

RESTRICTED

FOREIGN AID PROGRAMS--INSTRUMENTS OF NATIONAL
POLICY IN LOGISTICAL AND STRATEGIC PLANNING

2187

15 April 1949

CONTENTS

	<u>Page</u>
SPEAKER--Mr. Halleck A. Butts, Chief Economic Potential Branch, ICAF	1

(No discussion)

Publication No. L49-116

THE INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

RESTRICTED

RESTRICTED

2180

FOREIGN AID PROGRAMS--INSTRUMENTS OF NATIONAL
POLICY IN LOGISTICAL AND STRATEGIC PLANNING

15 April 1949

MR. BUTTS: I should like, before beginning the discussion of national policy and logistical planning, to make a few comments which will serve to relate our studies of economic potential, not only to the functions of the Branch, but to the mission of the College.

The studies you will pursue in Unit IX are associated with that specific part of the mission of the College described as "aspects of logistical planning, and the interrelation of such planning to strategic planning and to national policy."

Logistical planning, as defined in the Dictionary of U.S. Terms for Joint Usage, includes production, procurement, storage, transportation, distribution and maintenance of supplies and equipment, and the construction and operation of the facilities required for the support of the military establishment. It deals with the means or business of war.

Strategy deals with the planning and art of war, of how to apply resources to meet national objectives. Logistics is the utilization of national resources to meet the needs of strategic plans. Geography is one important consideration in strategy: resources, in logistics. The area studies provide the framework for logistical and strategic planning.

A nation will also use political strategy. Some forms of economic warfare, such as war trade agreements and the freezing of foreign funds, fall in this category. Both political and military strategy, if they are to be successful, must be supported by economic power.

This year, our economic potential studies will include the United States and those countries and special areas which are recipients of financial aid from the United States under the direction and guidance of the Economic Cooperation Administration. We hope to acquire such knowledge of the economies of these designated countries or areas as will permit an evaluation of their economic potentials for war, taking into account the national policies that are directing, or perhaps even determining factors.

The Foreign Assistance Act of 1948, is an example of national policy and political strategy; it requires logistical planning, and in some aspects it reflects measures of economic warfare. It is upon this subject, "Foreign Aid Programs--Instruments of National Policy in Logistical and Strategic Planning," that I shall speak this morning.

RESTRICTED

RESTRICTED

2150

Evolution of American Foreign Policy

Prior to World War II, the United States government did not support the maintenance of an international organization for world peace. The "isolationists," led by what President Wilson characterized as a small group of willful men, prevailed and after a bitter battle the Senate refused to ratify the treaty which would have brought the United States into the League of Nations. Geographic position and its vast national resources minimized its need of dependence upon other nations for its security. Furthermore, there was consistent avoidance of international obligations that would limit freedom of unilateral action or force concerted action with other nations. Walter Lippman reminded us recently that a dynamic nation cannot be an isolationist nation; that to maintain a world position, a nation must have a solvent foreign policy; and that a foreign policy cannot be solvent unless it brings into balance the nation's foreign commitments and the nation's power to meet them.

It was during World War II that the people of the United States became convinced that a peaceful world and security were possible only if based on some form of world organization. The United States, at Moscow in November 1943, joined with the Soviet Union, Great Britain, and China in recognizing the necessity for and pledging support of an "organization for the maintenance of international peace and security." The same recognition was reiterated at Tehran. The United States took a leading part in the negotiations that produced the charter of the United Nations Organization. Unfortunately, the veto power, exercised by the Soviet Union, has nullified the hope of anticipated accomplishments.

The present situation in Europe is declared potentially dangerous to our security from both political and economic points of view. Problems of reconstruction, development, and political stability in Western Europe must be solved if the countries of that large and highly developed area are to be freed from hunger, poverty, and political chaos, and again regain a full measure of freedom and independence so that they may join with other nations in contributing to peace and security. The United States has assumed the role of leadership in the solution of this problem, and its earlier objective of re-establishing Europe in its prewar pattern has been supplemented by the support of regional agreements. The London Economist commenting on this leadership said: "American isolation has lasted so long and played so heavy a role in the preparations and early stages of two world wars that its formal disappearance constitutes one of the turning points of the century."

