (including Western Germany), taken as a group, Gross National Product (GNP) is expected to rise by 5.5 percent; from $126 billion in Fiscal Year 1951 to $138 billion in Fiscal Year 1952. Per capita consumption, which had on average reached prewar levels by Fiscal Year 1951, is expected to rise further by an average of 1.6 percent in Fiscal Year 1952. These averages, of course, do not bring out substantial differences between countries or social groups within the various countries. In the UK, the lower wage earning groups are estimated to be consuming as much as 10 percent more than before World War II. In the major continental countries, France, Germany, and Italy, the lower wage earning groups are still earning substantially less than prewar and have not made gains proportionate to national averages.

10. The military assistance programs for the European countries, including relatively small stockpiles in Fiscal Years 1950 and 1951 for Austria and Yugoslavia and a $782.4 million equipment stockpile (primarily for Western Germany, Spain and Yugoslavia) for Fiscal Year 1952, are summarized in Table 1. United States end-item assistance already programmed through Fiscal Year 1952 to meet requirements of the MTDP totals about $10 billion and is related primarily to the unit equipment requirements for forces to be available by July 1, 1952.

11. The combined Fiscal Years 1950 and 1951 Army programs provide the major items of equipment for 28 divisions. Upon the completion of the Fiscal Year 1952 Army program, together with the Fiscal Years 1950 and 1951 Army program, the United States will have helped to complete the full equipment of 21 divisions, furnished major items of equipment to 24 additional divisions, and will have provided the essential training equipment for 10 more divisions.

12. Owing to the outbreak of hostilities in Korea and the substantial consumption of equipment in consequence, deliveries of military equipment have been below expectations and still further below the level of essential requirements. As a result, the problem of meeting the force requirements of the NATO countries is becoming one of equipment rather than one of manpower. There is a growing reluctance through-
out Europe to call up men for military service without definite assurance that equipment will be available with which to equip and train them.

13. Deliveries of equipment, however, are accelerating; and deliveries of Army equipment, financed with Fiscal Years 1950 and 1951 appropriations, are expected to be completed by June 1952. Recently established targets call for deliveries of the Fiscal Year 1952 program (provided funds are appropriated soon) by December 31, 1952, with the exception of certain aircraft and other items requiring long periods of production. It must be emphasized, however, that the ability to hold these delivery schedules depends greatly on the trend of defense production in the United States.

**Table 1**

**Title I—MDAP**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Approved Material Program</th>
<th>Estimated* Obligations as of 6-30-51</th>
<th>Shipment to Port Charged to Appropriation</th>
<th>Acquisition Cost of Excess</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>1950</td>
<td>856,141,500</td>
<td>915,224,986</td>
<td>459,405,541</td>
<td>237,940,957</td>
<td>697,346,598</td>
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<tr>
<td>1951</td>
<td>3,778,883,458</td>
<td>3,569,877,243</td>
<td>82,960,022</td>
<td>40,483,287</td>
<td>122,623,259</td>
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<tr>
<td>1952</td>
<td>14,820,015,952</td>
<td>14,820,015,952</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>9,464,940,918</td>
<td>4,578,947,357</td>
<td>541,765,698</td>
<td>278,404,194</td>
<td>820,100,857</td>
</tr>
</tbody>
</table>

**B. Extent of Accomplishment**

14. In the last analysis, the preponderance of the world’s economic strength is presently available to Western Europe and to North America; and this strength, if properly mobilized, can swing the balance of military power in favor of the free nations. The machinery for effecting this mobilization, and its conversion into combat-ready forces, has been created and is in operation. As this process gains momentum and as new nations are associated in the undertaking; real military strength will grow and, in growing, should remove the factors which have underlain defeatism and neutralism in some European countries.

15. Viewed from the vantage point of total estimated costs of mounting the required defense effort, however, only the lesser part of the total job has been done. On the basis of optimistic assumptions con-

*Includes matériel, training and administrative expenses. [Footnote in the source text.]

†No-year ship construction account; not possible from information available to break out to fiscal year. [Footnote in the source text.]

‡Proposed matériel program. These data do not include costs of training, transportation, or administration. The data understated the amount of matériel procured; since equipment in excess of U.S. requirements is acquired by the MDAP at rehabilitation cost. The Fiscal Year 1952 program also includes matériel for stockpiling needs (Western Germany, Spain, and Yugoslavia). [Footnote in the source text.]
cerning economic aid in Fiscal Year 1952 and defense efforts by the European countries, it is estimated that the European military efforts in Fiscal Year 1951 and Fiscal Year 1952, combined with expected MDAP deliveries (not obligations) of military equipment in the same two years, will accomplish roughly 30 percent of the estimated total four-year military cost, excluding United States and Canadian force contributions to the MTDP. Under less optimistic assumptions concerning economic aid and European defense efforts, the progress over the first two years toward the MTDP goals may be slightly over 25 percent. Owing both to the slowness of MDAP equipment deliveries and to the failure sufficiently to activate European armament production; less than 24 percent in financial terms, of the MTDP equipment requirements will become available by the end of Fiscal Year 1952. The implications of these developments are discussed in Section D, below.

C. Difficulties Being Encountered

16. Considerable and encouraging progress has been made in building economic and military strength in Western Europe, but more can and must be done by the European countries, particularly the current and prospective members of NATO. The means for surmounting these difficulties are under study in the ISAC.

17. As a preface to the specific difficulties which are indicated below, it is important to observe that serious economic difficulties are inherent in a program of the magnitude undertaken by the adoption of MTDP. This does not imply that all the difficulties are economic, either immediately or ultimately; the effectiveness of NATO and the Supreme Commands would present serious difficulties, German participation would remain a problem, the implications of large Communist votes would still be cause for worry, adherence of new members would be a thorny problem, and the problems of coordinating and regularizing the activities of sovereign states joined together in an alliance would remain, even if the cost of MTDP were much smaller. But a large portion of the difficulties with which the U.S. Government must preoccupy itself, and, in fact the principal difficulties relating to the successful accomplishment of the assistance program, result from the fact that the minimum security goals are of a size to tax the capacity of European Governments to mobilize economic resources and the willingness of populations to accept heavy economic sacrifices.

18. Major difficulties are set forth below in summary form:

a. Lack of a sufficient sense of urgency among some of the peoples and governments of the continental European countries has discouraged their parliaments from financing adequate defense efforts.

b. The existence of national barriers has resulted in a lack of sufficient economic and military cooperation which, if remedied, might well provide more effective defense efforts over the long-term.
c. Inadequate administrative strength in the NATO, including weaknesses inherent in 12-power committee action with the rule of unanimity.

d. The generally poor economic efficiency of continental Europe characterized by low productivity, mal-distribution of income and inability of governments to mobilize resources for defense purposes reduces the European capability to mount a larger defense effort.

e. The present threat of inflation and the historic incapacity of certain European countries to suppress it constitute both a psychological and economic handicap.

f. Increasing shortages of raw materials and their efficient allocation to most essential purposes are beginning to handicap industrial mobilization.

g. All of the foregoing factors tend to inhibit essential increases in (1) the production of military end-items despite the availability of unutilized physical capacity, and (2) the construction and modernization of infra-structure facilities.

h. The volume and rate of military equipment deliveries by the United States have been below expectations and still further below the level of essential requirements. As a result the incentive to raise the forces on schedule is being weakened.

D. Adequacy and Timing

19. The Medium Term Defense Plan is the standard for evaluating the adequacy and timing of the defense efforts of the NATO countries and the United States economic and military aid programs related thereto. The standard, itself, requires comment:

a. Estimated Cost of the MTDP and Its Implications.

(1) Estimated Cost. Recent study by the U.S. of the cost of MTDP indicates that the plan, if carried out as scheduled, together with non-NATO military costs of European NATO countries, would involve a total cost over the four years from mid-1950 to mid-1954 of approximately $72 billion, divided into $40 billion of major material requirements and $32 billion of other costs (troop pay and maintenance, training, construction, soft goods and consumable supplies other than ammunition); of the major matériel cost about $9 billion represents war-reserve stocks. These cost figures include costs of German participation and exclude costs of U.S. and Canadian troops that would be included in the MTDP forces under JCS plans.

(2) Present cost estimates higher than those given in Annex 2, NSC 68/3. The NSC 68/3 estimates were derived, in the absence of direct data on country requirements, from the application of certain general cost factors to the total military program; the recent estimates have been based on data submitted by countries to the Military Standing Group. No detailed comparison of results can therefore be made, but the principal elements of difference that can be separately identified are the following:

(a) Germany, though included in both estimates, was included within the NATO requirements, shown in NSC 68/3 and is presently considered additional to the total forces contemplated at the time of NSC 68/3;
(b) Present study includes an explicit allowance for war reserve, the NSC 68/3 study was done on the basis of peace-time maintenance in the absence of country data on war reserve requirements;

(c) Non-NATO costs, principally in major matériel, for France and UK have been revised upward on the basis of data submitted by those countries.

Other elements in the difference, such as changes in price assumptions, etc., cannot readily be identified separately. Present estimates are based on U.S.-screened cost estimates submitted to the Standing Group by the individual countries. It should be observed that elements (a) and (b) in the change of cost estimate really represent modifications in the definition of MTDP and its initial armament objectives, rather than revisions in cost calculations.

(3) Estimated Remaining European Deficiency. Recent study of the "Scope, Duration and Feasibility of the NAT-MTDP and Related U.S. Assistance" (ISAC D-4/7a), indicates that over the 4-year period of MTDP the European NATO countries might devote something of the order of $40 billion of resources to defense, assuming U.S. economic aid of $5 billion over the four-year period (i.e., approximately $1.2 billion for each of FY 1953 and 1954). U.S. end-item assistance already programmed through FY 1952, i.e., for which appropriations have been received or requested of the Congress to date, total about $10 billion. Thus the remaining estimated European deficiency, which U.S. end-item assistance in FY 1953 and 1954 will assist in overcoming, is between $20 and $25 billion; minimum economic assistance of some $2.5 billion for the last two years of MTDP makes the general order of magnitude of the total remaining European resources deficiency about $25 billion. It may be noted that end-item and economic aid in FY 1953 and 1954 at the same annual rate as requested for 1952 would amount to half the estimated deficiency, leaving uncovered an amount equal to approximately one-sixth of the total 4-year cost of European defense.

It is fair to state that the magnitude of the problem of meeting the MTDP according to the above estimate, is greater than had been anticipated by ISAC and greater than the other members of NATO are probably aware.

(4) Multilateral Consideration of the Problem. The U.S. evaluation of the problem summarized above, although based largely on the separate cost estimates of the individual NATO countries, has not been made known to the other members of NATO. It is unlikely that adequate progress toward NATO goals can be made without multilateral consideration of the problem sometime during the present calendar year, such multilateral consideration being guided largely by U.S. leadership. It is unlikely that progress can be made toward additional force commitments under MTDP in the absence of realistic consideration of the total cost of MTDP and the distribution of that cost among members. Plans are well advanced in ISAC and the related regional organ-

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*For an extract from document ISAC D-4/7a, "Scope, Duration and Feasibility of the NATO Medium Term Defense Plan," June 20, 1951, see vol. III, p. 183.*
nization (ECC) to place this problem before NATO for multilateral consideration.

(5) Consequences of a failure to meet adequately the MTDP. Regarding the possibility of failure to meet substantially the MTDP two points should be recognized. (a) In the event that MTDP as a strategic concept were adhered to, while accomplishment under the Plan were to fall significantly short of goals, proper force balance would probably require some measure of deliberate planning for such a shortfall in order to make most effective use of the resources contributed. (b) Abandonment of MTDP as the basic strategic concept and its replacement by a less adequate military plan would, aside from its military significance, be a severe shock to European morale and the North Atlantic Treaty organization.

b. Possible Ways of Meeting the Deficiency in the MTDP.

The following are the various conceivable ways in which the deficiency could be met:

2. European economic efforts greater than those estimated above.
3. Reduction of Cost of MTDP by modification of forces and equipment.
4. Postponement of target dates for MTDP.
5. Larger U.S. force contributions than currently proposed by JCS.
6. Revisions in cost estimates.

(1) U.S. Assistance. As indicated above, U.S. end-item and economic assistance for FY 1953 and 1954 at the annual rate requested for 1952 would supply approximately half the estimated deficiency. In this connection, it should be noted that the President has authorized public statements before the Congress to the effect that at least the amounts of funds requested for the European NATO countries in the proposed Fiscal Year 1952 program will be required in Fiscal Years 1953 and 1954.

If U.S. assistance were to provide for the entire deficiency, substantial modifications in the techniques and principles that govern U.S. assistance would probably prove necessary. A major difficulty would arise from the conflict between the provisions of such large-scale aid in the form of military equipment and the strategic and economic importance of developing European production of such equipment. It should be noted that meeting the entire deficiency by provision of end-items would lead to U.S. provision of about 80% of European major material requirements. The strategic and economic importance of the implied dependence on U.S. supply are great, and would probably make advisable the provision of substantially larger amounts of economic aid in place of end-item assistance. Such "economic" aid might take the form of "soft" end-items provided to military establishments, of U.S. end-item procurement from European production and associated European imports financed with the dollar proceeds of such procurement, or economic aid of the kind currently being programmed. It seems clear that no form of purely "financial" assistance, unassociated with a transfer of real resources, could be undertaken in amounts of several billion dollars without inflationary effects too serious to be
FOREIGN ASSISTANCE PROGRAMS

allowed. In practice, putting into Europe a very large increase in current amounts of economic aid would probably involve both sizeable increases in total imports of real goods and sizeable increases in European dollar reserves. Even though a program of U.S. assistance comparable to the entire estimated deficiency would perhaps entail some modifications in aid techniques, the larger part of U.S. assistance would still necessarily be in the form of military equipment, and the problems of U.S. supply must be considered.

Problems of supply are likely to prove serious in any case. Raw material availabilities, and in some cases Technical Assistance, patent assistance, etc., will be important in permitting Europe's accomplishment of its part; the major problem for the U.S., however, will be in the assignment of U.S. munitions production to NATO. The magnitude of the European deficiency indicated in the figures given above points to the demands that will be made on U.S. munitions output if the NATO build-up is to be accomplished on schedule.

In considering the problem of supply it is important to take account of the close relation between equipment deliveries during the MTDP period and the effectiveness of, and incentive for, the training of European troops. This relationship is an aspect of the fact, referred to above, that MTDP timing is not solely a question of terminal date but involves important intra-period schedules.

It is clear that U.S. assistance of an amount sufficient to meet all or nearly all of the 25 billion dollar deficiency would involve serious difficulties with the Congress.

(2) European Defense Expenditures. The estimate of European military expenditure over the four year period, given above as a round number $40 billion (for which about $5.0 billion of economic aid will be needed), represents the assumption that U.S. negotiating targets for European defense budgets are met in 1952 and significantly increased in each of the succeeding years. They are consequently on the high side of "probable" and permit no easy solution to the deficiency problem by the assumption of greater European efforts. Indeed, in the absence of a major change in the character of European moral and political cohesion, it is doubtful whether U.S. persuasion and negotiation can lead to anything in excess of the $40 billion neighborhood, although this figure is in no sense suggested here as a negotiating target.

Defense expenditures of that magnitude would average without regard to the peaking of defense efforts in Fiscal Years 1953 and 1954, 9 or 10 percent of GNP for the group of countries; 8 or 9 percent if the assumed U.S. economic aid of slightly over a billion dollars per year is deducted from the defense outlays of European governments.

This effort, if actually realized, must be judged a creditable effort. It will imply for most of the countries serious inflationary problems, tax levels equal to or greater than that of the U.S. in proportion to GNP, the unlikelihood of such improvement in consumption standards for an indefinite period, and a good deal of resolution on the part of governments. It is not by any standards, however, an "all-out" mobilization effort comparable to the military outlays of Britain and Germany or the U.S. during the war, or comparable to the effort of the Soviet Union now.

Even if United States negotiating efforts might be successful vis-à-vis European governments, it is doubtful whether the U.S. would be wise in attempting to induce the Europeans to fill the deficiency out
of their own resources sufficiently to permit U.S. aid to be less in FY 1953 and 1954 than the amount requested for FY 1952.

Of great significance in obtaining from the Europeans the efforts of which they are capable is the manner in which U.S. assistance is related to and conditioned on European performance. Two major and difficult problems whose solutions are urgently needed are the manner in which end-item assistance is related to a country’s capacity to finance and carry out procurement of end-items in Europe, and the extent to which the U.S. may engage in direct procurement in Europe of end-items whose production there is economically and strategically sound. Both of these are part of a more general problem, which is that of bringing all elements of U.S. assistance programs into a general understanding on total U.S. assistance in relation to total country performance, in order to maximize the utilization of European manpower and economic sources for defense, promote the independence of Europe from external aid for the maintenance and support of their forces after completion of MTDP, and minimize the impact of U.S. assistance on the U.S. economy. As long as this problem is unsolved U.S. negotiating strength will not be most effectively utilized. It is fair to state that the size of the effort required itself makes such clear-cut negotiation difficult.

In conclusion, the possibility of greatly expanded European defense expenditures over those already assumed in the estimates cannot be excluded; but it would be unwise to make security plans that are contingent on figures more optimistic than those contained in the above estimates.

(3) Modifications in MTDP. During the course of this summer, SHAPE and the other NATO Supreme Commands are reviewing the military requirements under MTDP. General Eisenhower is aware of the increased necessity, in the light of the above estimates, of examining carefully all requirements with a view to effecting such economies in cost as can safely be accepted. It may be hoped that such a re-examination will lead to reductions in some requirements and hence in the total cost.

Aside from the elimination of superfluous costs, however, it must be recognized that economy will generally mean reduced effectiveness of available forces on target dates. In general, the possible ways of effecting economies would be: reduction of quantity or quality of equipment of forces, reduction of war reserves, reduction of training, reduction of troop levels, or deferment of target dates. It cannot be stated at the present time to what extent some of these ways may be taken to reduce the total cost without grave damage to the basic Plan and the objectives it is to serve.

(4) Postponement of Target Dates. In the event of deferment of certain target dates, the above estimates would be revised somewhat. Spreading the build-up over a longer period would increase the total expenditure that might be expected from the Europeans, since part or all of an additional fiscal year would be available in which to meet some of the costs. The net gain, however, in financing would be less than the additional total expenditures that could be expected, inasmuch as the recurring costs of maintaining forces would be involved in the extension period in excess of any prior savings through slippage. Spreading U.S. aid over a longer period would similarly reduce the annual cost of the build-up. Thus, technically, the assistance programs
for NATO Europe are principally of the capital investment type and susceptible of postponement. On the military merits of such deferment, however, there has been no occurrence within the purview of ISAC that reduces the urgency of the original target dates.

It seems clear from the foregoing discussion of this paper that no significant acceleration of the MTDP build-up can reasonably be expected to be accomplished.

(5) U.S. Force Contributions. The considerations surrounding the question of a larger U.S. force contribution to NATO go beyond the scope of this paper. Suffice it here to point out that any change in U.S. force contribution affects the size of the European deficiency, although, in terms of cost, probably by much less than the cost of additional U.S. troops in NATO. Since it is unlikely that the relative costs would be a major factor in a decision on U.S. forces for NATO, the above is stated only as an implication of such a decision.

(6) Revision of Cost Estimates. The range of error in the cost estimates given earlier can be of significant magnitude. Prices are uncertain, scales of production will change, and decisions on troop pay, etc., remain to be taken in several countries. The total cost could vary by perhaps $5 billion with no change in programs, i.e., through cost-price factors alone. This change could be in either direction.

c. Preliminary Conclusions.

If the overriding objective is the military build-up of the size and by the dates contained in the MTDP, the U.S. must be prepared to provide assistance after FY 1952 in an amount whose outside limit can now be set only at about $25 billion. To the extent that adjustments in the military plan permit cost reductions or extended target periods this amount can be less; to the extent that European morale and political cohesion improve it may be less. Nevertheless, it is probable that U.S. assistance may be required during FY 1953 and 1954 at an average annual rate greater than that requested of the Congress for FY 1952 if the program is to be substantially accomplished on schedule. The bulk of the funds would have to be obligated during FY 1953 in order to permit the necessary flow of deliveries in 1953 and 1954, and the funds required to be obligated by the end of FY 1953 would be substantially larger than the appropriations requested for FY 1952.

