Trade and Aid

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9. Multilateralism and Regionalism
1958–1959

By 1958 the White House was clearly committed to a foreign economic policy based on the flow of public capital abroad. Despite this, strong pressures still existed in and out of government to find new methods of substituting private investment for government aid. Passage of the Cooley amendment and of the 1958 clause in the mutual security legislation requiring a study of the relationship of private enterprise to foreign policy reflected some of these pressures, as did separate studies on the same subject undertaken by the White House and the State Department. Following the recommendations contained in these studies, the administration proposed a revision of the tax laws that would allow American businesses to form a new tax entity known as the foreign-business corporation, which would be entitled to tax deferrals on foreign earnings from underdeveloped countries until such time as these earnings were repatriated in the United States. The White House also considered other tax relief proposals, including selective tax relief to cover losses incurred by original investors in foreign-business corporations; changing the method by which foreign tax credits are computed; and permitting American firms investing in an underdeveloped country to benefit from the tax inducements offered by that country to attract new capital.

Yet the Eisenhower administration opposed more radical measures proposed in Congress and supported by large elements of the business community, including tax deferral on all reinvested earnings, regardless of region, and a 14 percent reduction in taxes on all foreign income. Part of its opposition stemmed from a concern about revenue losses and a decision by the White House to limit the promotion of private investments to investment in the world's underdeveloped regions. Even with respect to the Third World, however, the White House took few initiatives to encourage U.S. investment other than to seek tax relief and propose regional banks as a way of mobilizing private capital.

Except for these proposals, then, the administration's policy remained fundamentally one of depending on public funds to achieve foreign economic development. Indeed, at the end of 1958 the administration began to seek to expand the framework of aid-giving by placing America's foreign-aid effort within a broader multilateral context and by relying more heavily than it had
on regional schemes to foster economic growth. The administration's decision to seek a greater international effort in promoting world economic development reflected new domestic and foreign-policy considerations. The White House had only recently opposed the establishment of SUNFED and had agreed to support the Monroney resolution only after the Oklahoma senator had made it clear that he did not intend the IDA to be a substitute for America's own DLF. Moreover, during the debate over the Monroney resolution, the administration had expressed doubt that other developed countries were prepared to contribute the funds needed to establish the type of multilateral soft-lending agency Monroney was proposing.

By the end of 1958, however, the White House faced growing economic problems at home and abroad, and these changed its position with regard to multilateral aid-giving. First, although conditions were improving, the United States remained in a recession that restricted its capacity to make needed dollars available abroad. At the same time, President Eisenhower feared that the recession would be followed by an inflationary spiral that would further strap the nation's ability to meet the growth needs of the underdeveloped world, although it would not do serious damage to America's own economy. Finally, the beginnings of a balance-of-payments deficit and the progress of postwar economic recovery in Europe made it seem both logical and necessary to shift some of the burden of aid-giving from the United States to the other Western industrialized nations.

There were other reasons for placing economic aid on a multilateral basis. The administration regarded the twelve months from the end of 1958 through the end of 1959 as crucial for American foreign economic policy. Walt Rostow referred to the period as "the international development year," which he described as a "make-or-break" period for the administration's programs. The future of the DLF was to be decided. The problem of sustained support for India's Second Five-Year Plan had to be faced, as did a presidential offer of economic aid to the Near East. Whatever the Arabs' response to the president's offer, this aid represented a commitment to other underdeveloped areas which could be withdrawn only at great cost. Finally, the administration needed to deal with the growing uneasiness, particularly in the Senate Foreign Relations Committee, about the scale and character of the military aid program. The administration had to establish that the problems associated with foreign economic development were not a perennial U.S. responsibility necessitating large annual expenditures but were matters requiring a vast international effort under U.S. leadership. One way to do this was to place foreign aid on a multilateral basis. Another way was to encourage regional economic development. Indeed, the administration had been considering regional schemes at least since 1955, and the Mideast crisis of 1958 made clear to the White House the regional and multilateral nature of most world problems.