Regional Organization

The present approach to ultimate world organization through regional organizations is regarded by many as the only practicable method and American foreign policy is now directed toward that end as a means of expanding world trade, strengthening national economies, and promoting collective security.

RESTRICTED

The Vandenberg Resolution, adopted in June 1948, empowered the Administration to favor the "progressive development of regional and other collective arrangements for individual and collective self-defense in accordance with the purposes, principles, and provisions of the Charter of the United Nations Organization."

It should be said that regional agreements are specifically authorized by Article 51 of the United Nations Charter. The Treaty of Rio, providing for the defense of the Western Hemisphere; the Treaty of Brussels, creating the Western European Union; and the North Atlantic Treaty are almost exclusively and completely military and defensive in character. The same article was authority for alliances negotiated by the Soviet Union. The Senate Foreign Relations Committee said: "The Committee believes that association of the United States with regional or other collective arrangements as affect the national security, will help protect this country and help prevent war."

In discussing regional defense blocs, two facts should be kept in mind: first, it is unlikely that such groups would have been formed in Europe had the Soviet Union faithfully observed its treaty obligations; and secondly, it is not at all certain that any grouping could be presently effective without American support. There was no consideration of western alliances or regional groupings immediately following the end of the war. For example, after World War II France refused to consider alliances in Western Europe, though General DeGaulle negotiated a treaty with the Soviet Union. Great Britain had negotiated a Treaty of Alliance with the Soviet Union in 1942, some provisions of which were to remain in effect for twenty years. Small nations thought only of strict neutrality.

Mr. Harriman, speaking of American support said that the ultimate success of our financial assistance program is contingent upon political and military support. He added that the conclusion of the North Atlantic Treaty should be followed by shipments of arms to France, by the accumulation of essential materials, and by subsidizing Europe's loss of foreign trade, should that be necessary. President Truman said: "The primary purpose of these agreements is to resist armed attacks from any quarter. We will provide military advice and equipment to free nations which cooperate with us."

These principles and aims require the formulation of specific objectives and the utilization of elements of national power--political, economic, moral, and sometimes military--to attain them.

One principal objective is the containment of the Soviet Union; another, the restoration of Europe's economy. The European Recovery Program, the American policy in Germany, the military and economic aid to Greece and Turkey, the encouragement of economic and security treaties in Western Europe, and finally, the North Atlantic Treaty, are examples of the employment of our national power and the direction of our foreign policy to gain these objectives.

European Recovery Program--Political Strategy

The underlying political purpose of the Recovery Program was revealed to Congress by the State Department in the argument that Communism could be stopped and driven back by increased production and consequent higher standards of living of the nations of Western Europe.

The fuel crisis early in 1947 gave Great Britain and the other European countries a foretaste of what might happen. Unrest and discontent were growing in France and Italy. Every country was becoming an isolated unit. It was at this crucial moment that the United States announced its willingness to make outright grants as well as loans to all European countries which would agree to cooperate in solving their recovery problems.

It should be mentioned, however, that E.C.A. funds are not the only financial aids to our national policy of logistical and strategic planning. The Secretary of State is a member of the Board of the Export-Import Bank, and its lending policies are coordinated with national policy objectives. Hundreds of millions of dollars have been disbursed by the armed forces in occupied areas for purposes of reconstruction and rehabilitation. The International Bank for Reconstruction and Development has participated on a modest scale. Private banks are advancing small sums and industry is investing in capital equipment.

The 16 European countries and 3 special areas now eligible for participation in the Recovery Program have a combined population of more than 260 million people of intelligence and culture, skilled in agriculture and industry, and desirous of self-government. We do not wish to lose their association, but unless aid is given, we probably shall. General Bradley takes cognizance of our political strategy in his testimony or comments on the implications of the North Atlantic Treaty. He said: "It must be perfectly apparent to the people of the United States that we cannot count on friends in western Europe if our strategy in the event of war dictates that we shall first abandon them to the enemy, with a promise of later liberation. It is a strategy that would produce nothing better than impotent and disillusioned allies in the event of war." It has been determined that financial aid, as an instrument of American policy, will continue until mid-1952 with the expectation that recovery will have so far progressed in Western Europe that the recipient nations may contribute to general world welfare, even to the maintenance of military defense against potential enemies. It is not expected, however, that all countries will be self-supporting. Complete success will not be achieved until there is greater political and economic stability, and this implies a considerably increased production of wealth.