Studies are now under way to re-examine the MTDP requirements and to refine the basic elements of the plan. Until these studies are completed and reviewed, the United States does not have a firm basis for considering modifications in the plan or determining the feasibility of accomplishing the MTDP in full by the target date. However, no development in the world situation is considered by ISAC to have diminished the importance or urgency of completing the MTDP by the target date.

20. Note on the MTDP in FY 1955. As originally formulated, and as it stands today, the MTDP is a program of military build-up to be completed in the middle of 1954. It is to be followed by a period of maintenance of force levels. The annual recurring costs of the program after completion of the initial training and equipment, i.e., after 1954, are estimated at an amount that could approximately be borne by the European members; although U.S. aid may be required in
small amounts after 1954, since the burden of supporting forces will fall disproportionately heavily on certain countries, notably France. Certain types of equipment would have to be supplied physically from the U.S. Completion of MTDP should consequently be expected to produce a sharp drop in U.S. assistance during FY 1955.

21. In the event of modification of some of the target dates, U.S. assistance could to some extent be spread over the longer period.

22. Note on Yugoslavia. The continued independence of Yugoslavia from Soviet control has meant the subtraction of the Yugoslav armed forces (about 30 divisions) from the military power of the Soviet bloc and their addition to the forces opposed to Soviet aggression; relief from great pressure on Greece and Italy; and the strengthening of our whole position in the Mediterranean and the Near East. The break with Russia in 1948 also provided us with the important political benefit of a breach in the solid front of Communist nations and thereby challenging the Soviet grip on world Communism.

23. Programs of action have changed in response to developments. Substantial economic aid was furnished to Yugoslavia in Fiscal Year 1951. Economic aid requirements for Fiscal Year 1952 were studied by the United States, United Kingdom and France. The program for Fiscal Year 1952 involves U.S. assistance in the amount of $60 to $80 million; and the U.K. and France are also contributing aid on an agreed sharing arrangement.

24. In NSC 18/6 the United States envisaged the possibility of furnishing military aid to Yugoslavia in the event of Soviet or satellite attack; and $77.5 million in Fiscal Year 1951 was set aside for stockpiling equipment. Military aid for Fiscal Year 1952 is being programmed on the basis of consultations with the British and French; and in the near future, with Yugoslavia. A specific amount of funds has not yet been determined, the legislative proposals, however, include a request for funds to stockpile equipment for countries, including Yugoslavia, not presently eligible to receive military assistance.

25. Note on Spain. Decisions have yet to be made regarding the exact form, amount and timing of our assistance programs to Spain. Much will depend on Spain’s performance as a result of the recent talks in Madrid. Moreover, the political reactions of our NATO partners have to be evaluated closely; since the initial reactions from abroad were severe and these governments must be convinced that we are not pre-occupied with the concept of retreating behind the Pyrenees in the event of hostilities. The magnitude and character of the problem of meeting MTDP requirements, outlined above, suggests that strict limits should be set to the amount of military assistance which we should undertake to furnish in Fiscal Year 1953.

*For NSC 18/6, “The Position of the U.S. With Respect to Yugoslavia,” March 7, 1951 (approved by the President on March 12), see volume iv.*
A. Status of Assistance Programs

26. In Fiscal Year 1951, the assistance programs for the Near East and Africa, including Greece and Turkey, were similar in magnitude and form to those given in NSC 68/3. Both the proposed Fiscal Year 1952 military and economic aid programs, however, are larger than estimated in NSC 68/3. Assistance programs were increased in Fiscal Year 1952 to meet the objectives set forth in NSC 47/5. The proposed Fiscal Year 1952 program contemplates grant military assistance up to 10 percent of such funds available in Title II of the draft Mutual Security Act to the Arab States and Israel. In addition, on the military side, the Executive Branch decided that the Fiscal Year 1952 programs should provide for the acceleration of the re-equipment and modernization schedules for Greece and Turkey and for augmenting the supply of military equipment to Iran in Fiscal Year 1952. Economic aid programs for Greece and Turkey have also been adjusted in order to take account of their defense requirements.

27. Fiscal Year 1952 economic programs for the Near East were expanded to meet three emerging situations: (a) improved possibilities for a solution of the Arab refugee problem, (b) deterioration in the economic capabilities of Israel during a period of rapid economic development and heavy absorption of immigrants, and, most significantly, (c) the greater currency being given in the Arab world to the defeatist policy of neutralism in international relations. It is emphasized, however, that there is a mounting political crisis in Iran which, if not resolved, could adversely affect the whole structure of relationships between the Near East and the West.

B. Extent of Accomplishments

28. Our assistance programs for the Near East and Africa have achieved impressive results; even though they have not been entirely successful in preventing or arresting a general deterioration in the Near Eastern political and economic situation. Greece and Turkey are solid bastions of strength in the Eastern Mediterranean; and Turkey, in particular, is a model to the Arab World of the benefits to be derived from close cooperation with the United States. Far from sliding into a policy of neutralism, Turkey is insisting upon entering into fully developed mutual security arrangements with the North Atlantic Treaty powers. The economic situation in both Greece and Turkey is slowly improving in spite of heavy defense burdens and, in the case of Greece, the devastation of foreign and civil wars.

29. During the past fiscal year, important progress has been made in laying the foundation for an ultimate solution of the Arab refugee
problem with the assistance of UN agencies. This development, if carried to completion, will assist in removing a significant cause of tensions in the area.

30. The Dhahran Air Base agreement was renewed and the Saudi Arabian Government is going forward with its plans to increase its defensive strength. A joint United States military mission is currently discussing the matter in Saudi Arabia. Arrangements are also being completed for the acquisition of facilities in Libya.

31. Both the economic and military assistance programs have played an important part in keeping the Iranian situation from getting out of hand. Projects, such as locust control, financed with Point IV funds have demonstrated to the Iranian people the benefits of United States aid. Prompt deliveries of military equipment to Iran have bolstered the confidence of the Army and helped to ensure its loyalty to the Shah.

C. Difficulties Being Encountered

32. The basic difficulties which hamper the attainment of our program objectives in the area are political in character. The distressing poverty endured by the majority of the people in an area rich in oil resources provides an excellent opportunity for agitation by extremists; and paves the way for violent political action. The growing acceptance of neutralism on the part of the Arab States reflects the confusions and tensions which prevail among their peoples and governments. Our ability to overcome these difficulties is limited by acts of obstruction on the part of certain European nationals to the conduct of United States activities in the area and by the caution the United States should exercise in dealing impartially with the Arab States and with Israel.

33. Our relations with Iran and Syria have weakened and special measures will probably be required to improve them. The friction between the British and Egyptian Governments may involve the United States.

34. As a result of these political developments and as a general consequence of the low level of administrative competency of many governments in the area, it is extremely difficult to get assistance programs properly formulated and executed. This is particularly true of economic and technical assistance programs. In addition to procrastination and delay in the development of programs, it is proving difficult to overcome the reservations on the part of the Arab States to undertake the minimum commitments required to initiate assistance programs.

35. It is anticipated that the proposed Fiscal Year 1952 program of military aid for the Arab States and Israel will be extremely difficult to administer, since it will raise in acute form the distribution of aid as between the Arab States and Israel and will require adequate
assurances regarding military roles and missions and the use to which such equipment should be put. The political advantages which will accrue from the successful accomplishment of this task, however, justify the risks involved in furnishing military equipment to the Arab States and Israel.

D. Adequacy and Timing

36. The proposed Fiscal Year 1952 military aid program is believed to be adequate; but it should be noted that, as the attached table indicates, this program is substantially larger than the one given in NSC 68/3 and the military aid program contemplated for Fiscal Year 1953 is twice the size of the one given in NSC 68/3. Thereafter the presently proposed programs are of the general order of magnitude as those given in NSC 68/3. As indicated in Section A, above, the revised military aid programs are designed to accelerate the modernization and replacement of the equipment of Greek, Turkish and Iranian forces and to provide for grant military assistance to the Arab States and to Israel.

37. In view of the adverse trend of developments in the Near East and Africa (excluding Greece and Turkey), serious questions arise as to the adequacy of the proposed economic aid programs. Israel’s foreign exchange position has dropped more than expected. Israel is floating a $500,000,000 bond issue which, if it progresses successfully, will relieve the need for large amounts [of] grant assistance this year. Borrowing in that magnitude will, however, impair Israel’s capacity to service additional loans. The main problem, however, concerns Iran and the possibility that the course of events taking place there will spread to other countries in the area. The present program was based on the assumption that Iran would continue to obtain substantial foreign exchange revenues in connection with oil production and export. The outcome of the oil controversy is still uncertain.

38. The timing of our assistance programs to countries in this area presents special problems. When new or revised programs are established, lasting political advantages are more likely to be obtained if performance becomes evident soon after announcement is made. Economic and military aid programs for the Near East, particularly for Iran, the Arab States, and Israel, should be executed promptly.

39. Moreover, if Greece and Turkey become full members of the NATO, priorities on deliveries of military equipment to NATO countries will apply to Greece and Turkey. This change in political status will probably not affect the volume of deliveries appreciably.

40. In addition to the proposed assistance programs for Turkey, a suggestion has been made that further aid be furnished to Turkey to enable that country to raise an additional six divisions at an initial cost of about $110 million for equipment and an annual cost of about $50 million for maintenance and support. This suggestion has not been
recommended by any government agency and it has not yet come before ISAC for consideration.

41. Apart from the continuing assistance programs for Greece, Turkey and Iran, most of the programs for other countries in the area have only recently been proposed or initiated; and therefore there is little scope for postponing or delaying the rate of implementation. On the contrary, it is important, in light of the deteriorating situation in the area, to augment and accelerate our assistance programs.

**Table 2**

(Preliminary)

**Near East and Africa: Military Assistance Programs**

*Note: Figures for future periods represent purely preliminary and tentative estimates, not yet reviewed by ISAC.*

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>NSC 68/3 Estimate</th>
<th>Present Estimate</th>
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<tbody>
<tr>
<td>1951</td>
<td>325.9</td>
<td>309.5</td>
</tr>
<tr>
<td>1952</td>
<td>271.3</td>
<td>415.0</td>
</tr>
<tr>
<td>1953</td>
<td>287.4</td>
<td>596.8</td>
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<tr>
<td>1954</td>
<td>262.4</td>
<td>292.0</td>
</tr>
<tr>
<td>1955</td>
<td>242.2</td>
<td>236.4</td>
</tr>
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</table>

**Table 3**

(Preliminary)

**Near East and Africa: Economic Assistance Programs**

*Note: Figures for future periods represent purely preliminary and tentative estimates, not yet reviewed by ISAC.*

<table>
<thead>
<tr>
<th>Near East (Other than Greece and Turkey)</th>
<th>Fiscal Year 1951</th>
<th>Fiscal Year 1952</th>
<th>Fiscal Year 1953</th>
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</thead>
<tbody>
<tr>
<td>Grant</td>
<td>30</td>
<td>65</td>
<td>80</td>
</tr>
<tr>
<td>Loan</td>
<td>75</td>
<td>90</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>(105)</td>
<td>(159)</td>
<td>(140)</td>
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<table>
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<tr>
<th>Africa</th>
<th>Fiscal Year 1951</th>
<th>Fiscal Year 1952</th>
<th>Fiscal Year 1953</th>
</tr>
</thead>
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<td>Grant</td>
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</tr>
<tr>
<td>Total</td>
<td>(55)††</td>
<td>(55)††</td>
<td>(55)††</td>
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</table>

<table>
<thead>
<tr>
<th>Greece and Turkey</th>
<th>Fiscal Year 1951</th>
<th>Fiscal Year 1952</th>
<th>Fiscal Year 1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>320</td>
<td>320</td>
<td>320</td>
</tr>
</tbody>
</table>

§Includes only Greece, Turkey and Iran. [Footnote in the source text.]

‖Beginning in Fiscal Year 1952 it is proposed that up to 10 percent of the funds made available for military assistance in Title II of the Act may be used to furnish military equipment to Israel and the Arab States. [Footnote in the source text.]

††Includes $25 million for Iran which has not been ratified by the Iranian Parliament. [Footnote in the source text.]

**ECA estimate of funds requested for development of strategic materials in Fiscal Year 1952, a large portion of which will be spent in dependent overseas territories in Africa. [Footnote in the source text.]**

††Economic aid for Greece and Turkey is included in Title I of the proposed Mutual Security Act. [Footnote in the source text.]
IV. THE FAR EAST AND THE PACIFIC AREA

A. Status of Assistance Programs

42. In the area which comprehends the extended land mass on the southern flank of the USSR and Communist China, stretching from Afghanistan to Indochina, augmented by the off-shore island chain running from Indonesia to Japan, and also including the Korean peninsula, the United States is striving to turn back the forces of Communist expansion; to attach and retain the peoples and governments of this territory within the free world; to encourage nationalistic aspirations for independence; and to promote internal security and the development of economic well-being. Progress is being made toward these objectives, Assistance programs (other than United States participation in UN military activities in Korea) designed to achieve these objectives amount to about $700 million in Fiscal Year 1951 and $930 million in Fiscal Year 1952.

43. The aggregate costs of assistance programs for countries in this area in Fiscal Year 1951 and 1952 will be slightly larger than estimated in NSC 68/3, Annex 2, if the emergency food loan to India and the partial payment (about $160 million or about 50 percent of the total of such expenses) of U.S. troop expenses in Japan are included. (See Tables 4 and 5). Estimated requirements have risen slightly because (a) objectives have been revised upward (NSC 48/5), (b) an emergency food scarcity appeared in India, (c) active military operations in Indochina in the Fall of 1950 required immediate replacement of equipment and supplies (much of which the United States furnished) which was expended in repulsing the Soviet-supported Viet Minh and (d) larger amounts of military equipment and funds than originally scheduled were furnished to the Philippine Army to increase its effectiveness against the Huks.

44. Overall grant economic assistance programs will be less in Fiscal Year 1951 and 1952 than estimated in NSC 68/3. The chief reasons for the decline in the aggregate amount of economic grant aid programs are (a) the switch from grant aid to partial payment for U.S. troop support in Japan and (b) the reduction in grant aid programs to South Asian countries arising both from delays in initiating those programs and administrative difficulties in carrying out economic development programs.

B. Extent of Accomplishments

45. Real progress is being made in achieving our program objectives. It should be recognized, however, that the hostile forces at work in the area remain strong; and they threaten external aggression and make for internal instability. At the moment these hostile forces have

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*For text of report NSC 48/5, "U.S. Objectives, Policies, and Courses of Action in Asia," approved by the President on May 17, 1951, see vol. vi, Part 1, p. 33.*
lost some of their preponderance of strength, but much remains to be
done and it is too early to predict that a definite trend has been estab-
lished. The timely arrival of military assistance enabled the French
and native forces in Indochina to repulse the Viet Minh and to save
the Red River delta area of Tonkin. There is now hope that mass
starvation can be averted in India, and the basis appears to be emerg-
ing for a firmer orientation of India to the West. Japan is being
strengthened and encouraged to become a participant on the side of
the free world in the struggle against aggression. The internal security
situation in the Philippines is improving. In many countries in this
area, economic and technical assistance programs are touching the
lives of individual citizens and demonstrating in tangible ways the
interest of the United States in improving their standard of living.
On another plane, the efforts and sacrifices of United States forces
in Korea demonstrate to the peoples of Asia that the United States
is determined to preserve the independence of nations and to halt the
process of Soviet inspired aggression. As a result of these develop-
ments, countries which have aligned themselves with the West are
more confident and stronger; and those countries which adopted a
neutral position are seeking, without explicitly abandoning their of-
official position, to concert their policies more closely with those of the
free world.

46. As indicated in Section D, below, our programs of assistance in
Asia and the Pacific are primarily designed to arrest deterioration and
to establish a firm base on which more far reaching development pro-
grams and increased military strength can be built in the near future.
Accomplishments cannot be related quantitatively at this time to pre-
cisely defined goals as in the case of the NATO countries.

C. Difficulties Being Encountered

47. Significant difficulties are being encountered in gaining our pro-
gram objectives in Asia and the Pacific. Many of them are inherent in
any positive action program for Asian countries. The fundamental
problems are political and psychological and concern Asia’s estimates
of the long-term correctness, resoluteness and constancy of United
States policy on the one hand, and on the other hand, the intentions
and capabilities of the U.S.S.R. and Communist China. Many of the
peoples and governments of Asia are not yet fully convinced that the
interests of the United States coincide with theirs; and that our poli-
cies will continue to work for their benefit. As raw-material producers,
for example, they are unclear about our intentions toward their
schemes for industrialization which they associate with their advance-
ment from a colonial status. There are also enough diversities among
the interests of countries in the area so that a major United States
policy, regardless of the care with which it is formulated, is likely to
bring adverse reactions from particular countries; e.g., the response of
the Philippines to the proposed Japanese Peace Treaty or the querulous concern of the French authorities in Indochina about the impact of our economic assistance to the native governments on French relations with those governments. Moreover, almost every government in the area fears invasion by U.S.S.R.-directed forces and therefore is careful to avoid taking many actions which are urged by the United States to make our aid programs fully effective. This caution on the part of Asian governments is too often accompanied by administrative inexperience and, in some instances, by incompetency in government. Our economic assistance programs, in particular, are hampered by ineffective administration in the recipient governments.

48. Closely allied to the difficulties of a political and psychological character are those inherent in the immediacy of armed conflict and the proximity of the aggressor, with the consequent lack of physical security in many countries in this area. Military operations continue in Korea and Indochina. Insurgency and armed political activity are serious problems in Burma, Indonesia and the Philippines. Deterioration of internal stability is an ever-present threat in many countries in the area. As a result, security problems require so much of the governments' attention that they are hampered in making the best use of economic assistance.

49. Furthermore, the impact of U.S. military aid programs on economic requirements is not subject to accurate prediction; for example, the training and build up of forces to maintain security bring increases in defense costs and complicate the fiscal problem. Moreover, as additional territory is rendered secure, the task of economic rehabilitation is increased.

50. Real difficulties have arisen because of material and personnel scarcities and shortages in the United States, and the priorities assigned to exports of materials. Serious delays have been encountered in securing adequately trained personnel, who are adaptable to work in Asian countries, especially for technical assistance assignments. In South Asian countries, in particular, the Fiscal Year 1951 economic and technical assistance programs got off to a late and relatively small start and lowered the base upon which developmental activities in Fiscal Year 1952 could be eradicated [predicated]. If, as now seems probable, the Fiscal Year 1952 economic program for South Asia does not get under way until well along in the fiscal year and there is a resultant delay in the organization of the larger project contemplated, it will probably be necessary to intensify the United States assistance effort in Fiscal Year 1953. Material shortages, both for economic and military uses, are hampering the fulfillment of program objectives for almost all countries in the area, with the possible exceptions of military equipment to Indochina and Formosa which were assigned high priorities. The problem is acute for Asian countries because supply
lines are long, transportation problems are serious, and accomplishments, in the eyes of Asian governments, are measured in terms of supply deliveries.

D. Adequacy and Timing

51. Putting to one side (a) future aid requirements for Korea and Japan, (b) possible increased requirements for Formosa, and (c) un-anticipated operational requirements in Indochina, the military aid programs for Fiscal Years 1951 and 1952 and those set forth in NSC 68/3 for Fiscal Years 1953–55 inclusive, appear to be adequate. If political conditions improve in Burma and Indonesia, however, we may recommend relatively small military aid programs for those countries.

52. Although substantial military aid requirements for Korea and Japan in Fiscal Year 1953 and subsequently are anticipated, they cannot be estimated at this time. Estimates of these requirements were not included in NSC 68/3.

53. After considering loan possibilities, the Fiscal Year 1951 and proposed Fiscal Year 1952 aid programs are believed to be adequate with respect to the availability of funds. Shifts have been made in country distributions and greater reliance is being placed on increased loan possibilities with the proposal of loans not only to Indonesia, the Philippines and Thailand as originally contemplated, but also to Burma a year earlier than projected in NSC 68/3.

54. For Fiscal Year 1953, economic aid programs should be increased in magnitude and tempo. Since Fiscal Year 1952 economic aid programs for South Asia will probably get off to a late start, careful consideration should be given to accelerating them in Fiscal Year 1953. The economic aid requirements of Formosa are estimated at $90 million for Fiscal Year 1953 compared to $30 million given in NSC 68/3.