Of the regional proposals the administration considered, economic development of Latin America assumed the greatest significance. Largely ignored
by the White House until the end of Eisenhower’s first term in office, Latin America had been almost totally excluded from economic assistance under the U.S. mutual security program. A series of developments culminating with a riot during Vice-President Nixon’s visit to Venezuela in 1958, however, caused the administration to review its entire Latin American policy. In 1958 the White House came out in support of a program of regional economic aid for Latin America central to which was the establishment of an Inter-American Development Bank.

For the most part Congress reacted favorably to the White House’s proposals for placing the U.S. aid effort within a broader multilateral and regional context, although it failed to act on the administration’s tax reform recommendations. As requested, the House and Senate increased U.S. participation in the World Bank and the International Monetary Fund (IMF), and approved legislation to establish an Inter-American Development Bank (IADB). Congress was less kind with respect to the White House’s annual mutual security requests, which it once again slashed heavily. But even in the case of foreign aid, the House and Senate increased the program’s emphasis on economic rather than military assistance and authorized substantial increases in the DLF for 1960 and 1961. In fact, the administration’s problems with Congress in 1959 were as much with supporters of economic assistance as with its opponents. Led by J. William Fulbright of Arkansas, a group of pro-aid senators objected strenuously to the military character of the foreign-aid program and sought long-term financing of the DLF. The final aid authorization measure represented a compromise between their views and those of the president, who protested against the method of extended financing being proposed in the Senate.

The Senate bloc that had tried to grant Treasury borrowing authority to the DLF was afraid that the administration might otherwise attempt to abolish that agency or sharply curtail its funding. Although no evidence of this exists, the White House’s reorientation of policy toward multilateralism and regionalism made any substantial broadening of the DLF’s lending power seem anachronistic. At the very least, it behooved the administration to await the results of its shift in policy before making the type of extended commitment to the DLF being proposed in the Senate. The compromise worked out in the aid authorization measure satisfied this condition while assuring a continued, and even expanded, program of economic development supported by public capital.

Efforts to Encourage Private Investment through Tax Incentives

Despite the White House’s commitment to a policy of foreign economic growth based on the flow of public capital abroad, the administration also felt obligated (and remained under great political pressure) to encourage private
investment overseas. It rejected a series of proposals to foster private foreign investment, but it agreed to support the establishment of a special tax entity that would permit deferral of taxes on foreign income. This revision of the tax laws had been recommended in studies on the role of private enterprise in foreign policy.

The first of these reports was prepared by a committee of the Department of Commerce’s Business Advisory Council known as the Committee on World Economic Practices. Although Vice-President Nixon had recommended formation of the committee in January in response to the expanded Soviet economic effort abroad, the group did not hold its first meeting until June. Headed by Harold Boeschenstein, the Committee on World Economic Practices was instructed by the White House “to frame a combined governmental and private enterprise program which will ensure the development of a sound expanding free world economic system, and which will effectively combat the mounting Soviet offensive.” Passage of the Javits amendment to the Mutual Security Act added considerable significance to these instructions.2

During the next six months the Boeschenstein Committee undertook a number of tasks, such as profiling the psychological effects of Soviet bloc activities on underdeveloped countries, querying government agencies about their efforts to foster private investment abroad, and preparing a memorandum on the nation’s existing aid and development efforts.3 In drawing up its recommendations for the White House, the committee portrayed Soviet (and Chinese) economic efforts abroad in particularly bleak terms. The committee found, for example, that Moscow was continuing to expand its program of credits and grants to underdeveloped countries at a rapid rate; in 1958 alone it extended a record $1 billion in this way. Even more disturbing was the rate of growth of the Soviet economy, which was calculated to be about 7 percent a year as compared to approximately 3 percent per annum for the U.S. economy. Equally significant gains were reported for Communist China, which also was stepping up its economic activities. This meant that both Moscow and Peking would have rapidly increasing resources to apply to their aid programs. Moreover, the Soviet and Chinese economic performances foreshadowed grave propaganda consequences for the underdeveloped countries of Asia, the Middle East, Africa, and Latin America. “At present Soviet policy calls for support of the ‘national bourgeoisie’ in these countries,” the committee concluded. Eventually, local Communist parties could be expected to make their bids for power. “In the meantime, however, much political hay can be made by supporting the present leaders in their various frictions with the industrialized West.”4