Nature and Extent of Aid

A new concept of assistance in war and peace was presented by Lend-Lease and U.N.R.R.A. These methods of assistance represented a new policy, one in which recipients would render services in lieu of money repayments. They recognized a community of interest among nations in prosecuting the war and in relieving and rehabilitating its victims. The magnitude of lend-lease operations is indicated by the American write-off of about \$40 billion. Recipients of lend-lease were to supply military equipment, munitions, food, and materials, facilities, and services needed for the construction of military projects for American armed forces. Recipients of U.N.R.R.A. aid were under no obligation except to relieve distress and establish a healthy base for rehabilitation. These objectives bear striking similarity to those of the present aid programs.

Britain received a loan of \$3.75 billion early in 1946. In May 1947, Congress authorized an expenditure of \$577 million for aid to Austria, France and Italy. Political strategy was largely responsible for aid totaling \$625 million to Greece and Turkey, nearly \$500 million of which was for military purposes.

It soon became obvious that such stop-gap provisions of dollars was wholly insufficient to promote general economic recovery and political stability. Basically, the problems of the European countries were the same. If they were to recover completely from the effects of war, they needed more goods than they were able to produce or obtain in exchange for their products. Many of the items they required could be obtained only from the American continent and they possessed insufficient dollars.

The Foreign Assistance Act, effective 3 April 1948, authorized expenditures totaling \$6.1 billion for foreign aid programs for one year. European relief was allocated \$5.3 billion of which \$4.3 billion was available for outright gifts, \$700 million for loans and \$300 million reserved to guarantee convertibility of exchange for remittance of earnings on American private investments in the participating countries.

It must not be assumed, that the solution of Europe's economic plight lies alone in American financial aid. E.C.A. believes that the participating countries must invest about 20 percent of their gross national income in modernizing and improving industry, if the Recovery Program is to succeed. Direct E.C.A. aid represents only about 5 percent of the financial requirements.

Problems of European Nations

Europe's present economic position and the problems to be solved are not temporary; i.e., they are not solely the result of the war. Plant destruction can be replaced. The soil is still productive. The people retain their skills. If only these factors were involved, the major difficulties should have disappeared.

Two wars have aggravated, but have not been the direct cause of, the crisis. Between 1870 and 1938, while volume production of manufactures increased, Europe's share in world trade fell steadily. Between the world wars Europe failed to balance its foreign purchases and sales. Thirty percent of its imports were paid for by invisible earnings, particularly by income from foreign investments and shipping. All new investments ceased by 1938 and many were later liquidated. Governments, including the United States, established reserves to stabilize exchange values, notably the pound sterling, and this, together with large shipments of gold to the United States, prevented the deficit from dislocating the entire mechanism of international trade and exchange.

World War II only worsened Europe's chronic disease by destruction of the capacity to produce, by elimination from foreign markets for nearly a decade, by the loss of invisible income, and perhaps by an increasing dependence upon American supplies without repayment obligations.

Strategic Areas

A few brief observations might be made of the aid rendered to what are often referred to as strategic areas, especially the Mediterranean countries.

America has become the dominant power in the Mediterranean. As Britain withdrew, the United States had the choice of replacing British influence or permitting Soviet dominance. You will remember that Admiral Ballentine said that the United States now maintains the greatest naval force in the Mediterranean--one of our Atlantic task forces--an aircraft carrier, cruisers, destroyers and maintenance ships.

Italy, Greece, and Turkey are of such strategic importance that national policy could not wait for a complete European program before giving aid. Italy's economic independence is essential to its own political health, but because of its strategic importance, large scale assistance has been given her to prevent complete deterioration. Furthermore, American policy envisages Italy in the Western European Union as well as in the North Atlantic group.

In Greece, the question of Soviet influence is of great importance. Should Greece be controlled by the Soviet Union, the extension of Communist influence over Italy and Turkey would be facilitated. Before the war, Greece had perhaps the lowest per capita national income in Europe, hence almost no national power.