The outlook for Fiscal Year 1953 for economic aid requirement is summarized below:

<table>
<thead>
<tr>
<th>Region</th>
<th>Fiscal Year 1953 (in million dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NSC 68/3 Annex 2</td>
</tr>
<tr>
<td>South Asia</td>
<td>$150.0</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>60.0</td>
</tr>
<tr>
<td>Other countries</td>
<td>90.0</td>
</tr>
<tr>
<td>North Asia</td>
<td></td>
</tr>
<tr>
<td>Japan and Ryukyus</td>
<td>26.0</td>
</tr>
<tr>
<td>Korea</td>
<td>159.0</td>
</tr>
<tr>
<td>Formosa</td>
<td>30.0</td>
</tr>
</tbody>
</table>
55. The fulfillment of program objectives for all countries in Asia and the Pacific should be accelerated both in this Fiscal Year and in Fiscal Year 1953. Our economic and military aid programs are small relative to the magnitude and complexity of the requirements of the area. Continued accomplishments depend upon tangible improvements in the security situation and in economic well-being, both of which require prompt application of our aid. The favorable political effects of our aid programs, now that their announcement has inspired growing confidence in U.S. policies in the area, will be more closely related to concrete progress in fulfillment.

56. Our aid programs for Asia and the Pacific are essentially ameliorative in character, designed in the first instance to arrest the progressive deterioration in conditions and thereafter to establish a solid base for sustained and prolonged improvement. The tasks ahead are neither postponable nor susceptible to quick solutions. The amount, form and timing of our aid programs approach the minimums needed to maintain the situation in our favor and to ensure pronounced improvement in future years. We are not now in real command of the situation in this area and we should not revise downward the courses of action we have adopted to achieve our immediate objectives in this area. With great effort and at real sacrifice we have won a breathing spell which will be useful only if we continue to carry out our action programs in Asia and the Pacific. It is therefore believed that we should not slacken our efforts or postpone the targets of our aid programs in Asia and the Pacific.

### Table 4

**Asia and the Pacific: Military Assistance Programs**

*Note: Figures projected for future periods represent purely preliminary and tentative estimates not yet considered by ISAC.*

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Annex 2 NSC 68/3††</th>
<th>Present Program‡‡</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>375.0</td>
<td>463.0</td>
</tr>
<tr>
<td>1952</td>
<td>560.0</td>
<td>555.0</td>
</tr>
<tr>
<td>1953</td>
<td>467.4</td>
<td>§§467.4</td>
</tr>
<tr>
<td>1954</td>
<td>383.6</td>
<td>383.6</td>
</tr>
<tr>
<td>1955</td>
<td>358.7</td>
<td>358.7</td>
</tr>
</tbody>
</table>

†††Does not include Korea, Japan, Indonesia or countries in South Asia. Military aid programs are not presently contemplated for South Asian countries, except possibly for Burma. [Footnote in the source text.]

‡‡This estimate will be increased if requirements are met for (a) Korean forces, (b) enabling Formosa to participate in offensive operations, (c) arming Japanese forces, and (d) operational needs of troops in Indochina. [Footnote in the source text.]
Table 5

Asia and the Pacific: Economic Aid Programs

Note: Figures projected for future periods represent purely preliminary and tentative estimates not yet considered by ISAC.

<table>
<thead>
<tr>
<th>Fiscal Year 1951</th>
<th>Fiscal Year 1952</th>
<th>Fiscal Year 1953</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NSC 68/3 Present</td>
<td>NSC 68/3 Present</td>
</tr>
<tr>
<td></td>
<td>Est.</td>
<td>Est.</td>
</tr>
<tr>
<td>A. South Asia:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Loan</td>
<td>190</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>198</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Southeast Asia (Incl. Formosa):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant</td>
<td>146</td>
<td>157</td>
</tr>
<tr>
<td>Loan</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>146</td>
<td>157</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C. North Asia:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan and Ryukyu</td>
<td>231</td>
<td>234</td>
</tr>
<tr>
<td>Korea</td>
<td>185</td>
<td>152</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D. Total for the area:</td>
<td>565</td>
<td>741</td>
</tr>
</tbody>
</table>

V. AMERICAN REPUBLICS

A. Present and Proposed Programs

57. Political and Economic. The actual economic program of technical cooperation completed during FY 1951 was in size and type very close to that given in NSC 68/3. However, only $4 million was appropriated for the Inter-American Highway in FY 1951. Furthermore, because it was necessary to conclude project agreements, only a very small portion of the funds for the Highway was expended.

The revised program, both the technical cooperation program and the Highway, for FY 1952 is substantially smaller than estimated in NSC 68/3. This does not reflect a change in political or economic objectives, which remain unchanged, but results from the following factors:

a. An administrative decision that a satisfactory rate of progress toward the stated political and economic objectives could be obtained with a smaller U.S. contribution to technical cooperation. This decision was made in recognition of the pressing needs for U.S. assistance to other regions and in relation to the overall size of the economic grant aid and technical cooperation program considered feasible to underdeveloped regions in FY 1952.

b. Increased foreign exchange availability and particularly the dollar earnings of countries in the region as a result of export commodity

||Does not include Point IV assistance or UN assistance. [Footnote in the source text.]

||It is assumed that the partial payment in dollars for U.S. troop support in Japan supplemented by dollar procurement of military supports will enable Japan to meet its dollar foreign exchange requirements. [Footnote in the source text.]
price increases. This development enables Latin American governments to do more with their own resources.

58. The NSC 68/3 estimates provided for a substantial build-up in technical cooperation programs in FY 1952 to an annual rate of $28 million, continued through 1955. The smaller build-up in the revised program now proposed for FY 1952 ($22 million) leaves a choice as to whether or not the program should be increased in FY 1953 to reach the proposed peak level, or more gradually raised over FY 1954 and FY 1955. In view of the demonstrated ability of the Latin American governments to absorb and effectively utilize technical cooperation programs, and in view of the factors discussed in Section C, below, the more rapid build-up appears desirable.

59. For example, it was contemplated that the Inter-American Highway should be completed by the end of FY 1954. As noted above, however, only $4 million was appropriated in FY 1951 and $4 million more is requested for FY 1952. At this rate, it will take some 16 years to complete the Highway.

60. Against the projection of a potential scale of Latin American lending operations of $350 million during FY 1951 on the part of Eximbank and IBRD ($225 million by the former and $125 million by the latter) the new credits authorized during FY 1951 by Eximbank amounted to $263.6 millions and by IBRD to $85.3 millions, totalling $348.9 millions.

61. Military. The FY 1951 MDAP contained no provision for grant military assistance to Latin American nations; provision was made for military assistance on a reimbursable basis. NSC 68/3 indicated that “nominal amounts” might be made available for grant military assistance to the American Republics.

62. The proposed FY 1952 program, however, may provide $40 million in grant military assistance to selected Latin American nations. The funds are designed to assist these countries to raise and equip military forces which can effectively perform certain agreed hemispheric defense tasks as part of a multi-lateral defense plan under development by the Inter-American Defense Board. U.S. forces, which would otherwise have the responsibility of undertaking such tasks, will thus be released for deployment to other more critical areas. Utilization of the proposed authority and funds will depend upon the satisfactory negotiation and implementation of bilateral agreements between the U.S. and selected Latin American countries. Final determination of amounts and recipients of grants must await the outcome of such negotiations.

63. The proposed FY 1952 military grant aid program for Title IV countries was developed in the light of evidence that Latin American countries are now prepared to cooperate in developing a collective program for hemispheric defense; and because they are not militarily
capable of effectively performing the required hemispheric defense task without U.S. military aid in support of the military effort necessary to raise, equip and maintain the forces required.

64. The $40 million included in the proposed FY 1952 legislation is short of the amount estimated as being necessary for providing minimum forces required for the performance, in the event of war, of defense tasks outside the borders of Latin American countries but within the general Latin American area. A very preliminary estimate of military assistance requirements for Latin America, not yet reviewed by ISAC, indicates that the following amounts will be needed as grant military assistance to meet the present objective of preparing effective forces for war deployment outside of the recipient countries’ borders but within the general Latin American area, and to provide minimum effective forces for defense of vital installations and resources within the respective borders of recipient countries:

- FY 1953 = $300 million
- FY 1954 = $85.4 million
- FY 1955 = $67.8 million

These estimates must be considered extremely tentative and therefore subject to substantial revision as result of detailed surveys of military capabilities and requirements on a country basis.

B. Extent of Accomplishments

65. Political and Economic. The political and economic accomplishments under the FY 1951 program were important and demonstrated the continuing interest of the United States in inter-American affairs.

66. The technical cooperation program proposed for Latin America is designed to improve the basic governmental services, and is an important factor in creating the conditions needed for economic development. It offers only a partial, though important, contribution to the attainment of U.S. political and economic objectives for the region. This is especially true of countries such as Haiti, Bolivia and Ecuador where the economic problems are too great in magnitude to be solved by technical assistance only.

67. Military. With regard to the military program, it is expected that the following will be accomplished: Negotiation and conclusion of necessary agreements, and supplementary arrangements with other governments; delivery of U.S. equipment and other material required for the build-up of units to a state of readiness to carry out the defense tasks which are considered to have the highest priority.

C. Adequacy and Timing of Proposed Programs

68. Political and Economic. The revised economic aid programs, outlined in Section A, above, are minimal from the viewpoint of adequacy.
Measured against development efforts through private and public investment in the 20 countries in the region, it can only be considered a significant catalytic agent to stimulate efforts by the local governments to help themselves. The long-range nature of the program requires a steady and continuing cooperative effort with the governments in the region. This is the important element of timing.

69. Military. The objective of creating an effective system of collective hemispheric defense would be rendered impossible if the program of U.S. military grant assistance, already publicly announced, were not initiated and if provision were not made for its continuation over the next two or three years.

VI. U.S. CONTRIBUTIONS TO MULTILATERAL PROGRAMS OF TECHNICAL ASSISTANCE, FY 1951–55 INCLUSIVE

Introduction

70. The desirable US contribution to expanded programs of technical assistance conducted by the United Nations and its specialized agencies and by the Organization of American States, represents a more difficult estimate than those for the bilateral aid programs proposed for any region or country. Such an estimate of the US contribution incorporates judgments on (a) the portion of the total program of technical assistance that can best be carried out by multilateral agencies, (b) the size of the international program that the capacity of these agencies permit them to carry effectively and (c) the contributions that can be counted on from other governments, so that the truly international character of these organizations can be preserved and so that an undue share of the cost of supporting such international activities does not fall upon this country.

A. Status of Present Programs

71. The US contribution to the expanded programs of technical assistance by international organizations in FY 1951 will be used through December 31, 1951, which ends the fiscal year for these organizations.

72. It is presently estimated that, given the scope of its program as it is being developed this calendar year and the interest of other governments, the total expanded program to be carried on in calendar year 1952 by the United Nations will amount to approximately $25 million. Pledges in support of the 1952 program will be made this next fall. With some carry-over of uncommitted funds from 1951, it is proposed that a United States contribution of $13 million in FY 1952 will enable the United Nations and other supplementary international agency programs, such as that of the Organization of American States, to continue in calendar 1952 at an accelerated rate, without
a change in the percentage of US contribution. However, this figure
of $13 million which represents a reduction from the NSC program,
cannot be considered firm until the actual carry-over of uncommitted
funds from the 1950–51 program is determined at the end of the
calendar year.

B. Difficulties Being Encountered

73. A considerable measure of coordination between the United
States and United Nations programs of technical assistance has already
been achieved by an exchange of information and consultation. There
is still a good deal that needs to be done to improve the joint pro-
gramming and advance consultation at the country level to maximize
the effectiveness of both programs as an aid to balanced and integrated
economic development. There also needs to be a strengthening of the
United Nations program at the center, to ensure that the operating
capabilities of the UN and the specialized agencies are effectively
applied to supplement each other in meeting high priority needs
within a country.

C. Adequacy and Timing

74. The revised program of technical assistance through the inter-
national agencies is adequate to provide member Governments with
(a) the major and urgent technical assistance which they may request
of the United Nations, its specialized agencies and the Organization
of American States, and (b) the choice of a wider variety of services
than could be provided by the US alone. The timing needs, as re-
flected in the revised program, are for a gradual build-up to permit
continuing and increasing cooperation between member governments
and the international organizations.

75. For the period FY 1953–55, it is considered desirable to pro-
vide US contributions at a gradually increasing rate until FY 1954,
as provided for in the NSC estimates. However, due to difficulties
anticipated in securing larger contributions from other governments,
particularly from Latin American countries toward the program of
the Organization of American States, the US contributions in these
three years may not need to be quite as large as indicated in the NSC
68/3 program. If the necessary contributions from other governments
are forthcoming, on the other hand, it is desirable that the interna-
tional programs of technical assistance be expanded to the levels
indicated in the NSC 68/3 program. This last year’s experience has
clearly demonstrated the value of such action programs under inter-
national auspices as an effective means of carrying out our policy of
strengthening the United Nations; and supplementing and comple-
menting US bilateral programs toward similar objectives.
On August 9, the House Committee on Foreign Affairs reported H.R. 5113, a draft Mutual Security Act which cut $650 million from the President's request of May 24 and established a Mutual Security Agency to replace the Economic Cooperation Administration effective December 30. For other provisions, see The Mutual Security Act of 1951: Report of the Committee on Foreign Affairs of the United States House of Representatives (House Report No. 872, 82d Cong., 1st sess.) (Washington, Government Printing Office, 1952). On August 17, the House of Representatives passed an amended version of H.R. 5113 (260 to 101) after cutting an additional $350 million from economic aid to Europe.

On August 24, the Senate Committees on Foreign Relations and Armed Services reported a draft Mutual Security Act which authorized the expenditure of $7,535,750,000 in Fiscal Year 1952 (only slightly more than proposed in the House bill), but differed markedly from the House version of H.R. 5113 as to administration of the program. Rather than creating a new agency, the Senate bill provided for the continuation of divided responsibility among the Department of State, the Department of Defense, and the ECA, under the coordinating authority of an independent Presidential board. Regarding the Senate version, see The Mutual Security Act of 1951: Report of the Committee on Foreign Relations and the Committee on Armed Services of the United States Senate (Senate Report No. 703, 82d Cong., 1st sess.) (Washington, Government Printing Office, 1951). On August 31, following three days of debate, the Senate passed (61 to 5) the bill reported by the Joint Committee, after reducing economic aid to Europe by $250 million.

House and Senate conferees reached agreement on September 27 regarding a version of H.R. 5113 which authorized $7,483,400,000—approximately $1 billion less than requested by the President. Under the conference bill, the functions of ECA were transferred to a new Mutual Security Agency headed by a Director for Mutual Security who was authorized to coordinate the entire Mutual Security Program. The Defense Department continued to determine military end-item requirements while the Point Four Program for technical aid to underdeveloped areas remained under the control of the Department of State. Regarding the conference bill, see The Mutual Security Act of 1951: Conference Report (House Report No. 1090, 82d Cong., 1st sess.) (Washington, Government Printing Office, 1951).

The conference version, slightly amended, was approved by the Senate on October 2 by a vote of 56-21, and by the House on October 5, 253-298. H.R. 5113 received the President's signature on October 10, becoming the Mutual Security Act of 1951 (Public Law
Memorandum Approved by the International Security Affairs Committee

TOP SECRET

ISAC File, Lot 53 D 443

[WASHINGTON,] September 6, 1951.

ISAC D-22/3b

GUIDE LINES FOR FISCAL YEAR 1953 FOREIGN AID PROGRAMS

NON-EUROPEAN AREAS

A. General

1. Scope and Purpose of Paper.

(a) This paper is intended to provide the guide lines within which programs can be drawn up for both military and economic aid in the non-European areas, including the Near East and Africa, the Middle East, South Asia, the Far East and Latin America. Greece and Turkey are not included because (a) it is assumed that by FY 1953 Greece and Turkey will be members of NATO, (b) the problems of programming for Greece and Turkey are much more nearly like those of the NATO countries than they are like those of the non-European areas.

(b) The process of developing an integrated mutual security program comprises the following steps:

(i) Determination of objectives, by area and by country, in as clear and as specific terms as possible.

(ii) Agreement upon working assumptions.

(iii) Determination of programs required to achieve objectives.

(iv) Calculation of minimum funds needed to finance the tentative programs.

(v) Reassessment of entire program in terms of the total it is reasonable to request and in terms of relative priorities of various programs.

(vi) The development for presentation of an integrated foreign aid program.

1 At the 38th Meeting of ISAC, August 14, Thomas D. Cabot, Director of International Security Affairs, instructed Jonathan Bingham, Assistant Director for Non-European Security Affairs, to prepare a memorandum setting forth guiding principles to assist in planning the fiscal year 1953 foreign aid program for non-European areas. ISAC reviewed in detail the resulting drafts at its 41st Meeting, August 31, and 42nd Meeting, September 5. The version approved at the latter session was issued as document ISAC D-22/3b, September 6, 1951. The accompanying annex was approved at the 43rd Meeting of ISAC, September 11. (ISAC File, Lot 53 D 443)
The purpose of this paper is to make a start, for the non-European areas, on the first two steps. The assumptions stated here will have to be revised from time to time. The objectives stated here, either explicitly or by reference to FY 1952, are in many cases too general to be very meaningful in terms of the type and extent of aid required to achieve these objectives. Every effort must be made to refine the objectives and make them more specific. This effort will be made in Washington, but it must also be made by the missions themselves as an essential part of the programming process. To the extent that it is done successfully, to that extent the whole program will be tightened and its presentation made more convincing.

Conclusions with respect to aid expressed in this paper are subject to revision and are limited to those cases where no aid is believed to be necessary or where aid is limited to a certain type. No effort is made to suggest specific amounts for particular countries since amounts are considered to be the end product of the programming task, justified by the programs themselves.

(c) Programming for FY 1953 is in various stages. To the extent that it has already gone forward, the basic premise has apparently been that the assumptions and objectives for the FY 1953 program would be the same as for FY 1952. To a large extent, this paper will confirm that premise. To the extent that it calls for changes, persons engaged in programming both in Washington and in the field should be immediately so instructed. In those areas where programming for FY 1953 has not yet begun (principally in those cases where a program was to be inaugurated in FY 1952 and is not yet under way because of a lack of Congressional authorization and appropriation), instructions should be issued immediately to proceed with programming for FY 1953 on the basis of this paper. Section A of this paper and such other parts as may be appropriate should be sent to all interested missions.

2. Generally Applicable Assumptions. For purposes of uniformity in programming, it is essential that certain general assumptions be accepted, as follows:

(a) There will be no general war.
(b) Unless otherwise specifically stated, the political complexion and orientation of the various countries, the state of relations between them, and their economic condition will be assumed to be about the same as today.
(c) FY 1950 and FY 1951 programs will have been successfully completed.
(d) The proposed FY 1952 programs will have been completed in varying degrees.
(e) The United States will be successful in its efforts to persuade aid recipients to comply with whatever standards are required by the U.S. Congress with respect to East-West trade so that extension of aid will not be prohibited.
(f) For the proposed FY 1952 aid programs, funds will have been available for all of the military programs and for 75% of the economic programs, taking into account the possibility of transfers between titles. (Note: This assumption will be subject to revision, country by country, as more precise information becomes available.)

3. General Principles. It must be recognized that in almost no case in the non-European areas (except with respect to the military aid program in Latin America) is there any specific objective comparable to the MTDP in Europe which provides a measuring rod for the determination of the dollar amount of programs. Moreover, the factors affecting aid programs in the non-European areas vary widely from region to region and in many cases from country to country. The following comments, however, are of general application:

(a) Because of general and increasing pressure on United States resources, an even more severe standard must be applied in testing the necessity for proposed FY 1953 programs than was applied for programming for FY 1952.

(b) The purposes of military aid programs include the following:

Mainly military:
(i) To strengthen the ability of friendly governments to discourage, resist or repel aggression and to participate in the collective defense efforts of the free world.
Military and political:
(ii) To assist friendly governments to maintain internal security.
Mainly political:
(iii) To improve the attitudes of certain states toward the free world and the U.S. by indicating our willingness to help them maintain their own security against external and internal aggression.

(c) The purposes of economic aid programs include the following:

Mainly military:
(i) To enable governments to strengthen their ability to withstand aggression, both from within and from external sources, and to participate in the common defense effort.
(ii) To increase the output and facilitate the distribution of strategic materials needed for common defense.
(iii) To increase the capacity of the area to produce essential civilian goods, especially foods, so as to reduce the drain on U.S. output and shipping in the event of an emergency.
Mainly political:
(iv) To strengthen support for friendly governments by assisting them to provide more effectively for the needs of their people.
(v) To arrest economic deterioration threatening political stability.
(vi) To improve popular attitudes toward the free world and the U.S.