The Boeschenstein Committee stressed “the utmost importance” of utilizing private enterprise more effectively in the less developed countries in order to combat the Soviet economic offensive. To mobilize private enterprise in the United States and among its allies and to strengthen the private sector in the Third World, the committee recommended a series of reforms, including
greater use of government loans and guarantees to American businesses oper­
ating in underdeveloped countries and the establishment of local development
banks and other financial institutions. But its most important recommenda­
tions were in the area of tax reform. First the committee recommended
amending the tax codes to allow corporations to defer taxation of foreign
income until it was brought back into the United States, and then, at the
corporation’s election, to subject foreign income to a tax of 7.8 percent (the
current rate on intercorporate dividends) instead of the normal business rate.
To permit such tax deferrals a new class of business known as the foreign­
business corporation would be created. Second, the committee recommended
that investment companies be permitted to pass foreign tax credits on to
stockholders (through a tax-sparing clause). Next, it proposed allowing indi­
viduals to deduct losses on certain foreign business investments from their
ordinary income. Finally, it recommended changing the way in which the
foreign tax credit was computed in order to give businesses the advantage of
the “overall limitation” rather than the current “per-country limitation.” In
other words, for businesses operating in more than one country, it would
permit the averaging of foreign tax rates, which was not allowed under the
per-country limitation. This would amount to a reversion to procedures that
obtained before the tax codes were changed in 1954.5

Similar recommendations were contained in a State Department report,
Expanding Private Investment for Free World Economic Growth, which was
released on April 1, 1958. Authored by Ralph I. Straus of R. H. Macy’s, the
study was prepared in response to the Javits amendment to the Mutual Securi­
ty Act. Like the Boeschenstein Report, it contained numerous recommenda­
tions for expanding private investment abroad ranging from various forms of
government financial participation in private enterprise to outright govern­
ment contracting for private services. At the heart of its proposals were tax
incentives, particularly the creation of foreign-business corporations as rec­
ommended by the Boeschenstein Committee. The Straus Report also called
for tax changes that would be applicable only to investment in underdevel­
oped countries, including the recommendation that a “deduction against or­
dinary income be allowed for capital losses sustained by individual investors
and corporations (including foreign-business corporations) on their new in­
vestments in less developed countries.”6

Although the administration gave the proposals in the Boeschenstein and
Straus reports serious consideration, it opposed most of their recommenda­
tions. White House officials concluded, for example, that most of the sugges­
tions in the Boeschenstein Report already were administration policy, were
unnecessary, or were unlawful under existing statutes.7 The only proposals the
administration agreed to support or to consider further were the recommen­
dations for changes in the tax laws, particularly the establishment of foreign­
business corporations. Even in this case, however, the White House re­
sponded as much to outside political pressures as to any other considerations,
and it narrowly defined the terms under which it would agree to the creation of this new tax entity.

In Congress the House Ways and Means Committee held hearings in December 1958 on private foreign investment, and there business leaders expressed overwhelming support for tax incentives for American businesses operating abroad. In January 1959, Representative Hale Boggs of Louisiana incorporated the various tax proposals into an omnibus tax bill, H. Rept. 5. As chairman of the Ways and Means Subcommittee on Foreign Trade, Boggs had become the leading congressional proponent of tax reform and was largely responsible for the December hearings on private foreign investment, at which he sharply criticized the White House for not coming up with specific tax reform recommendations.

In H. Rept. 5, Boggs proposed to do what he accused the Eisenhower administration of failing to do. Otherwise known as the Foreign Investment Incentive Act, the bill contained six major changes in U.S. tax laws: (1) the establishment of foreign-business corporations; (2) a 14 percent tax reduction on foreign corporate income; (3) the reestablishment of the overall limitation on foreign tax credits; (4) the granting of tax credits in return for tax sparing by foreign countries; (5) the liberalization of restrictions on tax-free transfers of property to foreign corporations; and (6) nonrecognition of gain upon the involuntary conversion of the property of foreign subsidiaries (such as through insurance payments on destroyed property). Boggs emphasized that the provision for the establishment of foreign-business corporations was the “cornerstone” of his legislation.