Turkey's problem stems largely from the expansionist policy of the Soviet Union. Contrary to the situation in Greece, Turkey has an industrial and agricultural economy that could be improved if the country were not forced to expend a relatively large portion of its income and manpower for military purposes.

The Council on Foreign Relations, commenting on our loans to Greece and Turkey for military purposes, spoke of them as implementing "a decision to place the strategic frontier of the United States in the hills of Macedonia and on the Bosphorous."

France was approaching bankruptcy and appeared to lack the energy to effect recovery. Because France remains potentially the greatest asset on the continent by virtue of the talent of its people and the fertility of its land and could not be allowed to fall under the domination of Soviet influence, it received the largest distribution of financial aid during the past year, more than \$1 billion. Britain cooperated by making available a pound sterling credit equivalent to \$200 million.

Strategic Materials

The resources of the Western Hemisphere, if measured against those of a potential enemy, may seem to assure overwhelming superiority. But if any part of the potential resources lie at the end of long sea lanes, the strength they will contribute must be heavily discounted.

The United States is concerned over the availability of strategic materials. It is a part of national policy and is incorporated in the financial aid programs. Each recipient country is obligated, insofar as its domestic economy permits, to facilitate the procurement of raw materials for American stockpiling. A portion of the grants in aid may be designated for exploration, development, and purchase. This extends to the colonial possessions of the European countries. Only recently E.C.A. authorized an expenditure of \$1.5 million for geological and topographical surveys in British colonial areas: Africa, Southeast Asia, and British Guiana. The U.S. Geological Survey will recruit the personnel.

The United States is now or will soon be receiving substantial quantities of graphite from Madagascar, palm oil and rubber from Indonesia, mica and sisal from British sources, mercury from Italy, and industrial diamonds from Africa.

The Munitions Board has recommended that E.C.A. not only give attention to arrangements for increasing acquisitions of strategic materials, but be prepared to give assistance in providing equipment, supplies, and technical services. The Foreign Relations Committee wishes to give Mr. Hoffman powers to seek 20-year agreements with E.C.A. countries for the development of strategic material resources. Obviously, this means a continuation of development work in colonial areas.

Effect on American Economy

Dr. Nourse, Chairman of the President's Council of Economic Advisers, said that the program of loans and grants was an investment in future purchasing power for our people. He justified any temporary contraction in flow of goods to American consumers by stating that it would reduce by a much larger amount future needs for relief or defense.

The President's Committee on Foreign Aid (a group of industrialists under the chairmanship of Mr. Harriman) and committees of government personnel working under the chairmanship of Secretary Krug, reported that their independent studies indicated that the foreign aid program would not impose undue burdens on our economy. It was then that the foreign aid programs became part and parcel of national policy and political strategy.

The Senate Small Business Committee opposed parts of the program because of the fear that Europe, once again recovered, would take away markets built up during the war. "The British Token Import Plan," whereby American manufacturers are permitted to export to the United Kingdom specified quantities of specified commodities, answered that criticism. Surely our trade is sufficiently competitive to secure its rightful share in world markets.

The general reaction to "giving away our natural resources" may be considerably tempered as the program progresses. Our exports may represent the currency with which we shall purchase equally essential goods. Our heavy demand for nickel drains another nation's resources. We are the world's greatest consumers of chrome, manganese, nickel, bauxite, petroleum and copper. We are importers of all these natural resources, and are thereby reducing other nations' resources. It is only when resources necessary to our well being and security are exported, without hope of a return of essential commodities, that trade can be said to be a drain upon our reserves. In the final analysis, export control may be employed to restrict any undue pressure of foreign demand on our economy.

The first year's program hardly did more than maintain the rate of foreign spending that had previously been supported by emergency aid appropriations, the British loan, and European reserves. Before business activity could decline E.C.A. and military orders began to flow.