(d) The final statement of objectives for each country should indicate the specific purposes for which aid is needed. Aid programs should,
so far as possible, be multi-purpose programs. In some cases, however, it may well be that the dominant objective of a program may be jeopardized if a different type of objective is also pursued. For example, care must be exercised that encouragement of strategic materials development and procurement (as a part of an aid program) does not interfere with the program’s basic political objectives.

(e) The possible purposes of economic aid above stated may in many cases be achieved by loans. That possibility should always be considered by programmers. To the extent possible, programmers should determine the minimum amount of aid, grant or loan, which would be needed to accomplish United States objectives in a given area or country, initially without regard to the relative roles of loan and grant aid. Programmers should then make recommendations as to those parts of the program which might be effected on a loan basis. This procedure calls for the maximum possible contact and cooperation between the lending agencies and the grant aid agencies, both in Washington and in the field.

(Notes: 1. Aid in the form of loans can sometimes appropriately go above the minimum level of aid which is to be determined by this procedure. For present purposes, programmers will not explore the possibilities for such loan aid.
2. The procedure outlined in this paragraph will probably not be practicable in Latin America or in the independent countries of Africa where programmers will presumably be concerned only with technical assistance programs for which loans are not appropriate.)

(f) For the purpose of making recommendations as to those parts of a minimum economic aid program which might be effected on a loan basis, the following considerations are suggested. They do not represent a firm U.S. government position on the question of grants vs. loans:

(i) The basic factors to be considered are the country’s anticipated balance of payments position, the degree of internal influence desired, the country’s needs for other investment which will also require debt-servicing capacity, and the degree to which the country itself is interested in and anxious for the assistance.

(ii) In general, it is desirable that economic development projects and substantial equipment programs associated with technical assistance projects be financed on a loan basis. However, there is one basic criterion that should be met before assistance can be rendered in the form of loans: the recipient should have capacity to service further debt. This does not mean that the loan project itself need be self-liquidating, but the prospective debt servicing capacity of the borrower should be adequate to justify expectation of payment. The country’s prospective capacity to service debt should be calculated in terms of a level of exports and imports reasonably related to its own needs for increased production and not in terms of the largest possible export surplus.

(iii) Many proposed recipients of U.S. aid are not in a position to carry further debt because their balance of payments prospects are highly unfavorable, e.g., Jordan, or because the country is in a state of civil disorder and until some greater measure of order is restored, its future prospects cannot be assessed, e.g., Indochina. Our aid programs in these areas are necessarily on a grant basis.

(iv) Certain proposed recipients of grant aid have capacity to carry some additional indebtedness but the heavy initial capi-
tal investment that must be made to arrest deterioration or to
give these economies the required forward momentum exceeds
their limited servicing capacity. It is necessary in the interest of
U.S. security to foster economic development in these areas at a
rate faster than these countries can undertake exclusively on a
loan basis. In such areas our program will involve grant and
loan aid. This combination is flexible and can be tailored to meet
our objectives, without resort to fuzzy loans, in countries which
are obviously neither in the full grant nor full loan category.

(c) Under certain circumstances it may be desirable to provide
relatively small amounts of financial aid on a grant basis notwith-
standing the country’s favorable balance of payments prospects
so as to encourage the country to undertake, under joint super-
vision, projects essential to the common strength which the re-
cipient government might otherwise be reluctant or incompetent
to undertake. The activities we hope to encourage by grant aid
are those which are not locally initiated because of lack of skills
or other local obstacles, but which, having been begun under the
stimulus of U.S. aid, are more likely to be carried on in the future
with local resources.

(g) A reasonably precise standard for determining the amount of
grant economic aid is available when the objective is either (i) to
enable the country to produce a given quantity of military production
or (ii) to arrest deterioration in the country’s economic situation. In
other cases, no precise standard is available, and the level of aid must
be determined as a matter of judgment by the application of a num-
ber of factors, including (i) the importance of preventing the par-
ticular country from entering the Communist orbit, in terms of
strategic materials, military implications, effect upon other nations,
etc.; (ii) the degree of danger that the local government will be sub-
verted and taken over by the Communists; (iii) the degree to which
the local government is cooperating with the United States, e.g., in
the United Nations and elsewhere (in general, this factor is significant
only where neighboring countries are receiving substantial aid); (iv)
a great variety of economic factors. As stated above, the degree to
which objectives can be stated in specific terms will narrow the limits
in which such a judgment will have to be exercised.

(h) Where the objective of military aid in a given case is either (i)
to maintain internal security or (ii) to repel aggression by a foe of
known capabilities or (iii) to perform specific defense missions, a
reasonably precise standard is available for determining the level of
military aid to be provided, whether in the form of end-item aid or
of financial aid. Where one of the principal objectives is to deter or
discourage external aggression, however, there is no comparable
precise standard for determining the level of military aid. In such a
case, the level of aid must be determined as a matter of judgment by
the application of a number of factors, including (i) the acuteness of
the threat of external aggression, (ii) the degree to which increased
military strength will discourage aggression, (iii) the degree to which
a projected increase in military strength may invite aggression, (iv)
the degree to which the military aid may accomplish political objec-
tives; (v) the danger of additional equipment falling into the hands
of Communist forces. Programs must always be tailored to the country's ability effectively to utilize the aid.

(i) In the process of programming for both military and economic aid, a determination should be made as to (i) the total magnitude of the task to be accomplished if the stated objectives are to be achieved, (ii) the cost of accomplishing the task, (iii) the length of time required to accomplish it, and (iv) the progress expected to be made by the programs proposed for FY 1953. On the economic aid side, the relative role to be played by loan and grant aid at various stages should be determined in so far as possible. These factors will be important not only in the development of the programs, but in their presentation.

(j) Programmers will have to determine the anticipated degree of completion of the respective programs during FY 1952 and take account of such progress or lack of progress in formulating the 1953 programs. These estimates will, of course, be subject to constant revision.

(k) In programming for both military and economic aid, the determination of extent and types of aid must be made in the light of (i) the degree to which U.S. controls will have to be exercised to make the aid effective and prevent its misuse and waste, and (ii) the degree to which the exercise of such controls will be politically feasible.

(l) Every effort must be made to avoid aid programs which amount to direct support of government activities normally carried in their own budgets. Any such program should be considered only as a last resort to accomplish an absolutely essential objective.

(m) Determination of United States contributions to United Nations technical assistance programs will be made as in FY 1952. Congressional reactions will have to be taken into account in negotiating proportion of U.S. contributions.

B. Far East

1. Area Covered. This section covers Japan, Korea, Formosa, Indochina, Thailand, Burma, the Philippines, Indonesia, Malaya, Australia and New Zealand.

2. Regional Assumptions.

(a) A peace treaty will have become effective between Japan and most of the non-Communist nations formerly at war with Japan.

(b) There will be no general Pacific Pact, but security commitments will have been concluded with Australia, New Zealand, the Philippines and Japan.

(c) In Korea hostilities will either have ceased or will be at a low level of intensity, but Korea will remain divided and at least some UN forces will still be in Korea by the end of FY 1953.

(d) Communist China will not have attacked Formosa, Indochina, Burma or Thailand, but the threat of attack will be intensified.

(e) Japan will be playing an increasingly large role in the economies of the area, both as a supplier of industrial and consumer goods and as a market for raw materials.
(f) It will be politically and economically feasible to build up and make use of Japan's military production potential, except for such types of items as heavy artillery, tanks and aircraft.

3. Regional Objectives.

(a) General objectives will remain the same as in FY 1952, with intense emphasis on keeping Japan oriented toward the free world.

4. Other Regional Guide Lines.

(a) In programming for military aid, every effort should be made to provide for production in the area. Country military missions should indicate items in the end-item programs which could be produced locally, on the assumption that some method of financing such production would be available. In addition, country missions should be instructed to make recommendations as to items which could be produced efficiently and economically for use elsewhere in the area, if United States assistance for that purpose were made available.

(b) Upon receipt in Washington of recommended country end-item programs, consideration should be given to the possibility of producing some of the items in Japan.

(c) In any country where it develops that local military or para-military production would be desirable, a method of financing such production will have to be worked out which does not interfere with the political objectives to be supported by the economic program. Exchange of information and close cooperation between the military and ECA missions will be essential.

5. Japan—Special Assumptions.

(a) Either through amendment of their constitution or otherwise, the Japanese will be in a position to develop essential military forces.

(b) As of the beginning of FY 1953, the Japanese Government will have taken the initial steps to begin the development of Japanese forces. However, the major burden of the defense of Japan will fall upon the United States, acting under the bilateral security commitment.

(c) Procurement in Japan of military equipment and consumer and capital goods for the Far Eastern area and for the reconstruction of Korea will have begun and will increase through FY 1953, so as at least to offset the anticipated decrease in the volume of procurement in Japan for the support of UN troops in Korea.

(d) Japanese commercial export trade in both sterling and dollar areas will continue at least at present levels.

(e) Japan will have earnings of approximately $150,000,000 to $200,000,000 from the U.S. share of the expense of maintaining U.S. troops in Japan during FY 1953.

(f) Based on the foregoing assumptions, the further assumption is made that no economic assistance on a grant basis will be necessary for Japan in FY 1953.

(a) The question of a possible military aid program for Japan is one which requires urgent attention at the highest levels. Among the subsidiary questions which will have to be considered are (i) the Japanese Government's intentions with respect to the development of forces and particularly with respect to the use of the National Police Reserve; (ii) the desirability of encouraging Japan in the development of naval and air forces; (iii) the composition, size and organization of a MAAG-type mission for the post-treaty period; (iv) the phased equipment requirements for proposed Japanese forces; (v) the extent to which such equipment can be produced in Japan and the extent to which such local production can be financed by the Japanese Government without United States assistance. No conclusions with respect to these questions can be formulated now, but it is believed that a military aid program for Japan for FY 1953 will be necessary and that accordingly some method of providing for such a program in FY 1953 will have to be devised.

Attention is directed to the extraordinary security considerations attaching to any discussion of this subject.

7. Korea—Special Assumptions.

In addition to the assumption noted in 2(c) above, it is assumed for FY 1953 that (a) there will be no political settlement of the Korean problem, (b) the Unified Command will have turned over full responsibility for relief and rehabilitation in Korea to the United Nations Reconstruction Agency, but this will of necessity apply only in South Korea and such portions of North Korea as may be under United Nations control; (c) substantial quantities of military matériel will have been turned over to the ROK forces.


(a) All economic assistance programs for South Korea will be under the aegis of the United Nations either through UNKRA or other specialized agencies. This may have to include a military support program.

(b) The total program for FY 1953 should probably not exceed $250,000,000. Computed at the presently projected percentage of 65% the US share of that amount would be $162,500,000.

(c) The amount which will have to be requested in the FY 1953 program, over and above the amount provided for in the FY 1952 MSP, depends upon the date when the UNKRA operation is initiated.


(a) A military aid program will be necessary in FY 1953 to enable the ROK forces to assume the maximum responsibility for the defense of South Korea.

(b) It is understood that the ultimate objective is an armed force of 250,000 (10 divisions plus 100,000 supporting troops), an adequate
Coast Guard, and a small tactical air force, all adequately officered, and the development of a national police academy.

(c) Questions which must be determined as a matter of urgency are (1) the degree of UN participation in such a military aid program, (2) net deficiencies of equipment after deducting existing equipment and equipment which may be turned over by United Nations units now in Korea.

(d) It is believed some provision will have to be made in the FY 1953 Mutual Security Program for an end-item program for Korea.

(e) A training program is already under way and will be of great importance in FY 1953.

10. Formosa—Special Assumptions.

(a) The Chinese Communists will remain firmly aligned with Moscow and will not have developed clearly defined Titoist tendencies.

(b) The Nationalist Government has no alternative but to rely upon the U.S. for aid.

(c) The U.S. Seventh Fleet will still be assigned its present task with respect to Formosa.

(d) A system of supervision and control will have been established in an effort to assure the effective utilization of U.S. aid.

(e) There will be continuing budgetary problems beyond the capabilities of the Nationalist Government of China to solve, but under U.S. guidance the situation will be improving.

11. Formosa—Military Aid.

(a) The objective of the military aid program for Formosa will continue the same as in FY 1952, namely to assist the Nationalist Government to develop adequate military strength to discourage and if necessary repel an attack by the Chinese Communist forces, in conjunction with the Seventh Fleet.

12. Formosa—Economic Aid.

(a) The objectives of economic aid for Formosa will be to assist the Chinese Nationalist Government (1) to offset the inflationary impact of its military expenditures, including the assistance program (2) to develop a self-supporting economy on Formosa, and (3) to provide essential support for the military program. There is a difference of opinion within the U.S. Government as to whether or not objective (2) can be achieved so long as the island must support armed forces of the present magnitude, but there is no difference of opinion that efforts should be made to achieve that objective through the extension of aid and through the resolute insistence upon adequate budgetary and fiscal controls.

(b) The technical assistance program will be carried forward indefinitely along present lines.

13. Indochina—Special Assumptions.
(a) Hostilities will continue in Indochina on approximately the present scale.

(b) The French will be increasingly aware of the severe drain in men and money of their Indochina campaign and will carefully examine every possibility of arriving at some sort of a political settlement with the Viet Minh.

(c) The De Lattre mobilization policy will be generally successful, so as to increase available manpower for the Associated States forces.

(d) The political strength of the Associated States will be gradually increasing. Defections from, will be more numerous than defections to, the Viet Minh.

(e) The French will have advised the U.S. that the planned levels of Associated States forces cannot be achieved without U.S. financial assistance for pay and maintenance.


(a) The general objectives of the military aid program will continue the same in FY 1952.

(b) Budgetary assistance should be considered only as a last resort if U.S. representatives are convinced that the French cannot carry forward their plans for the development of native forces without such assistance. In that event, the assistance should be considered only on the condition that a satisfactory plan be worked out jointly for the eventual relief of the U.S. from this burden.

15. Indochina—Economic Aid.

(a) The general objectives of economic aid will be the same in FY 1953 as in FY 1952.

(b) Basic program objectives should be consistent with U.S. policy to continue to encourage internal autonomy and progressive social and economic reforms, to prevent economic deterioration, and to assist the Associated States within the French Union to achieve greater stability by achieving more widespread popular support.

16. Thailand—Special Assumptions.

(a) The effectiveness of the Thai Navy has been reduced by the transfer of its air and marine complements to the other services. It is therefore assumed that the end-item requirements of the Navy will be reduced accordingly.

17. Thailand—Military Aid.

(a) The general objectives of the military aid program in Thailand will be the same as in FY 1952, namely, to assist Thailand to maintain internal security, to discourage external aggression, and to meet political objectives.

18. Thailand—Economic Aid.

(a) In view of its relatively strong economic position and of the fact that the risk of Communist subversion is not as acute as elsewhere

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*General of the Army Jean de Lattre de Tassigny, French High Commissioner and Commander of French Union Forces in Indochina.*
in the area, grant economic aid should be kept to a minimum consistent
with political objectives and should be limited to technical assistance,
including supplies and equipment needed to make such assistance
effective.
   (a) Burma is an extremely soft spot and a logical target for Commu
   nist subversion and aggression.
   (b) The situation in Burma will continue in FY 1953 approxi
   mately as at present, with the British Government continuing to exer
   cise primary responsibility in the military field.
   Although under present conditions no military grant aid program
   is proposed for FY 1953, the U.S. should be prepared at any time to
   consider such a program at the request of the Burmese Government,
   always recognizing the primary responsibility of the U.K. and the
   British Commonwealth. No immediate effort should be made to stimu
   late such a request or to press for approval of a survey of military
   requirements.
   (a) The general objectives of economic aid for FY 1953 will remain
   the same as in FY 1952.
   (b) The critical nature of the situation calls for a sympathetic
   approach to Burmese requests for assistance.
22. Indonesia—Special Assumptions.
   Conditions will continue about the same in FY 1953 as in FY 1952,
   with the Government showing an increasing tendency to align itself
   with the Western world. Economic conditions may, however, de
   teriorate depending on world price trends.
23. Indonesia—Military Aid.
   (a) At the present time no military aid has been requested by the
   Indonesian Government for FY 1952 or FY 1953 and none is proposed
   for FY 1953.
   (b) Even if a request were received, Indonesia would under pre
   sent conditions be an area of low priority for large-scale military
   assistance. A request for military assistance should be received
   sympathetically on political grounds, but no extensive program should
   be undertaken.
24. Indonesia—Economic Program.
   (a) General objectives will remain the same in FY 1953 as in FY
   1952.
   (b) Grant aid should be limited to technical assistance, including
   supplies and equipment needed to make such assistance effective, sub
   ject to possible future revision in the event economic conditions de
   teriorate sharply.
25. Philippines—Special Assumption.
Continued progress will have been recorded in the control of the Huk movement, and in the economic situation.

26. Philippines—Military Aid Program.
(a) General objectives of the military aid program will remain the same in FY 1953 as in FY 1952.

27. Philippines—Economic Aid.
(a) No military support program comparable to the current $10,000,000 program should be contemplated.
(b) The general objectives of other economic aid programs will remain the same in FY 1953 as in FY 1952.
(c) Attention in programming should be given to increasing the proportion of loan assistance.

29. Australia, New Zealand, and Malaya.
(a) No grant aid programs are contemplated for FY 1953.

C. South Asia

1. Special Assumptions.
(a) Extreme tension between India and Pakistan will continue, but without actual hostilities.
(b) India will still be pursuing an attempted neutral course between the Soviet bloc and the free world.
(c) Pakistan and Ceylon will be firmly oriented toward the West.
(d) Iran will remain independent.

2. Military Aid.
(a) On the basis of the foregoing assumptions, no military aid is envisaged for FY 1953.
(b) In view of the importance of Pakistan in the event of a Soviet attack upon Iran, a study should be made of Pakistan's military requirements.

3. Economic Aid.
(a) The general objectives of economic aid in South Asia will remain the same in FY 1953 as in FY 1952.
(b) In view of the lack of going programs for India and Pakistan, every effort must be made to state objectives in specific terms so that proposed programs may be measured against them.
(c) In view of the impossibility of having missions in the field in a position to do the programming in time for the Budget presentation, the programming will have to be done in the same way as for FY 1952, subject to modification as experience in the field requires.

D. Iran

1. Special Assumptions.
(a) There will have been no Soviet attack and the Tudeh Party will not have taken control.
(b) The oil dispute will remain unresolved as of the beginning of FY 1953.
Note: While a more optimistic assumption with respect to the oil dispute might be justified, it seems wise to proceed upon a pessimistic assumption in this case. This assumption is not of course to be understood as a forecast.

2. Military Aid.

(a) The general objectives of the end-item and training program should be the same as in FY 1952, with every effort being made to accelerate target dates consistent with the country’s ability to absorb equipment and its need therefore to restore and maintain internal security.

3. Economic Aid.

(a) The objective of economic aid in FY 1953 will be to assist the government to maintain relative political stability and prevent complete economic deterioration and chaos and at the same time to bring about the maximum utilization of Iran’s oil resources for its own benefit and that of the free world. This will probably involve abandonment of most of the objectives of the FY 1952 program. The difficulty of translating dollar aid into the Government’s real requirements will require particularly intense study. Work on these problems should start at once, on a highly secret basis.

(b) Budgetary support for the maintenance of the military establishment will probably be essential, as part of the economic aid program.

E. The Arab States and Israel

1. Special Assumptions.

(a) Relations between Israel and the Arab States will be about the same as in FY 1952.

(b) The middle east defense board will have been established and will be making progress in securing local participation.

(c) A modus vivendi will have have been worked out between the U.K. and Egypt. (Note: If this result cannot be achieved, our present policy in the area, including the proposed programs, will have to be drastically revised.)

(d) A tripartite committee to coordinate military aid to the Arab States and Israel will have been successfully established and will be operating on a secret basis.

(e) Iraq will have accepted the I.P.C. offer.

2. Military Aid.

(a) The general objectives of the military aid program in the Arab States and Israel will remain the same in FY 1953 as in FY 1952.

(b) If at all possible, such a program should be presented to the Bureau of the Budget and to the Congress on a basis comparable to that of other military aid programs and not in the vague terms of the FY 1952 program. Operations in the area must therefore be begun as soon as politically feasible.
(c) The programming of military aid for the Arab States and Israel will be to a large degree unlike that for any other area because (i) proposals will have to be considered by a tripartite committee, (ii) political considerations will be of equal importance to military considerations in determining the composition and size of the country programs, (iii) programming must proceed on the premise that equipment will be furnished on a reimbursable basis wherever possible, (iv) the principle of impartiality must be followed.