In December the Treasury Department had expressed opposition to the formation of foreign-business corporations. Testifying before the Ways and Means Committee, Dan Smith, a Treasury deputy in charge of tax policy, pointed out that the establishment of such corporations would mean an indefinite exemption of foreign business operations from taxation. Upon receipt of the Boeschenstein Report in January and with advance knowledge of the Straus Report, however, the administration decided that, given the growing demand for incentives to encourage American business abroad, it had to make some tax reform proposals. In February, Clarence Randall organized a special committee consisting of Lewis Strauss (whom Eisenhower had named to replace retired Commerce Secretary Sinclair Weeks), Treasury Secretary Robert Anderson, and Deputy Undersecretary of State Douglas Dillon to review the tax proposals contained in the Boeschenstein Report and to offer comments on the Boggs legislation. In March the committee recommended that, subject to overriding budgetary considerations, the tax laws be amended to permit corporations to defer taxes on foreign income until it was brought back into the United States.

On the basis of this recommendation the White House announced in May 1959 that it would support legislation to allow the formation of foreign-business corporations. But unlike the proposals contained in the Boggs leg-
islation and, for that matter, in the Boeschenstein and Straus reports, the administration’s recommendations would apply only to corporations that derived “substantially all of [their] income from investments in one or more of the less-developed areas of the free world.” In other words, it would not include income from Europe or Canada, where almost half of the United States’ total private investments overseas were located. In a letter to Wilbur Mills, chairman of the Ways and Means Committee, Treasury Secretary Anderson explained the administration’s rationale for limiting the benefits of the foreign-business corporation to Third World nations in terms of fiscal necessity. But Anderson also disputed the widely held claim that private investments in industrialized nations would eventually encourage investments in underdeveloped areas as well. “Even if this should occur to some extent,” he added, “it would seem to be an insufficient means of stimulating economic growth in the less developed areas [since] a relatively small amount of capital is required to put a laborer to useful work as compared with the situation in the highly industrialized countries.”

For much the same reasons the White House also opposed the proposal to permit a 14 percent general tax reduction on all foreign corporate income. In 1954 the administration had supported such a provision, which U.S. enterprises operating in South America had enjoyed under the Western Hemisphere Trade Corporation Act since 1942, and during the next four years Commerce Secretary Weeks (who returned to private business in 1959) had continued to advocate the reduction as essential to encouraging American investment abroad. But fiscal considerations and the desire to direct the flow of private capital toward the less developed areas of the world led the administration to oppose the recommendation when it was made again to Congress in 1959. Because of similar considerations, the administration also raised objections to the other provisions in H. Rept. 5, although it expressed willingness to consider amended versions of the tax-sparing and overall limitation proposals and the proposal not to tax proceeds from the involuntary conversion of foreign properties.

The Boggs legislation failed even to be reported out of committee. In hearings on the measure in July, the Treasury Department emphasized the excessive tax losses that would result from a world-wide tax deferral program, while the Department of State stressed the need to direct private investment into the underdeveloped countries of Asia, Africa, and Latin America. Backers of the legislation disputed these arguments, but the conflict over tax deferral kept the bill in committee throughout 1959, even though Boggs agreed to drop his other major proposal for reducing the maximum corporate tax on all foreign income from 52 to 38 percent. The fact was that the White House had never been enthusiastic about any of the provisions for encouraging private investment abroad. It had endorsed the creation of foreign-business corporations largely in response to growing political pressures, and although it favored increasing the flow of private capital overseas, it realized
it would have to continue to rely primarily on public assistance to promote economic growth in the Third World. More important to the administration than tax reform, therefore, were its programs for broadening the framework of aid-giving.\footnote{15}