The amount of goods shipped by the United States was determined largely by the domestic needs of the American economy. The total requirements of tobacco, cotton, and dried fruits were supplied from surplus stocks which hung over our market. The demands for grains, hides, meat, petroleum, machinery, and iron and steel were reduced and supplied only in part by American production. Export controls were closely geared to changes in

the domestic supply situation as to steel, nonferrous metals, crude oil, and petroleum products. Congress limited the value of farm machinery for the program to \$75 million. Offshore purchases of commodities in tight supply were authorized to such an extent that other countries contributed about 38 percent of the entire procurement program.

Some business men, while admitting the justification of the nation's political strategy--namely, to secure political and logistical support in any future conflict should peace efforts fail--were critical of the programs. They objected not only to the depletion of resources but to financing our exports by our own loans. Such action could cause a continuation of high taxes, which adversely affects domestic purchasing power. This is the contingency foreseen by Dr. Nourse. They agreed, nevertheless, that if there is any validity in give-and-take bargaining policies, surely the stronger nation should be disposed to give first. Many frankly stated that the most powerful industrial system and the leading creditor nation, should not, in good conscience, argue for protection against the weak. Are we justified in denying to ourselves and to the countries we wish to aid the advantages that will accrue to each by receiving goods and services that can be supplied more economically by others?

It is now clear to all that the program was not beyond our capabilities. The domestic demand-supply situation has improved to such an extent that they are in approximate balance, and in some lines of consumers goods it is now a buyers' market. Scrap prices have declined from \$41.00 to \$29.00 per ton.

You will remember that it was questionable whether or not our economy could make the sacrifice called for by the Recovery Program. But now, with surpluses accruing in some items, and unemployment greater than one year ago, we hear suggestions that the Program be used for dumping purposes. The flour milling industry is asking for an increase in flour shipments; the machine tool industry is criticizing the E.C.A. policy of permitting ERP countries to buy machine tools from each other; coal exporters are asking that one million additional tons of coal be sent each month; and the Independent Petroleum Association is asking that offshore purchases be reduced, since there is no shortage in domestic supplies.

Another policy, expressed in the terms of financial aid, is to guarantee that any approved American company investing in E.C.A. countries shall be able to convert its profits, and in some cases its investment, into dollars for return home. American companies are now constructing facilities, enlarging their present holdings, or joining in the capital investment of European nationals. American technical experience and advice in management and production is thus made available to those countries which wish to cooperate with us. President Truman proposed this form of aid in his inaugural address. This is something that the armed forces have desired, and such activities may tend to encourage standardization based on U.S. specifications.

Summation of National Policy Objectives

In summation, we may point to the following aspects of our foreign aid programs that indicate how they become instruments of national policy in logistical planning and political and military strategic planning:

1. They promote the political stability of individual nations, the first requisite of economic progress.
2. They permit the direction of investment in foreign countries, thus avoiding uneconomic duplication and promoting rationalization of industry.
3. They promote the coordination of the economies of a group of nations so that their aggregate economic potential for war is more effective.
4. They provide the incentive to resist domination by another country.
5. They provide an opportunity for America to project its experience in management and production to other countries, thus increasing the value of the economic and military capacities of these countries in any future common defense.
6. They support the American economy by providing an export outlet for products that can be produced in excess of domestic requirements. This means less unemployment, more technological progress and the continued operation of industrial facilities peculiar to armament industries.
7. They encourage American investments abroad in plant facilities that will utilize the natural resources of these countries and their colonial possessions.
8. They provide the means by which we shall be able to secure supplies of strategic materials and develop new sources of supply which might otherwise become available to a potential enemy.
9. They present an opportunity for influencing the standardization of armaments on American specifications.
10. They afford an opportunity for American observers to study the economy of each country, to judge accurately its potential, and to gather economic intelligence.
11. They justify the maintenance of American armed forces in certain strategic areas.

12. They enable us to better pursue the policy of containment of the Soviet Union.
13. They create purchasing power, which in turn creates world trade and the interchange of commodities, which is the best method of securing a balanced economy and world peace.

May we not conclude, because of European production now equalling and in many industries exceeding prewar levels, because of our apparent progress in securing unity of political purposes in Western Europe, and because of our own production capabilities and capacity, that Foreign Aid Programs as Instruments of National Policy in Logistical and Strategic Planning are justified.

(15 April 1949--450)