3. Economic Aid.

(a) The general objectives of economic aid in the area will be the same as in the FY 1952 program, including provision for the Palestine refugees.

(b) The programs should be administered on a regional basis and the principle of impartiality must be followed.

(c) Political factors will be of critical importance in determining the level of economic aid in the area and its distribution.

F. Independent African States

1. Special Assumptions.

(a) Ethiopia and Liberia will be pressing for military aid.

(b) Libya will be independent.

2. Military Aid.

(a) In general, military aid should be extended to the independent African States only on a reimbursable basis.

3. Economic Aid.

(a) The general objectives of economic aid will remain the same in FY 1953 as in FY 1952.

(b) Since at least in Ethiopia and Liberia the possibilities of loans are considerable, grant aid will be limited to technical assistance, increased by a modest supply component to make such assistance effective.

G. Latin America

1. Special Assumptions.

(a) Negotiations will have been successfully concluded with a few governments looking toward the assumption by them of hemispheric defense tasks for which needed equipment will be furnished by the United States on a grant basis.

(b) No grant aid will be used to furnish items which could be produced locally.

(c) Relative contributions for technical assistance programs from Latin American countries will continue to increase.

2. Military Aid.

(a) General objectives of the military aid program will remain the same in FY 1953 as in FY 1952.

(b) If possible, a military aid program for Latin America for FY 1953 should be developed for presentation to the Bureau of the Budget
and to the Congress on a more concrete basis than the program for
FY 1952. Accordingly, negotiations should proceed as soon as possible
on an urgent basis in accordance with agreed procedures to implement
the FY 1952 program and to make possible concrete programming for
FY 1953.

3. Economic Aid.

(a) The general objectives of economic aid in FY 1953 will be the
same as in FY 1952.

(b) Grant aid will be limited to technical assistance, including such
supplies as are required to make such assistance effective.

[Annex]

SUMMARY OF OBJECTIVES OF FY 1952 AID PROGRAMS IN NON-EUROPEAN
AREAS AS PROPOSED TO U.S. CONGRESS

A. FAR EAST

Japan:
No aid programs proposed.

Korea:
To support the United Nations in providing for relief and rehabili-
tation in Korea.

Formosa:

Military aid objectives—To assist the Chinese Nationalists to equip
and train forces which, in conjunction with the Seventh Fleet, will be
capable of defending the island against external military aggression
by the Chinese communists.

Economic aid objectives—
(1) To support the military effort.
(2) To assist the island to absorb the impact of the military effort.
(3) To develop a self-supporting economy.

Indochina:

Military aid objectives—To assist the French to equip and train
French and indigenous forces capable of restoring and maintaining
internal security and to the extent practicable, of discouraging Chinese
Communist invasion.

Economic aid objectives—
(1) To assist the governments of the three Associated States in their
economic development so that they may attain the popular support
which is the strongest political guarantee against the internal develop-
ment of communism.
(2) To support the military effort of the French and indigenous
troops.
Thailand:

Military aid objectives—To assist the Thai to equip and train forces capable of maintaining internal security and discouraging aggression. Economic aid objectives—

(1) To bolster political stability and check the development of internal communism by aiding and inducing the Thai Government to extend economic services and reforms.

(2) To help build up rice exports for use in countries such as Japan and India.

(3) Consistently with the foregoing, to assist in the development and supply of strategic materials required by the U.S. and allies.

Burma:

Military aid objectives—No military aid program for FY 1952. Economic aid objectives—

(1) To strengthen the will and ability of Burma to resist the development of internal communism by helping the Government to establish its authority and attract popular support by assisting in (a) the rehabilitation of the Burmese economy, (b) the inauguration or extension of public services in the fields of health, agriculture, transport, communications, education, technical training, etc.

(2) To increase the production and export of rice, minerals and other strategic products both to benefit Burma and for the use of the U.S. and its allies.

Indonesia:

Military aid objectives—No military aid program for FY 1952. Economic aid objectives—

(1) To win the friendship of the Government and people of Indonesia for the U.S. by working with them in efforts to solve their pressing problems.

(2) To help the newly independent government establish its authority and attract strong popular support by assisting it to inaugurate or extend public services greatly needed in the fields of health, agriculture and forestry, transport, communication, education and technical training, home industry.

(3) To help restore the economy of the country from effects of the war and strengthen it so that (i) internal security may be firmly established; (ii) the social order may be stabilized and living conditions improved; and (iii) increased exports may benefit not only Indonesia but the U.S. and other countries needing Indonesia’s produce.

(4) Consistently with the foregoing, to help plan, and help execute plans, for the development of the country’s resources, and the development and supply of strategic materials required by the U.S. and its allies.
Philippines:

Military aid objectives—To assist the Philippine Government to equip and train military forces capable of restoring and maintaining internal security and to discourage external aggression.

Economic aid objectives—

1. To assist the Philippine Government in establishing a stable economy capable of self-support.
2. To encourage the development of Philippine trade with Japan and the countries of Southeast Asia in order that Philippine economic dependence upon the U.S. may be lessened.
3. Consistently with the foregoing, to assist in the development and supply of strategic materials needed by the U.S. and its allies.

B. SOUTH ASIA

Aid Objectives
To take such steps as are possible to permit:

1. Maintenance of internal security.
2. The encouragement of orientation toward the free world of these countries and conversely, the prevention of a drift toward neutralism or toward the Soviet orbit.
3. The creation of social and economic conditions that will permit the growth and survival of non-Communist political institutions.

C. IRAN

Military Aid Objectives
To assist the Iranians in the development and maintenance of a military establishment capable of:

1. Maintaining internal security.
2. Carrying out a delaying action against an aggressive force.

Economic Aid Objectives
The general objective is to reverse the declining trend in production which is carrying the country in the direction of disintegration. The specific economic objectives are:

1. To get immediate action with minimum of further planning.
2. To benefit as many people as quickly as possible.
3. To supplement the military aid program.
4. To concentrate on the basic economic requirements of the country and to help develop those enterprises which are unlikely to attract private capital.
5. To stimulate the development of such enterprises as are likely to improve the Iranian balance of payments.

D. ARAB STATES AND ISRAEL

Military Aid Objectives
The general objective for the region as a whole is to assist in building up the defenses of the area on a basis of impartiality as between the Arab States and Israel in order to:
1. Assist these nations in the maintenance of internal security.
2. Increase the capabilities of these nations to harass and sabotage the invader and to assist in liberation in the event of Soviet conquest of the area.
3. Prepare the area for allied military use in the event of war.
4. Encourage orientation toward the free world of these nations and conversely, prevent their drift toward neutralism or toward the Soviet orbit.

Economic Aid Objectives

Our general objective is to make this weak and divided region a stable area, willing and able to resist internal subversion, prepared to keep the peace, and disposed to pursue objectives consistent with our own.

The specific economic objectives are:

1. To counteract popular hostility and suspicion of the U.S. by providing concrete evidence at the grass roots of U.S. constructive interest in the local welfare.
2. To strengthen support for the present governments or similar moderate governments by assisting them to provide more effectively for the needs of their people, especially in the fields of health, sanitation, education and agriculture.
3. To give some impetus to economic development in the essentially stagnant economies of the area:
   a. So as to provide opportunities for productive employment to the disaffected unemployed.
   b. So as to make possible the resettlement of the hundreds of thousands of Arab refugees.
4. To support the UN program for the relief and resettlement of the Arab refugees from Palestine.

E. LIBYA, ETHIOPIA, LIBERIA

Aid Objectives:
To take such steps as are possible to insure:

1. Maintenance of internal security.
2. Acquisition by the U.S. of strategic bases.
3. A continued flow of strategic raw materials.
4. Continued orientation toward the free world.

F. LATIN AMERICA

Military Aid Objectives. The basic objective of the MSP military grant aid program for Latin America is to help certain Latin American Governments to prepare their military forces to perform military missions which are essential to hemisphere defense, but which are generally beyond and above the requirements of their own local defense. These are missions which the U.S., in its own security interests, will have to perform in time of danger on its own if the Latin American Governments continue to be unable to carry them out. The political
objective is to further strengthen the will of the Latin American Governments and peoples to cooperate in all aspects of hemisphere defense.

**Economic Aid Objectives**

1. To stimulate the volume and types of production of basic materials required for defense production and stockpiling by helping the Latin American Governments to solve problems that would otherwise inhibit the expansion of raw materials production.

2. To assist in overcoming present weaknesses in the Latin American economic structure which contribute to political and economic instability to the end that the orientation of the governments and people of the Latin American countries toward the U.S. may continue to be at least as favorable as at present.

**G. MULTILATERAL TECHNICAL ASSISTANCE**

To support the technical assistance programs of the United Nations and the Organization of American States.

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700.5-Map/10-1951

Memorandum by the Director of the Management Staff (Heneman) to the Under Secretary of State (Webb)

[WASHINGTON,] October 4, 1951.

Pursuant to your request, I am attaching for your consideration a staff memorandum concerning alternative methods for submitting the 1953 Mutual Security Program. The advantages and disadvantages of submitting one to three bills are discussed.

This memorandum incorporates suggestions made by Messrs. Coolidge, Ohly, Martin and Brown of the Department and by Mr. Finan of the Bureau of the Budget.

Your views on this matter should be communicated to Mr. Coolidge and Mr. Ohly as early as possible.

H. J. HENEMAN

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1 The source text was transmitted by William J. McWilliams, Director of the Executive Secretariat, to Charles A. Coolidge, Deputy Director, International Security Affairs, on October 10, with the following notation: “Mr. Webb has gone over the attached memorandum from Mr. Heneman concerning alternative methods for submitting the 1953 Mutual Security Program.

“Although he does not wish to give you a flat decision which will bind your hands on this matter, it is his opinion that Alternative C is the best way to handle the program in 1953.”

Additional documentation on the development of the Mutual Security Program for Fiscal Year 1953 will be presented in a subsequent volume in the Foreign Relations series.

2 Ben H. Brown, Jr., Deputy Assistant Secretary of State for Congressional Relations.

3 William F. Finan, Assistant Director for Administrative Management, Bureau of the Budget.
[Annex]

Staff Memorandum

[WASHINGTON,] October 4, 1951.

Subject: 1953 submission for the Mutual Security Program

An early decision on the manner of presenting the 1953 Mutual Security Program is desirable, since the decision will influence to a considerable extent the procedure by which the 1953 program is developed for presentation to the Budget Bureau and Congress. The program is already in the early stages of development and authorizing legislation, including the amounts, is to be submitted to the Budget Bureau by November 15.

The component elements of the total program for 1953 will presumably include:

a. Military end-items and training (including infrastructure and similar costs if these are to be treated as Mutual Security rather than regular national defense items).

b. Economic aid in support of military production or otherwise directly related to military effort (including technical assistance of the European type, for productivity and similar purposes).

c. Economic aid to underdeveloped areas having a substantial supply or construction element in addition to technical assistance, but not primarily designed to support a military effort. This would include such programs as those currently contemplated for certain countries of Southeast Asia and for India.

d. Technical assistance under the Point Four Program, including contributions to UN technical assistance.

e. Contributions to the UN relief and rehabilitation programs for Korea and for the Palestine refugees.

There appear to be three alternative ways in which the total program containing these elements can be presented:

Alternative A would be to have a single bill including all the above elements, as was the case this year. Presumably such a bill would have a common statement of purpose and a single set of general provisions, with the substance of the program broken down either regionally, as this year, or functionally (military vs. economic vs. technical assistance), depending on which breakdown would enable a better presentation.

Alternative B would be to abandon the single-package approach in favor of three separate bills—one for military end-items and training, one for economic aid in support of the military effort, and one for aid to underdeveloped areas, which would include Point Four and might also include the Southeast Asia and India type of combined economic and technical aid and the UN Programs for Korea and the Palestine refugees. The theory of this arrangement would be to divide the program according to the administering agency, with Defense responsible
for the military programs, the new Mutual Security Agency for the
economic aid in support of the military effort, and the State Depart-
ment for the balance.

Under this plan the handling of the Southeast Asia–India type of
program combining technical assistance with substantial economic
grant aid, would depend on whether the Administration is content to
accept the Conference bill restrictions on the future functions of the
Mutual Security Agency. This decision in turn will be affected by the
size and kind of programs planned for those areas. The Mutual Securi-
ity bill as reported by the Conference would appear to prohibit the
Mutual Security Agency from administering any programs of the
Southeast Asia–India type after June 30, 1952, so that in 1953, unless
this provision is changed, these programs would presumably be amal-
gamated with Point Four and would be administered by State. If these
programs will in fact be reduced to little more than technical assistance
programs in 1953, there would be no reason to alter this arrange-
ment. However, if they are to contain substantial elements of
emergency economic aid, it might prove desirable to seek to have them
administered by MSA, in which case they should be included with other
temporary economic aid in the second of the three bills.

Alternative C would be to have two bills—one including military
aid and supporting economic aid, and the other including Point Four
and the UN Programs for Korea and the Palestine refugees. The gen-
eral theory of this arrangement would be to separate those programs
directly related to the military build-up from those designed to pro-
move security by giving help to underdeveloped areas. The Southeast
Asia–India type programs would logically belong in the latter cate-
gory, but might be put in the first bill if MSA were to be the admin-
istering agency.

Relative Advantages

From a practical standpoint, in the light of this year’s experience,
there are certain advantages to be gained from adopting Alternative B,
the three-bill plan. In effect, it would put the responsibility on each of
the three administering agencies to justify and defend its own share
of the program and the accompanying legislative provisions. This
should make for a more aggressive justification for each separate seg-
ment. In addition, it would make it possible to capitalize on Congress-
sional support for those parts of the program which are strongest,
without having them adversely affected by Congressional reaction to
other program segments with less inherent appeal or less adequately
presented.

Disadvantages

However, on examination, the three-bill alternative would seem to
have some very serious disadvantages which should be carefully
weighed before any decision is taken. Among these are:
1. It would be in effect a denial of the principle which has been made with great insistence in this year’s presentation—that the military and supporting economic aid are interdependent, and to a considerable extent interchangeable, means to a single end of building defensive strength. This applies with most force to Europe, including Greece and Turkey, but would also be significant in the programs for Formosa, Indo-China, and the Philippines.

2. The Conference bill as reported lays great stress on the integration of the assistance programs both at home and abroad and makes the Director of Mutual Security directly responsible for the preparation and presentation of the total program. While this would not preclude separating the program into three bills, that would not appear to be a step in the direction of more effective integration of the total program.

3. The Bureau of the Budget and the Committees of the Congress have for some years now been pressing for a complete single package presentation for foreign aid. The Administration has frequently been criticized for presenting foreign aid items piece-meal and in fragmentary form.

4. Three separate bills would make it more difficult to have adequate provisions for transferability between the several types of aid or between regions—a flexibility which was considered important this year and presumably would be again.

5. There would be less opportunity for the State Department to make known its views on the foreign policy implications of military and supporting economic aid if these were handled in separate bills with other agencies primarily responsible for presenting them.

6. Separate bills would probably delay the process of hearings and Congressional action since, if the same Committees of both Houses handled all of them, they would have to take up each of several bills in succession. On the other hand, if military aid were in a separate bill it might be handled by the Armed Services Committees, which would further weaken the unity of the program.

Because of these disadvantages, most of which also apply, though with less force, to the two-bill alternative, the weight of argument would seem to be in favor of again presenting the program in a single bill, perhaps with primary subdivision between three major types of aid rather than by regions. However, serious consideration should also be given to Alternative C, which is free from the major disadvantage of the three-bill approach in that it recognizes the interdependence of military and supporting economic aid. One advantage of Alternative C is that it would permit a separate emphasis and attention to be focused on the problems of underdeveloped areas, avoiding the impression that they have a disguised military purpose. Programs for underdeveloped areas are as truly a part of our total security effort as assistance devoted directly to building military strength, but they do involve a different approach and emphasis and will presumably run for a longer time than the large-scale military build-up.

Consideration should also be given to whether the advantages of Alternatives B or C could not be obtained as well by separate titles within a single bill, since in any event the Director of Mutual Security
will, under terms of the Conference bill, be responsible for all phases of the presentation.

S/S-NSC Files, Lot 68 D 351, NSC 114 Series

Paper Prepared by the International Security Affairs Committee

TOP SECRET

[WASHINGTON, October 12, 1951.]

NSC 114/2, Annex No. 2

FOREIGN ECONOMIC AND MILITARY ASSISTANCE PROGRAM

(Prepared by the Committee on International Security Affairs)

I. EUROPEAN NAT MEMBERS AND GERMANY

A. Objectives and minimum tasks which the program is designed to fulfill

The basic U.S. objective in Europe which the aid program is designed to aid in fulfilling is the creation by the NATO members of a level of defensive strength which will deter Soviet aggression.

At present the level of defensive strength necessary to deter Soviet aggression is defined from a military point of view in the Medium Term Defense Plan. This statement of military requirements sets forth those ground, naval and air forces which should be in the required state of readiness by July 1, 1954 and is an aggregate defense force requirement for the twelve NATO countries.

The purpose of the U.S. aid program is to provide such additional resources, in military or economic form, as are required in order to make possible attainment by the European NAT members and Germany of their share of the objective set forth above, assuming a maximum feasible contribution by them and by Canada, and the contribution by the U.S. of the forces which it has committed itself to furnish.

B. Nature, magnitude and timing of the program

1. Elements comprising the program.

In providing additional resources to the NATO countries, it is envisaged that a variety of methods may be utilized. Thus a major

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1 NSC 114/2 and its annexes were prepared in response to the President’s directive circulated on July 12 (p. 102), which required the preparation of recommendations regarding revisions or modifications of the policies and programs contained in report NSC 68/4, December 14, 1950 (for text, see Foreign Relations, 1950, vol. 1, p. 467). For extracts from NSC 114/2, October 12, 1951, see p. 182.

NSC 114/2, Annex No. 2, was based on, and incorporated verbatim portions of, the following documents which were approved by the International Security Affairs Committee: ISAC D-20/1a, “Summary Statement of Recommended Foreign Aid Programs for Non-European Areas (Titles II, III, IV of MSP),” September 12, 1951; and ISAC D-20/2e, “Recommended Foreign Aid Programs for the European Areas,” September 21, 1951. Documents in the ISAC D-20 series, which concerned itself with the review of programs for the National Security Council, are found in ISAC Files, Lot 53 D 448.
portion of the resources to be provided will be in the form of military
equipment produced in the U.S. Another method to be used will be
the direct financing of general imports from the dollar area. A third
method will be the payment in dollars for military equipment pro-
duced in European countries and turned over to those countries or
to other European countries for their use. It is important to appreciate
that although the program is to be executed through the provision of
what has generally been termed “military aid” and “economic aid”
these are but different techniques for providing resources. The choice
of techniques and the proportionate use of one as against the other
will vary by country. Decisions will be made on the basis of compara-
tive effectiveness in achieving U.S. objectives. The program proposed
herein does not distinguish between that part thereof which will be
supplied in the form of military equipment and that part which will
be provided in other forms. In addition to the provision of material
resources, the program will also include the provision of training and
technical assistance.

2. Assumptions and policies on which the program is based.

It is the policy of the U.S. to provide assistance to the nations with
which it is joined in the North Atlantic Treaty to enable the U.S. and
those nations to participate effectively in arrangements for individual
and collective self-defense in support of the purposes and principles of
the charter of the United Nations.

The program is also based on the policy that there must be main-
tained in Europe a stable economic foundation for the military
strength which it is our purpose to maintain and develop.

The program proposed herein is based on the following general
assumptions:

a. There will be no general war.

b. U.S. military forces will not be engaged in hostilities in areas
other than Korea.

c. In Korea, hostilities will either have ceased or will be at a low
level of intensity, but Korea will remain divided and at least some UN
forces will still be in Korea by the end of FY 1953.

d. There will be no changes in the present levels of East/West trade
which increase the needs of Europe for assistance.

The program proposed herein is based on the following specific as-
sumptions, the validity of which is commented upon under Section C
of this paper.

a. The military requirements are to have those forces set forth in
DC-28, as refined by the Standing Group in MRC 5/2,² plus a Ger-
man force of 10 divisions and supporting tactical air and minor naval
forces in being by July 1, 1954.