**Multilateralism and Regionalism**

Motivating the administration toward a multilateral program of foreign aid was the persistent depression of 1958. Unemployment, which had hovered around 4 percent since 1954, reached 7 percent by mid-1958 and remained high throughout the rest of the year. Private investment, as measured by such factors as inventory levels and purchases of producers' durable equipment, increased, but it also remained in a slump. Under these circumstances President Eisenhower believed the federal government had to limit its expenditures as much as possible. The president was also worried about the likelihood of postrecession inflation, which he believed posed the greatest potential danger to the nation. This fear increased the pressure on the administration to modify and moderate its spending plans in all areas, including foreign aid. Similarly, a balance-of-payments deficit and a subsequent loss of gold, including $2 billion in 1958 alone, were becoming matters of growing concern, although they were not yet regarded by the White House as critical. Any spending program that appeared to increase inflationary pressures in the United States would increase foreign pressures on the dollar and on U.S. gold reserves. Larger foreign outlays would also contribute directly to increasing the nation's payments deficit.\footnote{16} At the same time, White House officials realized that Western Europe was now better able, relative to the United States, to carry some of the responsibility for world economic development. Having almost fully recovered from the ravages of World War II, the West European countries were enjoying unprecedented prosperity, and the administration felt it should share with these industrial powers more of the responsibility for maintaining world economic growth.\footnote{17}

One way to do this was to increase the resources of the World Bank and the International Monetary Fund (IMF). After a slow beginning, the Bank had expanded its long-term lending program from a level of $350 million in 1950 to over $750 million by 1958. By the fall of 1958 it had invested $3.8 billion in development projects in forty-seven countries, mostly in the Third World. It had also established the IFC to make loans (without government guarantees) to private enterprise, and its president, Eugene Black, had expressed interest in the creation of an IDA as a third window of the Bank.

The IMF had gone through an even more protracted transition than the World Bank, largely due to the fundamental disequilibria that existed in the international economy and the fact that the dollar was the only fully convertible currency. Not until the Suez crisis of 1956 did the Fund, which had stopped all lending with the inauguration of the Marshall Plan in 1948, resume lend-
ing. That year it approved a stand-by credit of $738 million for England to pay for oil imported from the Western Hemisphere. By 1958 the Fund had extended short-term loans of $3 billion to thirty-five countries. Of that amount $1.8 billion had been advanced in the last two years and another $900 million had been set aside for other stand-by commitments.18

At the end of August, Treasury Secretary Anderson recommended to the president that the United States propose at the upcoming New Delhi meeting of the Bank and the Fund that the quotas and capital of these two institutions be increased and that the establishment of a soft-lending agency as proposed by Senator Monroney be pursued further. In his letter to the president, which the White House made public, Anderson commented that it seemed desirable that the free world cooperate in assuring the economic growth and progress of the less developed countries and that one of the best ways of achieving cooperation in this effort would be to strengthen existing financial institutions. “In the International Bank for Reconstruction and Development and the International Monetary Fund we have seasoned international instruments now engaged in this work,” he told the president.19 Eisenhower agreed with Anderson’s recommendations to increase the quotas and capital of the two institutions and instructed him to make them at the meeting of the Bank and the Fund, which was scheduled to begin in October. He also asked the treasury secretary to undertake informal discussions with the other members of the Bank to determine their reaction to the establishment of an IDA. If the response was favorable, Anderson was to initiate negotiations to create the institution.20

The president’s decision to seek expansion of the World Bank and the IMF was, however, only one aspect of what Business Week described as a “more vigorous and flexible foreign economic policy now being launched by the Administration.”21 The White House also began to place greater emphasis on regional efforts to promote economic growth. It had been considering such a regional approach since the administration first proposed a special Asian economic fund in 1955. In 1956 the CFEP had established a special committee to study the effects of regional economic integration on U.S. trade and other economic interests. Although the council had devoted most of its attention to plans for establishing a Common Market in Europe, it had also considered the question of economic integration in less developed areas. In September 1956 the council had given qualified approval to regional trading schemes among underdeveloped nations. The less developed countries, particularly the Latin American countries, it commented, “have been engaged in discussions among themselves and in international organizations regarding the promotion of regional trade liberalization and economic integration as a means of facilitating their economic development.” According to the council, the United States was sympathetic to the formation of customs unions and free-trade areas so long as they met GATT standards or warranted the granting of a waiver by GATT,
but it was unsympathetic to preferential agreements among underdeveloped countries which favored those countries' products.22