²Neither printed. For text of DC-28, a report by the NATO Military Committee
on Medium Term Plan Force Requirements, see vol. III, p. 1.
b. The European nations will be politically, economically and financially capable of making the defense expenditures set forth below in paragraph B-3.

c. The Congress will provide the funds requested in the Mutual Security Program for FY 1952.

d. Military equipment procured in the U.S. will be delivered in accord with the time phasing of the plan.

e. The requirement for assistance will not be affected by the creation of a European Defense Force.

f. The admission of Greece and Turkey to NATO will not increase the amounts of assistance which they will require.

3. Estimated cost of the program.

The best present estimate, based on late 1950 prices, of the cost of the MTDP, plus Germany and plus the non-NATO military expenditures of the European members of NATO is $72 billion dollars. Of this amount $40 billion dollars represents costs of major matériel. This cost figure ($72 billion dollars) covers the period Fiscal Year 1951 through Fiscal Year 1954.

For Fiscal Years 1950, 1951 and 1952, $11 billion dollars of U.S. military aid has been programmed. In Fiscal Year 1951 European defense expenditures equalled 6.7 billion dollars. (2 billion dollars of U.S. economic aid helped make these expenditures possible.) It is estimated that these countries in Fiscal Year 1952 (assuming U.S. aid is provided in the amounts proposed in the 1952 MSP) will spend the equivalent of $9.9 billion dollars for defense. The total of U.S. military aid and European outlays for defense for FY 1951 and FY 1952 is thus estimated at $27.6 billion dollars. [The European expenditures are made from budgets which include the counterpart of U.S. economic assistance provided or to be provided in these fiscal years.]

If the total 1951–52 outlays against the four year cost are subtracted therefrom there remains to be met in FY 1953 and FY 1954 a cost of $44.4 billion dollars.

The present estimate of probable gross European expenditures for expense for FY 1953 and FY 1954 is $24.7 billion dollars, an average of $12.3 billion dollars per year. This is an increase of $5.6 billion dollars per year or about 84 per cent over FY 1951 and an increase of about $2.4 billion dollars or approximately 24 per cent over the estimate for FY 1952. A large portion of this increase is included in present country plans, primarily in those of the U.K. However, the gross figure of $24.7 billion dollars (or the $22.6 billion net figure) which the European countries as a group would have to contribute in FY 1953 and 1954 is possible only if United States assistance in fact is sufficient to

*Unofficial and not yet approved refinement of this estimate indicates a possible upward revision thereof to $76.8 billion dollars, resulting from later information on probable requirements for German forces. [Footnote in the source text.]

*Brackets in the source text.
cover dollar balance of payments deficits. It also assumes that the European efforts and U.S. aid for FY 1952 are as postulated above.

The difference between this expenditure and the cost of the requirement is thus calculated at 21.8 billion dollars. If a Canadian contribution of 1.0 billion dollars is deducted it can be reduced to 20.8 billion dollars.

The foregoing in tabular form:

**Financing the Total Cost of MTDP**

<table>
<thead>
<tr>
<th>Description</th>
<th>Billions of U.S. Dollars (1950 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Cost of MTDP</td>
<td>72</td>
</tr>
<tr>
<td>2. Less FY 1951 and 1952 Assets</td>
<td></td>
</tr>
<tr>
<td>(a) Gross European defense expenditures†</td>
<td>16.6</td>
</tr>
<tr>
<td>(b) U.S. end-item aid</td>
<td>11</td>
</tr>
<tr>
<td>(c) Canadian end-item aid</td>
<td>0.4</td>
</tr>
<tr>
<td>Total FY 1951 and 1952 Assets</td>
<td>28</td>
</tr>
<tr>
<td>3. MTDP Costs Not Met as of June 30, 1952</td>
<td>44</td>
</tr>
<tr>
<td>4. Anticipated FY 1953 and 1954 Assets</td>
<td></td>
</tr>
<tr>
<td>(a) Gross European Expenditures‡</td>
<td>24.7</td>
</tr>
<tr>
<td>(b) Canadian end-item aid</td>
<td>0.6</td>
</tr>
<tr>
<td>Total Anticipated FY 1953 and 1954 Assets</td>
<td>25.3</td>
</tr>
<tr>
<td>5. Remainder</td>
<td>18.7</td>
</tr>
<tr>
<td>6. U.S. Aid Assumed in Item 4(a)</td>
<td>2.1</td>
</tr>
<tr>
<td>7. Total Amount to be Met by U.S. Aid, if postulated total requirements are met</td>
<td>20.8</td>
</tr>
</tbody>
</table>

It is essential that contracts be let in FY 1953 for those items of equipment whose required time for production is such that this action is necessary to assure delivery of them in FY 1954. Consequently, the requirement of 20.8 billion for U.S. assistance set forth above cannot be assumed as divisible into two equal parts for appropriation in the respective fiscal years. It is estimated that 14.0 billion would be required to be obligated in FY 1953 and 6.8 billion in FY 1954. Actual expenditures would tend to be much higher in FY 1954 than in FY 1953; thus, obligational advance contract authority might be substituted for a considerable portion of the FY 1953 requirement, with a correspondingly higher requirement for appropriations in FY 1954.

†This level of expenditure is facilitated by an assumed $3 billion in U.S. aid which directly or indirectly makes dollars available to these countries to finance imports. [Footnote in the source text.]

‡This level of expenditure assumes about $2 billion in U.S. aid which directly or indirectly makes dollars available to finance imports. [Footnote in the source text.]
In the light of the lead time problems, and the importance of the timely production and delivery of equipment, it may well be necessary to seek additional authority to obligate funds during FY 1952 in order that the letting of contracts for production not be delayed until the second half of next year.

C. Analysis of adequacy of program in terms of national security needs

The adequacy of the program set forth above depends on the validity of the assumptions and calculations on which it is based. It must be clearly understood that there are serious questions on this score which make the program a tentative one which requires further study and analysis.

There are, specifically, the following considerations:

1. The requirements

The Medium Term Defense Plan is neither a rigid nor a detailed plan. The agreed aggregate requirements set forth in DC-28 have been studied and commented upon by SACEUR. The Standing Group has sought national reaction to its proposals for the allocation of unfilled DC-28 requirements among the NATO nations. It is anticipated that by October 7, 1951 the Standing Group will make recommendations as to a revised statement of force requirements which if and when approved would replace DC-28. It appears probable that there will be no net reduction in force requirements, although the composition of those forces may be altered.

It is expected that an examination to be made of the organization and equipment of all major national military units will provide a basis for achieving some economies in the previous estimates of equipment requirements for the forces which are needed. It is hoped that a substantial reduction in requirements will result therefrom. However, this may be offset by increased equipment requirements resulting from possible changes in the composition of forces.

Even if it is assumed that this examination results in substantial changes in estimates of the matériel requirements of the forces called for under the present MTDP, the amounts and kinds of forces cannot be expected to remain static. At this time it is impossible to predict whether equipment requirements will increase or decrease.

2. The cost estimates

Obviously the estimated costs of requirements will vary as the requirements are changed. The cost estimates set forth herein are based on the assumption that the force requirements are those set forth in DC-28 plus the assumed German forces, and that these force requirements will be allocated among the countries as proposed by the Standing Group. These estimates are based on late 1950 prices and general price levels have already substantially increased. They do not take into account any reduction in matériel requirements which may result from the more stringent examination thereof envisaged in paragraph 1
above. Nor do these estimates reflect any reductions in the cost of production in the U.S. (Some items of equipment will have a lower unit price than heretofore due to the fact that the cost of plant expansion in the U.S. has been absorbed in the cost of equipment already produced.) Furthermore, these costs estimates do not reflect any reduction in price of U.S. furnished equipment which may occur if the equipment is classified as excess to U.S. needs.

3. Estimates of European Defense Expenditures

The estimates set forth above do not take into account two important factors. First, the estimate of European expenditures in fiscal year 1952 presumes United States aid at the levels proposed by the Administration in the fiscal year 1952 Mutual Security Program, which presumption is now doubtful.

Secondly, these estimates do not take into account certain adverse economic trends in Europe which have only recently become apparent.

The economic and psychological effect of these new developments will decrease the ability of European governments to increase defense budgets to the degree assumed in this paper. ISAC cannot assess the offsetting impact of other possible actions, not considered in developing the estimate, such as off-shore procurement and broader eligibility of items for transfer as military assistance.

On balance, it is concluded that we cannot depend upon European expenditures being as high in fiscal years 1952, 1953 and 1954 as estimated in this paper.

4. U.S. Deliveries

As of July 31, 1951, the U.S. had shipped to Title I countries military matériel valued at 729.9 million dollars out of the FY 1950 program of 1,119.9 million dollars of end item aid, and 165.2 million dollars out of 3,963.6 million dollars programmed under FY 1951 appropriations. Deliveries of major items under the FY 1950 program have been completed, with exceptions in certain categories. A target date for the completion of deliveries under the FY 1951 program has been set at June 30, 1952. Deliveries for the first seven months of 1951 were at the rate of 78 million dollars per month. Equipment must be delivered in larger quantities and at a more rapid rate (about 400 million dollars per month) if the program is to meet the needs of national security.

The Joint Chiefs of Staff have under consideration a revised directive relating to allocation of United States munitions production as between the various military programs. ISAC is not informed as to whether the more rapid rate of munitions deliveries needed to attain the programs of Title I countries, as well as continuing combat expenditures in Korea and other world-wide commitments, can be attained by re-allocation, or whether there must be an increased rate of production even at the cost of reducing production for civilian uses.
5. **U.S. aid in FY 1952**

It is clear that the assumptions of Congressional approval of the proposed amounts of aid are erroneous. The effect, as previously stated, is to increase the costs which must be met in FY 1953 and FY 1954.

**Conclusions**

1. On the basis of the assumptions in this report, the U.S. aid requirement for NATO defense purposes (including Germany) in FY 1953 and 1954 would be 20.8 billion dollars.
2. Preliminary revisions of the estimated requirements for German forces suggest an additional cost of perhaps 5 billion dollars.
3. The resultant figure for U.S. aid requirement is 25.8 billion dollars. This figure cannot be considered to be accurate. On balance, the factors discussed in this paper indicate the figure may be too low.

**Special Note**

[The arrangements at Ottawa for a special temporary commission of the North Atlantic Council should produce before December firmer estimates of total requirements and the economic resources available to meet them].

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**II. OTHER EUROPEAN COUNTRIES (AUSTRIA, TRIESTE, SPAIN AND YUGOSLAVIA)**

Aid programs for these countries for FY 1953 and FY 1954 have not yet reached the stage of development where it is possible to state with precision the answers to the points outlined in the memorandum from Mr. Lay.

It is assumed that it will suffice for the purposes of the present NSC review to state the following general observations.

1. No funds for military assistance for Austria or Trieste will be required in FY 1953 or FY 1954.
2. $300 million dollars will probably be adequate to cover the needs of Austria and Trieste for economic assistance in FY 1953 ($150 million) and FY 1954 ($150 million).
3. $100 million will probably be required as a minimum to cover the needs of Yugoslavia for economic assistance in FY 1953 ($50 million) and FY 1954 ($50 million).
4. An insufficient basis exists for estimating Yugoslav military assistance requirements for FY 1953 and FY 1954.
5. No decisions have been reached as to whether and how much military and/or economic aid will be necessary to attain our objectives in Spain.
6. There is no basis for accurately estimating the total of requirements of these four countries for economic and military assistance.

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*Brackets in the source text. For documentation on the NATO Council Meeting in Ottawa, September 15–20, 1951, see vol. III, pp. 616 ff.*
in FY 1953 and FY 1954, but it may be of the order of magnitude of $1 billion.

III. OTHER EUROPEAN COUNTRIES (GREECE AND TURKEY)

ISAC has already furnished the NSC with estimates of the costs of military assistance programs for Greece and Turkey in FY 1953 and FY 1954.

The best present rough estimate of the total cost of economic assistance required for these countries for FY 1953 and FY 1954 is $700 million.

IV. NON-EUROPEAN AREAS

Introductory Note. The development of foreign aid programs for the non-European areas for FY 1953 will not be complete for several weeks. Accordingly, at this time it is impossible to do more than summarize the objectives of the programs and to outline in a very rough and tentative manner the elements of the proposed programs. Only overall estimates of the cost of the various programs can be made that will be at all meaningful and these estimates must be considered highly tentative. With respect to FY 1954, the overall estimates of costs are only reasonable guesses.

In view of the foregoing, this statement is submitted by ISAC for NSC consideration in the form of a summary covering the entire area.

A. Objectives and Minimum Tasks.

Military Aid Programs. Within the general framework of U.S. strategic objectives, the specific objectives of the military aid programs for FY 1953 in the non-European areas (including Greece and Turkey) will include the following:

1. To assist Japan to defend itself and to participate in the defense of the free world.

2. To assist the ROK forces to assume the maximum possible responsibility for the defense of South Korea.

3. To assist the Chinese Nationalist Government to achieve the capability of repelling a Chinese Communist attack, in conjunction with the U.S. Seventh Fleet.

4. To assist the French and Associated States forces in Indo-China to restore and maintain internal security and to discourage Chinese Communist aggression.

5. To assist Thailand to maintain internal security and discourage aggression.

6. To assist the Philippine Government to restore and maintain internal security and discourage external aggression.

7. To assist the Government of Iran to maintain internal security and conduct a delaying action in the event of aggression.

8. To assist the Governments of Greece and Turkey to maintain internal security, to discourage aggression, and, if necessary, to repel
attacks by Soviet satellites and to delay, to the maximum extent practicable, an attack by the Soviet Union itself—all in conformity with their obligations as (assumed) members of NATO.

9. To orient the Arab States and Israel more firmly toward the free world and to enable them to maintain internal security and discourage aggression.

10. To enable certain Latin American States to undertake assigned tasks in the defense of the hemisphere in the event of war which would otherwise have to be undertaken by the United States.

Economic Aid Programs.
The objectives of economic aid programs for FY 1953 for the non-European area (not including Greece and Turkey) will include the following:

1. To support the military effort, as in Formosa, Indochina and Iran.
2. To offset the impact of the military effort, including the military aid program, as in Formosa and Indochina.
3. To strengthen support for friendly governments by assisting them to provide more effectively for the needs of their people (applicable in all cases).
4. To improve governmental and popular attitudes toward the free world and the United States, as in Southeast Asia, South Asia, the Arab States and Iran, or, where such attitudes are satisfactory, to maintain them at that level, as in the case of the Latin American States, the independent states of Africa, and Israel.
5. To prevent economic deterioration threatening political stability, as in India and Iran.
6. To bring about an increase in the output and facilitate the distribution of strategic materials needed for common defense, as in Thailand, Indonesia, Philippines, and Latin America, insofar as consistent with basic political objectives.
7. To increase the capacity of the area to produce essential civilian goods, especially foods, so as to reduce the drain on U.S. output and shipping in the event of an emergency (as in Southeast Asia, South Asia, Near East and Ethiopia, and Latin America).
8. To support the multilateral technical assistance programs of the United Nations and the Organization of American States.

B. Description of Programs.

1. For the reasons stated above, it is not possible at this time to describe in any detail the various programs to be proposed for FY 1953 or FY 1954. In general, the programs will be of the same character as those proposed for FY 1952.

The military aid program will consist, as in FY 1952, of the furnishing of end-items and training needed to achieve certain desired capabilities. Two principal elements will control the timing of the programs: the availability of equipment and personnel for training,
and the speed with which the governments in question can effectively absorb and utilize the equipment. The military aid programs will of course vary in emphasis and mode of procedure. The situation in Indochina, for example, is unique in that it is a combat area; so long as that situation continues, Indochina’s needs will continue to command top priority. The proposed military aid program for the Arab States and Israel, which is not yet underway, will be peculiar in that (a) requests for aid will have to be reviewed by a tripartite committee; (b) the object of the program is primarily political; (c) the principle of impartiality will have to be followed. Military aid programs for Latin America will also be different from other programs in that equipment will be furnished for the specific purposes of enabling states to perform hemispheric defense tasks which they will have agreed to perform. Little can now be said with respect to the aid programs which will be necessary for Japan and Korea, but they will probably be substantial.

On the economic aid side the programs will likewise vary in emphasis and scope. In most cases, the bulk of the program will be in the nature of technical assistance, supplemented where necessary by supplies needed to make such assistance effective, directed toward improvements in agriculture, health and sanitation, public administration, education, transportation and mineral resources development.

In some areas, such as Indochina and Iran, the economic program will have to include a considerable component for support of military needs. In an area such as Formosa, the program will have to be primarily a supply program to support the military effort and offset the impact of military expenditures; some industrial development will also be included, designed to help Formosa in the direction of achieving a supporting economy. Some programs (Indochina and the Philippines, as well as Formosa) will include substantial imports of salable commodities and consumer goods for the purpose of financing the local costs of technical assistance projects and preventing runaway inflation.

2. The programs are based upon the fundamental policy that it is in the interest of the United States to prevent further Communist encroachment upon the free world, to maintain a Western orientation on the part of those states now so oriented and to achieve a more decisive Western orientation on the part of those states which are now seeking to pursue a neutral course.

The main assumptions upon which the programs will be based are as follows:

(a) There will be no general war.

(b) The aid programs for FY 1950 and 1951 will have been successfully completed, and the proposed FY 1952 programs will have been completed in varying degrees.
(e) In general, the political complexion and orientation of the various countries, the state of relations between them, and their economic conditions will be about the same as today, except as they may be improved by the FY 1952 program.

(d) The United States will have been successful in its efforts to persuade aid recipients to comply with whatever standards are required with respect to East-West trade so that the extension of aid will not be prohibited.

(e) A peace treaty will have become effective between Japan and most of the non-Communist nations formerly at war with Japan, and security commitments will have become effective with Australia, New Zealand, the Philippines and Japan.

(f) In Korea, hostilities will either have ceased or will be at a low level of intensity, but Korea will remain divided and at least some UN forces will still be in Korea by the end of FY 1953.

(g) Communist China will not have attacked Formosa, Indochina, Burma, or Thailand but the threat of attack will be intensified.

(h) The Chinese Communists will remain firmly aligned with Moscow and will not have developed clearly defined Titoist tendencies.

(i) Tension between India and Pakistan will continue but without actual hostilities.

(j) There will have been no Soviet attack upon Iran but the oil dispute will remain unresolved until the beginning of FY 1953.

(k) A modus vivendi will have been worked out between the UK and Egypt and a Middle East defense board will have been established and will be making progress in securing local participation.

(1) Greece and Turkey will have been admitted to NATO.

3. The Executive Branch proposal for military aid for FY 1952 for the non-European areas, including Greece and Turkey, amounted to just over $1 billion. At the present time, it appears that the requirements for FY 1953 will be substantially higher, with the principal increases in Japan and Korea, Greece and Turkey, and possibly in Latin-America. It seems reasonable to expect that the total for FY 1954 will be lower than for FY 1953.

The present proposals compared with FY 1952 proposals to Congress are as follows (in millions):

<table>
<thead>
<tr>
<th>Area</th>
<th>FY 1952</th>
<th>FY 1953</th>
<th>FY 1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title II</td>
<td>$415</td>
<td>$596.8</td>
<td>$292</td>
</tr>
<tr>
<td>Title III</td>
<td>555</td>
<td>467.4</td>
<td>383.6</td>
</tr>
<tr>
<td>Title IV</td>
<td>40</td>
<td>340</td>
<td>85</td>
</tr>
<tr>
<td>Japan and Korea</td>
<td>0</td>
<td>300</td>
<td>200</td>
</tr>
</tbody>
</table>

$1,010 $1,704 $961

These proposals have not been reviewed in ISAC and may not be said in any sense to have ISAC approval. Past experience with comparable proposals made at the working level would indicate that reductions might be expected. In this case, however, even that prediction is dangerous because of the fact that the estimates for Japan and Korea are highly tentative and may prove to be much too low.
The total amount of economic aid requested for the non-European area (not including Greece and Turkey) in FY 1952 amounted to 522 million dollars. This included amounts required for multilateral technical cooperation programs, and also $50 million for the solution of the Palestine refugee problem and $112,500,000 for UNKRA. It now seems likely that the FY 1953 total will be higher, but that the requirements for FY 1954 will be lower than FY 1953.

The proposals for economic aid are as follows (in millions):

<table>
<thead>
<tr>
<th>Area</th>
<th>FY 1953</th>
<th>FY 1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>Far East</td>
<td>$370</td>
<td>$333</td>
</tr>
<tr>
<td>Near East, Africa and South Asia</td>
<td>429</td>
<td>299</td>
</tr>
<tr>
<td>Latin America</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>Multilateral technical assistance</td>
<td>17§</td>
<td>21§</td>
</tr>
<tr>
<td></td>
<td><strong>$862</strong></td>
<td><strong>$695</strong></td>
</tr>
</tbody>
</table>

Again, these proposals cannot be said to have ISAC approval in any sense. Previous experience would indicate that the final Executive Branch figures would show overall reductions.

The following Table compares the present proposals with the proposals made to Congress for FY 1952:

<table>
<thead>
<tr>
<th>Economic Aid</th>
<th>FY 1952</th>
<th>FY 1953 (Proposed)</th>
<th>FY 1954 (Proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Far East:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Korea (UNKRA)</td>
<td>$112.5</td>
<td>$162.5</td>
<td>$162.5</td>
</tr>
<tr>
<td>Formosa</td>
<td>90</td>
<td>90</td>
<td>70</td>
</tr>
<tr>
<td>Indochina</td>
<td>29.3</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Burma</td>
<td>14.5</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Indonesia</td>
<td>8</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Philippines</td>
<td>35.4</td>
<td>40</td>
<td>25</td>
</tr>
<tr>
<td>Thailand</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>297</strong></td>
<td><strong>370</strong></td>
</tr>
<tr>
<td><strong>Near East, Africa, and South Asia:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iran</td>
<td>24</td>
<td>100</td>
<td>20</td>
</tr>
<tr>
<td>Arab States and Israel</td>
<td>97</td>
<td>175</td>
<td>125</td>
</tr>
<tr>
<td>Ind. African States</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>South Asia</td>
<td>78</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>203</strong></td>
<td><strong>429</strong></td>
</tr>
<tr>
<td><strong>Latin America:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>22</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>Multilateral Technical Assistance</td>
<td>13§</td>
<td>17§</td>
<td>21§</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>522</strong></td>
<td><strong>862</strong></td>
</tr>
</tbody>
</table>

§ Included in regional figures, and therefore not added into totals. [Footnote in the source text.]
C. Analysis

On the assumptions stated above, it is felt that the proposed programs will in general meet the needs of national security and that no serious deterioration in the present situation in the area is likely to occur. These assumptions, however, are not forecasts and to some extent may be unduly optimistic.

As is obvious from the summary of objectives in Section A of this paper, in some cases the objective of a military aid program is to enable the recipient country to repel external aggression, in others merely to delay or discourage it. Obviously a program which is designed to achieve the more limited type of objective is less satisfactory from the national security point of view. However, it is fair to state that, in most cases where the objective is of the limited type, the more ambitious objective—to enable the country to resist aggression—could not be achieved within the foreseeable future by means of an aid program, no matter how large. In other words, in these cases the failure fully to meet national security needs follows inevitably from inherent weaknesses, in terms of manpower and other resources, in the recipient countries, not from the size of the aid programs.

The principal factors limiting the proposed military aid programs are shortages of equipment and, to a much less extent, of qualified personnel, and the limited capabilities of certain other countries effectively to utilize large amounts of equipment. In general, an attempt has been made to prejudge possible Congressional reactions.

Insofar as economic aid is concerned, it is even more difficult to estimate the degree to which the proposed programs meet the needs of national security. About all that can be said is that these programs contribute substantially to the national security. While in some cases much larger programs would doubtless contribute more, no economic aid program, whatever its size, can guarantee the achievement of the desired objective in any given case. At best, aid programs can only influence the course of events, they cannot control them. In determining the size of economic aid programs, the practical possibilities, both in terms of the domestic political situation and in terms of the overall strain on U.S. resources, must be an underlying consideration. However, no effort will be made to adjust specific programs to possible Congressional reaction.
Mutual Security Act Adopted by Congress

The Mutual Security Act of 1951 authorizing military, economic and technical assistance to friendly countries was signed by President Truman October 11 [10]. The appropriation bill, which is expected to pass both houses of Congress this week, will if the provisions of the House Bill are adopted, provide $7,482,790 of new money and $816,727,307 of funds previously appropriated but not yet spent. All the President’s requests for specific purposes were granted except $45,000,000 for the US contribution to the United Nations Korean Rehabilitation Agency. However, unobligated balances of last year’s appropriation for assistance to Korea continues to be available.

Fund Provisions. The House, (and it is expected that the Senate will approve) has authorized that funds be distributed as follows:

<table>
<thead>
<tr>
<th>Region</th>
<th>Europe</th>
<th>Military</th>
<th>Economic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Near East and Africa</td>
<td>$5,072,476,271</td>
<td>$1,022,000,000</td>
<td></td>
</tr>
<tr>
<td>Asia and the Pacific</td>
<td>396,250,000</td>
<td>160,000,000</td>
<td></td>
</tr>
<tr>
<td>American Republics</td>
<td>535,250,000</td>
<td>237,155,866</td>
<td>21,245,653</td>
</tr>
<tr>
<td></td>
<td>38,150,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$6,042,126,271</td>
<td>$1,440,401,519</td>
<td></td>
</tr>
</tbody>
</table>

A certain amount of leeway is given the President in the administration of the above funds as the legislation permits the transfer of not more than 10% of the funds specified in the above figures for each area to be used for the same type of aid in a different area. In the case of Europe, it is provided that up to 10% of the total appropriation may be transferred from military to economic assistance or vice versa.

A restriction on the use of the funds is a provision that not less than 10% of the funds spent under the Economic Corporation Act be for loans rather than grants. This provision will apply to Europe and the Stem Program of Southeast Asia and to any other area where the decision is made to use the ECA Act, such as South Asia and the Middle East. Restrictions on the use of counterpart have been modified to remove the statutory prohibitions against use of the 95% portion in other than the country of origin and to postpone the date of final distribution of balances to the date of termination of assistance. Counterpart provisions also provide that the equivalent of not less than

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1 For additional information on the action taken by Congress, see editorial note, p. 389.
$500,000,000 of all counterpart generated must be used exclusively for military production, construction, equipment and materials. The Act also broadens the guaranty authority of the Economic Corporation Act to cover any area where assistance is authorized under the Mutual Security Act against certain non-business risks such as expropriation and convertibility. Provision is also made for the purchase for dollars of local currency needed for aid programs.

In the case of economic aid funds allotted to Europe, an amount not to exceed $55,000,000 may be used to promote the production of strategic materials. A special provision is included in the section dealing with allocation of funds to Europe providing that a sum not to exceed $100,000,000 of the military allocation may be used for any selected persons who are residing in or escapees from the USSR or the satellites, including eastern Germany and the Soviet occupied section of Austria or any other countries absorbed by the USSR, either to bring such persons into elements of the military forces of NATO or for other purposes determined by the President as useful to the defense of the North Atlantic area and the security of the U.S.² A sum of $10,000,000 is usable from the economic allocation for Europe for assistance in the emigration of surplus European manpower. Since economic aid can be granted to any country in Europe which is receiving military aid, the European appropriation provides by inference for the provision of economic assistance to Spain and Yugoslavia.

Greece and Turkey for the purposes of military aid are included under the provisions dealing with the Near East and Africa. Military assistance for Greece, Turkey and Iran is set at $396,250,000, although 10% of this amount can be used for any other country of the Near East area which the President determines is of defense importance. The language of the section pertaining to economic aid is broad enough to include the entire continent of Africa outside of Dependent Overseas Territories, and may be spent either in line with the provisions of the Economic Cooperation Act or the Act for International Development. In addition, up to $50,000,000 is provided for economic aid to Palestine Arab refugees and may be contributed either to the UN or spent directly by any US agency. An additional $50,000,000 is provided for refugee relief and resettlement projects in Israel. It has not yet been determined who shall administer the Israel funds.

In the case of Asia and the Pacific, military aid is granted for the general area of China and this includes the Philippines and the Republic of Korea. Except for the Republic of Korea, economic funds

²Information on United States policy regarding defectors from areas under Soviet control is included in documentation on general U.S. policies with respect to the Soviet Union and Eastern Europe in volume IV.
for this area are to be spent pursuant to the Economic Cooperation Act or the Act for International Development.

Economic assistance for the other American Republics is to be spent for technical assistance programs only.

Other Provisions. To be eligible for aid certain commitments must have been agreed to with the US within 90 days. To obtain military aid the country must have agreed to promote international understanding, good-will, maintain world peace, take mutual action to eliminate the causes of international tension, fulfill military obligations under agreements to which the US is a party, make full contributions to its own defensive strength and the defensive strength of the free world, take reasonable measures to develop defense capabilities and insure effective utilization of assistance provided by the US. To obtain economic or technical assistance for purposes other than defense, the recipient country must agree to promote international understanding and good-will, maintain world peace and take mutually agreed action to eliminate causes of world tension. Amendment of both ECA and MDAP bilaterals will probably be necessary, and maybe Point IV agreements.

An anti-cartel provision is included in the new Act, the wording expressly stating that it is the policy of Congress that the Act should be administered so as to eliminate barriers and provide incentives to increased participation of free private enterprise in the development of resources in foreign countries and, to the extent that it is feasible and does not interfere with the achievement of the purposes of the Act, to discourage cartel and monopolistic business practices, and to encourage the development and strengthening of the free labor movement.

Provision is also made to allow suits in US courts for infringement of patents and compensation for know-how used in the assistance programs. The patentee or owner of know-how under this provision, is barred from injunction suits against individuals and may only sue the US Government.

Administration of the Program. The new law establishes a Director for Mutual Security in the White House and a Mutual Security Agency (MSA) as the successor organization to the Economic Cooperation Administration to operate the economic aspects of the program. The Department of Defense is primarily responsible for the military end items. State will remain responsible for Point IV. The Act places in the White House the responsibility for coordination of MSA, Defense and State in this regard. Thus the former coordinating arrangement, ISAC, which was headed by State, is to be abolished. W. Averell Harriman has been nominated as Mutual Security Director. \(^3\) In his new position Mr. Harriman will be responsible for super-

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\(^3\) Mr. Harriman was confirmed by the Senate on October 19.
vision and general direction of the Mutual Security Program and administer the Agency. He will also have the coordinating functions in the White House as Director. The new Agency must be placed into operation within the 60 days after the Director takes office, simultaneously with the abolition of the Economic Cooperation Administration.

Editorial Note

The National Security Council Meeting of October 17, 1951, was devoted in part to a discussion of military assistance. For an account of that meeting by Secretary of State Acheson, see memorandum of conversation by Lucius D. Battle, Special Assistant to the Secretary of State, October 18, page 242.

700.5 MAP/10–1951

The Secretary of State to the Chairman of the House Appropriations Committee (Cannon) ¹

[WASHINGTON,] October 19, 1951.

MY DEAR MR. CANNON: I wish to express to you and Senator McKellar my grave concern over the 5% cut the Senate has made in the appropriations under the Mutual Security Act of 1951.²

The original request for $8.5 billion was determined upon only after careful screening by the Bureau of the Budget. It was considered, and I think rightly so, the smallest amount which was needed to obtain the security goals we seek during the current fiscal year. The cut of over $1 billion made by the authorizing legislation leaves us in a most difficult situation.

We have been reprogramming to reflect this cut and are reviewing the form in which our programs will be administered in an effort to minimize the effect of the cut or, to state it in reverse, in an effort to maximize the effect of the reduced amount of dollars. To make a further cut now of 5% is to endanger our objectives to such an extent that I feel obliged to urge you and your Committee to refuse to take the responsibility of doing so. I ask you earnestly to restore the 5% cut which the Senate has made.

¹ Drafted by Charles A. Coolidge, Deputy Director, International Security Affairs. An identical letter was sent to Senator Kenneth McKellar, Chairman of the Senate Appropriations Committee.
² On October 18, the Senate voted 57–13 to approve the decision of the Senate Appropriations Committee to cut 5% from funds for the Mutual Security Program and to add an unrequested $100 million for Spain. The House had previously approved (October 11) the full amount of the program virtually as requested.
I can add little except emphasis to the points which have been made before your Committees. I do, however, wish to restate two of the more important considerations.

1. The Mutual Security Act has been loosely called the “Foreign Aid Bill”. This is a misnomer. It is truly a United States security measure. The areas to which arms will go are vital to the security of the United States; Europe, Greece, Turkey, Formosa, the Philippines and Indochina are of the highest importance to our defense. If we loose [lose] the manpower, technical skill, manufacturing facilities and raw materials of Europe and her colonies to Soviet domination, we face a grim future in which successful defense of our own borders will be immeasurably more difficult and the cost immeasurably greater than if Europe is able to defend itself. Furthermore, the base for bearing the increased cost will be much narrower because we will lose much of the trade and raw materials on which our prosperity depends. Under these conditions our standard of living would bear no resemblance to that of today. The loss of Greece and Turkey would leave General Eisenhower’s southern flank unguarded, would unbar the land bridge to Africa and would open to the Soviets the rich oil fields of the Middle East and the main road to the Far East with its wealth of raw materials. I need not dwell on the seriousness of enemy domination of Formosa, the Philippines and Indochina. The economic aid under the Mutual Security Act which is not in support of military effort is almost wholly devoted to discouraging communist aggression by imparting to the peoples in underdeveloped areas the know-how to use their own natural resources to rid themselves of hunger and disease—sources of the discontent on which communism feeds. Such aid is by far the most effective weapon we can use against communism in these areas.

2. The Mutual Security Act is truly an economy measure. There is no question but that we obtain more defense effort per $1 of military aid or supporting economic aid than for a corresponding dollar spent on our own armed forces. Europe is the largest recipient of this type of aid. For each unit of military forces in Europe we pay only the cost of a part of its armament. Troop pay, housing, personnel equipment, most of the lighter arms and their ammunition, and some of the heavier arms are provided by our partners. The economic aid we furnish in support of military effort is estimated by ECA to produce on the average at least $3 of military results for each $1 of aid. In no other way can we obtain in Europe or elsewhere anything like the amount of military defense effort which we obtain through the Mutual Security Act.

I can add that the cut already made by the authorizing legislation will put us behind in meeting our schedule for arming General Eisenhower’s troops. Moreover, since the program for Europe was presented to the Congress, two of our principal partners in the North Atlantic Treaty Organization are experiencing unforeseen financial problems—problems which endanger their ability to provide the forces they have agreed to place under General Eisenhower’s command. An important factor in this grave situation is that our ability to aid them has been crippled by the cut already made by the author-
izing legislation. A further cut would very much increase the already great danger.

I, therefore, urge upon you and your Committee that the only wise action from the point of view of the security of the United States is to restore the 5% cut which the Senate has made.\footnote{On October 19, House and Senate conferees agreed to uphold the Senate’s 5% cut in funds for military aid to Europe but to restore all other cuts. The conferees also confirmed the additional funds for Spain voted by the Senate. On October 20, both the House and the Senate approved this compromise by voice vote. H.R. 5634, the Mutual Security Appropriations Bill, provided $7,328,903,976 in new funds and $816,727,306 in re-appropriated funds for the operation of the Mutual Security Program. President Truman signed the measure on October 31 (Public Law 249, 82d Cong.; 65 Stat. 70).}

Sincerely yours,

DEAN ACHESON

\footnote{The Secretary of Defense (Lovett) to the President}

WASHINGTON, October 23, 1951.

DEAR MR. PRESIDENT: The information requested in your letter of 10 October 1951\footnote{Not printed. (Truman Library, Truman Papers, PSF-Subject File)} concerning deliveries of military end items to countries receiving assistance pursuant to the Mutual Defense Assistance Act of 1949, as amended, is submitted herewith in accordance with the extension of time granted by your office. I believe this information will be found to be responsive to your inquiry with one exception, viz., the request for information concerning deliveries projected at the beginning of calendar year 1951, broken down between United States forces and forces of other countries. It has not been possible to furnish this particular breakdown because procurement for mutual defense assistance programs is merged with procurement for United States forces, and at the procurement planning stage no attempt is made to indicate procurement for United States and other forces separately.

I have been concerned for some time with the problem of obtaining from production sufficient military end items to satisfy the requirements of United States forces as well as our foreign needs. At my direction all three Services are continually reviewing their procurement plans for long-lead-time, hard-to-get critical items of military equipment. The purpose of this continuous review is to identify those critical items of military equipment where an increase in production is possible under existing circumstances and to adjust our production accordingly. A statement of the principal obstacles to production which we are now encountering is, in accordance with your request, inclosed herewith.

The policies and priorities for allocation of military equipment,
referred to in the last paragraph of your letter, is under continuing
review by the Joint Chiefs of Staff. Inclosed is a statement of these
policies and priorities as recommended by the Joint Chiefs of Staff on
27 October 1950, together with their latest recommendations thereon,
dated 12 October 1951. In accordance with your request, I have taken
no decision with respect to these latest recommendations, but it should
be noted that in their memorandum of 12 October 1951 the Joint Chiefs
of Staff reaffirm the general principles for the allocation of finished
munitions as previously recommended by them, and which have been
in effect since the date of their approval by the Secretary of Defense
on 7 November 1950.

With great respect, I am
Faithfully yours,

ROBERT A. LOVETT

Inclosures—6 *
1. Obstacles to Production
2. Allocation Policies
3. MDAP Funds
4. Production & Delivery
   Schedules—Army
5. Production & Delivery
   Schedules—Navy
6. Production & Delivery
   Schedules—Air Force

[Enclosure 1]

OBSTACLES TO PRODUCTION

The following paragraphs explain some of the obstacles which have
been encountered in fully implementing projected delivery plans dur-
ing the past eight months, and obstacles expected to be encountered in
fully implementing such plans in the coming months. In addition to
the obstacles listed below, production difficulties pertaining to specific
items are explained, where pertinent, on the individual pages of the
Production and Distribution Schedules, Inclosures 4, 5, and 6.

Program Implementation: Several obstacles have been encountered in
fully implementing projected delivery plans. One important factor
has been the indefinite extent and nature of the total program which
the Defense Department was to undertake when related to the amount
of funds that would be available for its implementation.

Machine Tools: Until recently, the machine tool industry has been
relatively slow in stepping up production of critically needed items of
equipment. Machine tools that are in extremely short supply in the
United States are presently adversely affecting the production sched-

* Enclosures 4, 5, and 6 do not accompany the source text. Enclosure 3 is filed
with the source text, but is not printed here.
ules of North Atlantic Treaty countries, particularly France, where several additional military production programs are being held up, pending delivery of the machine tools ordered from United States manufacturers. The non-delivery of these machine tools which are needed to produce end items is definitely an obstacle which affects mutual defense assistance deliveries and production scheduling in North Atlantic Treaty countries.

**Material Shortages:** Spot shortages of certain critical materials in specific forms and shapes have and will continue to delay production.

**Stikes:** In many critical areas of industry, strikes have been a large contributing factor. Many costly and prolonged work stoppages have delayed, and are continuing to delay production of raw materials, finished and semi-finished products.

**Facility Expansion:** Fabrication and production capacity has not been available in a few instances, to meet requirements, such as large armor castings, optical fire-control equipment and electronic components. Expediting Production Funds have been made available to industry for such expansion which will bear fruit in the near future.

**Personnel Shortage:** There has been and will continue to be a shortage of trained personnel in government and industry. Tool makers, die sinkers and other highly skilled personnel are examples of shortages which will undoubtedly continue to impede production. The effect of the ceiling on graded personnel imposed in the Defense Appropriation Act of 1952 has not been fully evaluated, but it may limit the number of personnel available for inspection, contract negotiation and production expediting.

**Engineering and Development:** In an attempt to make the most modern equipment available, production efforts have been directed towards some items newly designed and engineered which had not been fully tested as to producibility or performance. Some delays have resulted because of necessary engineering changes and lack of "know-how" in producing these items of equipment.

[Enclosure 2]

**Allocations Policies**

The policies followed in making allocations of finished munitions among United States forces and forces of other countries stem from Section 401 of the Mutual Defense Assistance Act of 1949, as amended (P.L. 329-81st Congress) which provides as follows:

"Sec. 401. Military assistance may be furnished under this Act, without payment to the United States except as provided in the agreements concluded pursuant to section 402, by the provision of any service, or by the procurement from any source and the transfer to eligible nations of equipment, materials, and services: Provided, That no equipment or materials may be transferred out of military stocks if
the Secretary of Defense, after consultation with the Joint Chiefs of Staff, determines that such transfer would be detrimental to the national security of the United States or is needed by the reserve components of the armed forces to meet their training requirements."

Section 506(b) and (c) of the Mutual Security Act of 1951 (P.L. 165–82nd Congress), also relates to allocations, and provides as follows:

"Sec. 506(b). The establishment of priorities in the procurement, delivery, and allocation of military equipment shall be determined by the Secretary of Defense. The apportionment of funds between countries shall be determined by the President.