In 1957 Clarence Randall had formed a special interagency committee to study the specific question of regional economic integration in Southeast Asia.23 Although in 1955 Harold Stassen had favored some kind of regional organization to dispense foreign aid, nothing had materialized from these plans, and aid continued to be granted on an individual basis. Asian leaders themselves saw disadvantages in funneling aid through a regional organization so long as it was needed exclusively for internal projects.24 When Randall returned from a trip to Asia at the end of 1956, however, he was convinced that in addition to maintaining bilateral relations, the United States needed to promote a program of regional economic cooperation. The special assistant to the president pointed out that he did not have in mind so much the establishment of new international agencies as the effective coordination of existing regional activities. By the summer of 1958, however, the committee he had established was considering a number of proposals to bring about greater regional unity, including the formation of an Asian Chamber of Commerce and the creation of domestic Asian financial institutions.25

Thus, even before 1958 the administration had seriously considered regional schemes for economic development. By accentuating the regional nature of most world crises, the disorders in Iraq, Jordan, and Lebanon in the summer of 1958 increased the tendency within the White House to perceive the problem of economic development as a regional one. The crisis in the Mideast also led the president to propose to the United Nations the establishment of an Arab development institution. Eisenhower did not believe that regional development programs were appropriate everywhere, but he did think that they were useful in areas having common interests and needs, and he made it clear that the White House intended to encourage more area-wide economic schemes, such as for the Middle East. “I think that this whole proposition of dealing with areas sometimes, because the problems transcend national boundaries, must be one that we have got to look at more closely than in the past,” he commented at a news conference a few days after his UN speech. “In the economic field,” he concluded, “we have dealt completely on a bilateral nationalistic basis, and I think that possibly there is coming about a reason, like the Mid-East and others, where we might be better advised to attempt to use some collective organization.”26

**Latin American Development**

Of the regional schemes considered by the administration, however, the one that received its highest priority was that for Latin America, not the plans for the Middle East or Southeast Asia. Despite increased Eximbank lending following the dispute in 1954 over the Bank’s lending policy, the U.S. govern-
ment had remained largely unresponsive to the area's economic demands. Because of the oil and other mineral resources of Latin America, private investment had been significantly higher in this region than in other underdeveloped areas. Overall, poverty was not as great there as elsewhere, and the Soviet economic challenge was not as threatening. The White House continued to believe that the most pressing needs of Latin America could be met by the private sector working in cooperation with the Eximbank and the World Bank. Hardly any public economic assistance had been extended to Latin America, even under the Mutual Security Act, although substantial military aid had been provided. This disturbed a number of congressmen who believed that U.S. money and equipment were being used merely to keep corrupt regimes in power.27

Beginning around 1956, however, the White House had begun to alter its policy as the National Security Council (NSC) issued a revised directive on Latin America (NSC 5163). One reason for this change was the failure of private enterprise to invest in Latin America as the administration had expected. In 1955 the CFEP had estimated that U.S. capital contributions to Central and South America would have to be stepped up by more than 50 percent between 1955 and 1958 if they were merely to maintain the same rate of growth. Thus, by 1958, contributions would have to reach $700 million a year; to give any added impetus to Latin American development, they would have to increase even more. But while reinvested earnings from private sources increased from $152 million in 1953 to an estimated $193 million by the end of 1954, direct private investments actually dropped from $93 million to $82 million during the same period. Clearly the private sector was not meeting the growth needs of Latin America; most investments went to a few countries in South America and were largely confined to the raw-materials sector of the economy.28

An even more important factor in convincing the administration to review its Latin American policy was its fear of Soviet economic penetration of the Western Hemisphere. Simply stated, the problem was that the Soviet Union was extending its economic offensive to Latin America in an effort to strengthen its ties with the region. This was particularly evident in the area of trade, which, while remaining modest, increased enough to cause the State Department considerable concern. Exports from Latin America to the Soviet Union and Eastern Europe had jumped from about $40 million in 1953 to almost $150 million in 1954 and $180 million in 1955, and imports had increased from just under $40 million in 1953 to $100 million in 1954 and $160 million in 1955. Given these developments, the State Department noted "an urgent need for modification and reorientation in the [nation's] existing policy toward Latin America" and thus requested the NSC review.29

Conducted in the spring and summer of 1956, the review hardly resulted in major improvements in existing policy, however. In fact, it contained at least one directive that, if carried out, would only exacerbate U.S.-Latin American
relations. "If a Latin American state should establish with the Soviet bloc close ties of such a nature as seriously to prejudice our vital interests," the directive read, the United States should "be prepared to diminish government­
tal economic and financial cooperation with that country, when such action seems likely to weaken the Soviet ties." Yet the NSC did call for a more sympathetic response to Latin America's economic needs than was implicit in exist­
ing policy. It proposed, for example, that the administration expand inter-
American trade by resisting efforts to limit Latin American exports to the United States. This was obviously a response to the earlier unsuccessful at­
ttempts by Congress to impose duties on lead, zinc, and tuna, much of which came from Latin America. The NSC also directed that the United States reduce existing trade barriers over the next few years. More important, it called for greater flexibility in extending credits to Latin America through the Ex­
imbank. Under existing policy, the Eximbank could consider a loan applica­
tion from a Latin American country only if funds were not available from the World Bank or from private sources. This requirement tended to restrict ap­
plications for economic development loans. In the new directive, the reference to the World Bank was deleted, although that to private sources remained.30

Although the recommendations contained in the NSC report were aimed at improving relations between the United States and Latin America, they failed to bring about any positive change. If anything, relations actually deteriorated during the next two years as Latin America experienced a serious recession, which it attributed in part to U.S. policy, and as the administration focused most of its attention on the Mideast crisis. President Eisenhower's decision to place quotas on imports of lead and zinc following a Tariff Commission re­
port of serious injury to these industries stateside also hurt U.S.–Latin Ameri­
can ties.31 Nor were relations helped much by the administration's continued resistance to demands for increased economic assistance for the region. At the Inter-American Conference in Buenos Aires in 1957, the United States joined with Latin American countries in recommending that a study be undertaken of the problems of financing economic development, including the formation of a regional development bank, but the U.S. delegation opposed any effort to establish a Latin American development fund or to strengthen national develop­
ment corporations.32 A few months later, Undersecretary of State Herter even advised against the adoption of a proposal by Assistant Secretary of the Interior Ross Leffler to hold a Western Hemisphere Conservation Confer­
ence. "In the current context of our relations with Latin America," Herter told Leffler, "conferences and action programs emanating from them generally look towards and constitute pressures for additional financial and technical assistance directly or indirectly from the United States Government. Budge­
tary and other considerations counsel against adding to such pressures at this time."33

In fact, the first move to increase the flow of public capital to Latin America came not from the administration but from Congress. Accusing the White
House of backing reactionary regimes in Latin America, of being subservient to American business interests in the region, of stifling social reform, and of not providing the region with adequate economic aid, a group of senators led by George Smathers of Florida amended the 1956 foreign aid bill to make available to Latin America a small amount of money for medical and other social purposes. Eventually the administration allocated $15 million for such projects. Similarly, when Congress established the DLF in 1957, it specifically included Latin America as a region to receive DLF funds.

It was the riot during Vice-President Nixon’s trip to Venezuela in 1958, however, that finally persuaded the Eisenhower administration to support a regional economic and development program for Latin America. The treatment accorded Nixon in Caracas had a decisive impact on administration policy. As Samuel Waugh, head of the Eximbank commented, Nixon’s trip to Latin America “brought into sharp focus” the problems confronting the United States in the region. Business Week reported that while the previous year Washington had treated the Latin Americans’ meeting in Buenos Aires to consider economic matters as just one more meeting, now “Washington ha[d] to take action.”