(c). Notwithstanding any other provision of law, during the fiscal year 1952 the Secretary of Defense may furnish (subject to reimbursement from funds appropriated pursuant to this Act) military assistance out of the materials of war whose production in the United States shall have been authorized for, and appropriated to the Department of Defense: Provided, however, That nothing in this Act shall authorize the furnishing of military items under this subsection in excess of $1,000,000,000 in value. For the purposes of this subsection (1) "value" shall be determined in accordance with section 402(c) of the Mutual Defense Assistance Act of 1949 as amended, and (2) the term "materials of war" means those goods, commonly known as military items, which are required for the performance of their missions by armed forces of a nation including weapons, military vehicles, ships of war under fifteen hundred tons, aircraft, military communications equipment, ammunition, maintenance parts and spares, and military hardware."

On 27 October 1950, in a memorandum to the Secretary of Defense, the Joint Chiefs of Staff recommended the following policy with respect to supplies and equipment for the Mutual Defense Assistance Program.

"1. Reference is made to the interim report contained in a memorandum by the Joint Chiefs of Staff to you, dated 12 September 1950. This is the final report of the action taken by the Joint Chiefs of Staff in connection with your memorandum, dated 18 August 1950, subject, "Supplies and Equipment for Mutual Defense Assistance Program," and concerns that portion of your memorandum wherein you requested that a relative priority for the Mutual Defense Assistance Program (MDAP) in relation to U.S. military programs be established.

2. In considering the relative supply priority to be established for MDAP in relation to United States military programs, it would be well to keep in mind that the long-range, over-all military objective of United States Mutual Defense Assistance Programs should be the development of conditions which will improve to the maximum extent possible within economic realities, both current and foreseen, the ability of the United States in event of war to implement, in conjunction with its allies, a long-range strategic concept. Briefly, that concept is that

*Not printed.
the United States, in collaboration with its allies, will impose the war objectives of the United States and its allies upon the USSR by conducting a strategic offensive in Europe and a strategic defensive in the Middle East and in the Far East.

3. Military assistance should, in principle, be considered as a complement to the military preparedness of the United States proper, with the essential military equipment needs of the armed forces of the United States receiving highest priority. Programming of mutual defense assistance, therefore, should be accomplished as a further requirement on United States resources, i.e., as being additive to the equipment needs of the United States forces, rather than as a competing element for finished United States munitions.

4. The Joint Chiefs of Staff are fully cognizant of the importance of MDAP to the policy and strategic interests of the United States. They consider that United States production should make the necessary expansion to the extent that MDAP phased requirements can be met simultaneously with United States phased requirements. They further encourage and support the development, under MDAP, of increased additional military production and offshore procurement to relieve partially the heavy commitments against United States industry.

5. In connection with the assignment of priorities, it should be borne in mind that all programs contain items of wide differences in degree of urgency. It is manifestly impractical to assign an overall priority for one broad program with respect to any other broad program. Priority must be associated with each component, not with the program as a whole.

6. In the light of U.S. strategic interests and in the world situation now existing, the Joint Chiefs of Staff believe that finished munitions should be allocated in accordance with the following general principles:

a. First Priority:
(1) United Nations operations in Korea and United Nations operations in any further troublous areas where United States forces are committed, in the order:
(a) United States forces.
(b) Other United Nations forces as approved by competent U.S. authority.

(2) Other operational requirements when specifically determined by the Joint Chiefs of Staff.
(3) Minimum U.S. requirements for national security, to include support of United States forces in occupied areas, necessary equipment for active forces and those now scheduled for mobilization, and other essential defense requirements, including training of civilian components.

b. Second Priority:
Approved foreign military aid programs, provided that no equipment is furnished to recipient countries at a rate faster than can be utilized profitably in the build-up and training of effec-
tive forces, with long-term priority among countries being in this general order:

(1) North Atlantic Treaty Organization (NATO) countries.
(2) Other countries.

c. Third Priority:
The remainder of the material requirements of the United States Armed Forces.

7. The Joint Chiefs of Staff recognize that certain factors such as the need for strengthening the morale and internal security of recipient nations and protecting various United States interests abroad may, in exceptional cases, become overriding political considerations modifying the strict application of the above-mentioned priorities. In this connection, it is considered that United States policy and prestige demand that aid under MDAP be furnished on a substantial basis to each recipient country, with a continuing flow of such assistance to support the build-up of allied forces, as well as to prevent the further encroachment of Communism.

For the Joint Chiefs of Staff:
\textit{Omar N. Bradley}
Chairman,
Joint Chiefs of Staff.”

On 29 December 1950, in a memorandum to the Secretary of Defense, with respect to MDAP assistance to Indo-China and Formosa, the Joint Chiefs of Staff stated that:

“In view of the current military situation, it is recommended that the supply priority for Indo-China be above all other Mutual Defense Assistance Programs and that for Formosa be the same as for countries of the North Atlantic Treaty Organization.”

On 29 August 1951, the Secretary of Defense requested the Joint Chiefs of Staff to review the existing policies governing MDAP assistance and make recommendations accordingly. On 12 October 1951 the Joint Chiefs of Staff reaffirmed the established allocations priorities in a memorandum to the Secretary of Defense as follows:

“1. In response to your memorandum, dated 29 August 1951, the Joint Chiefs of Staff have reviewed the current policy concerning the relative priorities between U.S. military programs and the Mutual Defense Assistance Program (MDAP) with a view to ascertaining whether a revision of those priorities should be made.

2. The Joint Chiefs of Staff still feel that urgent measures to accelerate the delivery of MDAP matériel are required in order that the U.S. and its allies can achieve the capability of implementing the basic strategic concept for the conduct of general war. However, they are of the opinion that military assistance should, in principle, be considered as a complement to the military preparedness of the U.S.
proper. The essential military equipment needs of the Armed Forces of the United States should receive highest priority.

3. Being cognizant, however, of the importance of MDAP to the strategic interests of the United States, the Joint Chiefs of Staff reiterate their view that U.S. production should make the necessary expansion to meet simultaneously MDAP and U.S. phased requirements.

4. The Joint Chiefs of Staff encourage and support the principle of increasing offshore procurement from our present and potential allies, in order to supplement U.S. production, thus relieving the heavy commitments against U.S. industry to the extent that such offshore procurement does not adversely affect the industrial mobilization build-up necessary to achieve the objectives of our Medium Term War Plan. Support of such programs should be accompanied with appropriate allocation of essential raw materials as would not reduce U.S. production to meet the objectives of our Medium Term War Plan. It is believed that a program of this nature would:

a. Speed up deliveries of total MDAP materials.

b. Take advantage of skilled workmen in such countries as Japan and West Germany.

c. Aid in alleviating the critical dollar shortage presently experienced by some of our major allies, such as England and France.

5. Although the Joint Chiefs of Staff consider that the current priorities policy is sound, they have requested the Services to review their criteria for establishing minimum matériel needs to meet minimum U.S. requirements for national security, with a view to determining whether an increased flow of finished munitions to MDAP recipients can be effected.

6. The Joint Chiefs of Staff reaffirm the general principles for the allocation of finished munitions as set forth in paragraph 6 of their memorandum for you, dated 27 October 1950, and have taken action to explore the possibility of accelerating MDAP deliveries within the application of those principles.

For the Joint Chiefs of Staff:

Hoyt S. Vandenberg
Chief of Staff, United States Air Force.

Determination of the "minimum U.S. requirements for national security," which under the existing allocations policy holds the third position under the First Priority (directly behind (1) Korean, and (2) similar operational requirements), is the responsibility of the Joint Chiefs of Staff as affirmed in NSC 14/1 as follows:

"12. The military assistance program should be governed by the following considerations:

a. The program should not jeopardize the fulfillment of the minimum matériel requirements of the United States Armed Forces, as determined by the Joint Chiefs of Staff."

The responsibility for the administration of the foregoing allocations policy has been placed in the Joint Munitions Allocations Committee under the Joint Chiefs of Staff.

In view of the fact that the major programs of mutual assistance are for Army-procured items, an Army Allocations Committee has been operating for some time as a subcommittee of the Joint Munitions Allocations Committee. (Similar subcommittees are being set up for the Navy and Air Force.) This subcommittee meets monthly and, taking into account total assets and requirements, recommends allocations among United States forces and recipients of the Mutual Defense Assistance Program. Every item in short supply which appears in any Army mutual defense assistance program is considered by the Army subcommittee. The minutes and recommendations of this committee are submitted to the Joint Munitions Allocations Committee for approval. This allocations system is substantially the same as that used so successfully in World War II.

CONFIDENTIAL

[WASHINGTON, October 25, 1951.] The Director of International Security Affairs (Cabot) to the Director-Designate for Mutual Security (Harriman) 1

DEAR AVERELL: You and your staff have such a complete knowledge of the Mutual Security Program that it is unnecessary for me to give you any report on the state of the affairs for which I have had responsibility as I turn them over to you, and it would certainly be presumptuous for me to offer you advice. Nevertheless, I would like to record my views on a few of the major current problems.

Size of the 1953 Program. The question of how large an MSP for FY 1953 should be presented is so intimately connected with your TCC 2 decisions and with political considerations that my views are

1 W. Averell Harriman was nominated as Director for Mutual Security on October 11. He was confirmed on October 19 and sworn in on October 31. Thomas D. Cabot resigned as Director, International Security Affairs, on October 30.

2 Copies of this letter were transmitted to the Secretary of State; Frank C. Nash, Assistant to the Secretary of Defense (International Security Affairs); William C. Foster, Deputy Secretary of Defense; Najeeb E. Halaby, Assistant to the Administrator for International Security Affairs; Economic Cooperation Administration; Richard M. Bissell, Jr., Administrator, ECA; Theodore T. Tannenwald, Jr., of the Executive Office of the President; Under Secretary of State Webb; Messrs. Coolidge and Ohly of the Office of International Security Affairs; Charles M. Spofford, Deputy U.S. Representative on the North Atlantic Council and Chairman of the European Coordinating Committee; and William L. Hefner, Assistant Director, Office of International Finance, Department of the Treasury.

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perhaps of no consequence; yet this so largely affects everything else that I must at least comment. I feel that our ISAC estimates of aid requirements for FY 1953 are too low because the assumptions were overoptimistic. Lead time will require that most of the material needed to complete the MTDP in FY 1954 will have to be ordered in FY 1953. I do not feel that there is yet evidence that a limiting factor will be ability effectively to obligate (or need to finance continuous production). The MSP program should not be held down on this account unless the evidence is very good, for the losses from under-obligation far outweigh those from overobligation; on the one hand, munitions’ capacity is idled and manufacturers are given no inducement to attain maximum productivity; on the other, the principal danger is the possibility of making something which is outmoded before it is needed. The real limiting factor is what can the Administration prudently ask for and what will the Congress and the people support in an election year. Personally, I have confidence that the American people recognize the MSP as an economy measure and will support a large appropriation on the ground that this is the cheapest way we can defend ourselves.

MDAP Deliveries. I should have done something sooner to attract attention to the munitions’ allocation problem. I think the Administration is now well aware of the dangers we face if after having asked allies to take great risks to raise forces we then fail to make good on promises or implied promises with respect to delivery of arms. However, this will be a continuing problem requiring constant attention, for it will undoubtedly be difficult to get the officers who handle requisitions in our services to resist the blandishments of their own brethren in military operations.

Congressional Presentation. I think everyone agrees that the preparation of the 1951 MSP Bill needed better coordination. My feeling is that this requires strong leadership. Ted Tannenwald is thoroughly familiar with the problems and I believe Charlie Coolidge can be very helpful in the preparation as well as the presentation of the 1952 Bill. I think we erred on the side of too much testimony, much of it too general to be very effective.

Offshore Procurement. Getting a policy of offshore procurement adopted was a frustrating experience. Now that we have it you will face many difficult problems of implementation. However, the groundwork has been well prepared. I think one of your greatest opportunities will be in getting together programs for procurement within a country and using the economic effects as a lever for increased military effort. I am convinced that a leverage is possible with ratio approaching that obtainable from straight economic aid, provided the offshore procurement is presented as a package. The problem of getting the dollars received by offshore munitions’ producers actually used to
buy in the dollar area, so that the effect is the same as an equivalent amount of economic aid, the counterpart from which is used for munitions, is one which you are especially competent to attack.

*Minesweepers.* The evidence is strong that we can get substantially more minesweepers for less money by buying in Europe and at the same time help the economies of both Europe and the United States. This is a particularly favorable area for offshore procurement (ranking with ammunition in this respect), but one in which we have met substantial opposition in the Navy which wants to favor domestic shipyards which might be idle.

*Interdepartmental Coordination.* I now think I made a mistake in not limiting the attendance in ISAC and in not exerting more personal leadership (despite my inexperience). I am not sure that any formal committee is really useful. The major decisions were usually made in informal conferences and I am sure you will be most effective on major problems working at the Cabinet level.

*Backstopping the ECC.* I also made a mistake in not insisting that the Washington agencies pay greater heed to regional recommendations. I hope you can succeed in building up the regional team so that our leadership will be more effective. The way we handled infrastructure is a good example of what to avoid. I should have got early high level authority on infrastructures instead of letting dissension in Washington, and especially in the Pentagon, weaken our whole negotiating position as well as our presentation to Congress.

*Economic Aid in Asia.* In my opinion, it is unthinkable that we should abandon aid programs in that part of the world most susceptible of subversion. I can't believe the Congress intended that we should. I do believe Congress has shown preference for technical assistance, rather than straight economic aid, in the areas where there is little useful military effort. However, I think we should ask for greater latitude in next year's Bill so that we will not be in the position of stretching the law to cover what is clearly desirable.

*Military Aid to Latin America.* It seems to me we should hold to an absolute minimum aid to a region which is remote from Soviet attack and has a favorable balance of payments vs. the United States.

*Termination.* Clearly, we should continue to emphasize that aid in the European area is expected to taper off rapidly after 1954. Equally, I think we should make clear that Point IV aid is a long-term enterprise which must be continued if we are to achieve our objectives.

*East-West Trade.* I don't envy you the responsibilities imposed by the Battle Act. Harold Linder ⁴ and Miriam Camp ⁵ can be very help-

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⁴ For documentation on the European Coordinating Committee, the United States body located in London which was charged with coordinating responsibility for the Mutual Defense Assistance Program in Europe, see vol. III, pp. 1 ff.

⁵ Deputy Assistant Secretary of State for Economic Affairs.

⁶ Officer in Charge, Economic Organization Affairs, Office of European Regional Affairs.
ful on problems of East-West Trade. I have a feeling that the American public would be less unhappy if they had more information on why trade with the East helps the West. I hope there is more we can properly make public before the shipments are made and come to public attention.

Productivity. This is a project in which I am deeply interested although not really my responsibility. In my view, we have been remiss in not giving productivity greater emphasis. Especially useful are the visits back and forth of labor and industry representatives. If we can sell Europe on the fundamental advantages of a competitive and reasonably free system of enterprise, I have no doubt the standard of living there will advance soon to a level where there is no danger whatever of its being subverted.

And with these comments, I turn the reins over to you with great confidence in your ability to carry this difficult assignment well, as you have so many before. The job has been a great education for me. I don’t regret a moment of the time it has taken, but I am happy for the freedom I shall now enjoy. Good luck! I am sorry that on account of the Foreign Trade Conference in New York, I won’t be here Wednesday to wish you this in person.

Yours very sincerely,

THOMAS D. CABOT

October 31.

Current Economic Developments, Lot 70 D 467. FRC Acc. No. 72A6248

Current Economic Developments

[Extract]

[WASHINGTON,] November 12, 1951.

Interim Procedures for Mutual Security Program

W. Averell Harriman, Director of Mutual Security, has established interim procedures for the mutual security program for the immediate future so that it may be carried on without interruption.1 The arrangements are designed to make the best use of available personnel while the Director’s independent staff is being established and are subject to revision after further consultation with the agencies involved. All overseas missions have been advised that existing procedures and agency functions are to continue unchanged for the immediate future. The Chief of the Diplomatic Mission, as representative of the President, will continue to be responsible for assuring coordinated US positions and for such general direction as may be required. All existing organizational arrangements at the European regional level will also remain unchanged pending further study.

1The interim procedures were set forth in a memorandum of November 1, not printed, transmitted by Harriman to the Secretaries of State, Defense, and the Treasury, and the Acting Administrator of the Economic Cooperation Administration (FRC Acc. No. 62A618 ; ISA/MDAP Files).
A clear distinction will be maintained between Mr. Harriman’s responsibility for the supervision and general direction of the over-all Mutual Security Program, which will be carried on with the assistance of a small staff in the Executive Offices of the President, and his responsibility as head of the new Mutual Security Agency. The transfer of functions from ECA to the new MSA is to be completed by December 29, 1951.

Mutual Assistance Advisory Committee In accordance with the Mutual Security Act of 1951 the International Security Affairs Committee was terminated by Executive Order ² and in its place a Mutual Assistance Advisory Committee (MAAC) has been established by Mr. Harriman under the chairmanship of his Assistant Director for programs, Lincoln Gordon. Represented on the committee are State, Defense, Treasury, the Office of Defense Mobilization and the Economic Cooperation Administration. The committee will consider major issues involving more than two agencies. To the extent practicable it is planned to avoid permanent subcommittees but rather to establish ad hoc groups to deal with specific questions.

Basic Program Decisions The interim procedure states that the Office of the Director will be responsible for making, obtaining from the President, or otherwise assuring decisions on those questions which must necessarily precede the formation of definitive final programs as well as on preliminary decisions or planning assumptions on such questions as may be necessary to permit orderly program development, such as the use of authority to transfer funds within titles; the areas or countries in which aid is to be provided in the form of loans and the amounts thereof; and the extent and nature of bilateral agreement which must precede the provision of assistance.

Program Procedures The interim program procedures are designed to provide for the maximum decentralization of responsibility consistent with the effective execution by the Director of his responsibilities, as well as a minimum of bureaucratic process. It is emphasized that, in the development and execution of programs, there should be a full and free interchange of information among the several agencies. The agency which has the primary responsibility for the development or execution of a program is to assume responsibility for consulting with other agencies on matters within their spheres of interest, providing the Director with a program which has been fully coordinated. Differences of views between agencies are to be fully reported to the Director. The State Department will continue to be concerned with the political implications of all programs proposed, and will review all programs prior to their submission to the Director. The Depart-

ment of Defense is primarily responsible for the development of pro-
grams for military assistance and ECA is to review and comment upon
the economic implications of programs for those countries in which
a complementary program of economic assistance is to be provided.
ECA is primarily responsible for development of programs for pro-
vision of direct country economic aid, showing the amount of aid
proposed as grants and as loans, the assumptions and estimates upon
which the calculations were made, the level of defense expenditure it
is estimated the aid will enable the recipient country to support, and
the proposed uses of counterpart.
ECA will be primarily responsible for developing a plan for nego-
tiation with each Title I country, doing so in close conjunction with
the Departments of State and Defense and within a context outlined
by the Office of the Director. These plans will set forth the location
and timing of negotiation; the military, political, and economic objec-
tives; the extent and nature of commitments proposed as conditions
precedent to aid; and the extent and nature of commitment which it
is proposed to make with respect to the provision of aid. After these
plans have been approved by the Director for Mutual Security the
primary responsibility for conduct of bilateral negotiations outside
the US falls upon the US Ambassador in each country, who shall as-
sure a coordinated participation by political, economic and military
representatives as appropriate. State channels of communication are
to be used.
With regard to functional economic assistance programs under
Title I (such as strategic materials), the Director will establish the
form and procedure for the submissions after consultation with ECA.
With regard to programs for economic and technical assistance
under Titles II, III and IV, ECA is to develop and submit programs
to the Director for approval of those countries where it is to administer
the program and the Department of State for those countries where
it will do so. It has been decided by Mr. Harriman that programs in
India, Pakistan and Iran shall be handled by the Technical Coopera-
tion Administration of State. These programs will show an illustra-
tive breakdown of total funds by general project categories, the number
of experts required for each category, and a justification for the pro-
posed program.
It is intended that agencies responsible for extension of approved
programs, as a general rule, shall have freedom to deviate from the
approved plans provided the deviation does not reflect any change in
the basic program objectives or involve provision of aid in an amount
greater than the total figure approved for the country or functional
program as approved by the Director. In particular cases of special
importance or political delicacy, a more limited authority to deviate
from approved programs may be required.