The administration chose to back a regional program for Latin America known as “Operation Pan America,” central to which was the establishment of an Inter-American Development Bank (IADB). Although the newly elected president of Brazil, Juscelino Kubitschek, had suggested the concept of “Operation Pan America” to Eisenhower as early as 1956, nothing had developed from the talks between the two men. Following Nixon’s return from Latin America in 1958, however, Kubitschek wrote to the president suggesting the need for a review of the United States’ Latin American policy. The Brazilian president did not make specific recommendations for improving Pan-American understanding, but Eisenhower sent Assistant Secretary of State Roy Rubottom, Jr., to Brazil to begin exploratory talks with Kubitschek. These negotiations were followed in July by a visit from Secretary of State Dulles, who proposed to the Brazilian leader the formation of a regional development bank.

The establishment of a hemispheric banking institution had first been proposed by Secretary of State James Blaine at the First International Conference of American States in 1889, and for more than sixty years Latin Americans had sought such an institution. Most recently, President Perez Jiménez of Venezuela had offered to contribute $33 million if the United States would agree to participate in a regional bank or a development fund. But the United States had consistently fought the proposal, both because it generally opposed providing development aid to Latin America and because the concept of regional financial institutions conflicted with its policy of bilateral control of aid funds. As part of its new regional orientation, however, the administration began to reconsider its position. Regional banks now appeared to offer an effective way of encouraging development on an area-wide basis. By making
loans and technical aid available, they also provided an attractive means of mobilizing domestic and foreign capital investments in Third World countries.

Thus the administration probably would have supported a regional bank for Latin America even if Vice-President Nixon had not met with such a violent reception in South America. Certainly the president's backing for a bank in the Near East at about the same time would have made it extremely difficult for him to deny such a bank for Latin America. Still, as former Secretary of State Dean Acheson made clear before the House Banking and Currency Committee, there was no doubt that the impetus for proceeding with the bank proposal in the summer of 1958 was Nixon's hostile reception in Caracas earlier that year. In proposing the IADB to President Kubitschek in July, Secretary of State Dulles had to use considerable persuasion, for the Brazilian president had initially been cool to the idea of a Latin American lending institution. Kubitschek became one of the bank's strongest proponents, however, after Dulles pointed out to him that it might limit its activities to major development projects of the kind Brazil was emphasizing. Having gained the backing of the Brazilian president, the United States announced its support for a regional bank at a meeting the next month of the Inter-American Economic and Social Council.

The administration's endorsement of the IADB by no means implied that the United States was about to undertake a massive program of economic assistance for Latin America. For one thing, the White House intended to keep the size of the proposed new institution small. For another, the administration was not prepared to back other economic goals being sought by Latin American leaders, such as the creation of a preferential trading area or the adoption of price stabilization measures for Latin American products. Nevertheless, by backing the IADB, the United States committed itself to a program of regional economic development. In this respect the proposed institution would be a "borrowers' bank" rather than a "lenders' bank." In contrast to the World Bank, on which it was otherwise closely modeled, the IADB would be controlled by the capital-importing countries, which together would contribute more than half of its initial working capital and have more than half of its voting power. Consequently these countries would control the formulation of policy and the distribution of loan funds.

The White House displayed a new interest in the economic and political problems of Latin America in other ways as well. Although the administration refused to accept price stabilization schemes for Latin American goods, the president agreed to give the matter further consideration. More important, in the fall of 1958 Eisenhower sent his brother Milton, an authority on U.S.–Latin American relations who had visited South America in 1953 at the request of the president, on a good-will trip to Central America. Early in 1959 the president also created a National Advisory Committee on Inter-American Affairs headed by Christian Herter. Later Eisenhower presented to a special
committee of the Organization of American States a broad program of reforms that included proposals for increased trade; the establishment of common markets; and social development projects, involving, among other things, the construction of low-cost housing.

Following the administration's announcement that it would support the establishment of a development bank for Latin America, a special committee of the Inter-American Economic and Social Council drafted a charter for the bank. The major problem facing the committee was the conflict between Brazil and the United States over the size of the new institution. In the words of Treasury Secretary Anderson, the United States was determined that the bank should have "relatively modest beginnings." The administration hesitated to make the IADB too large for fear that U.S. control over bank funds would be limited and that the bank might otherwise infringe upon the Latin American lending activities of the Eximbank and the World Bank. Washington thus proposed an initial capitalization for the IADB of only $850 million, with the United States contributing $400 million. The bank's capital would consist of $700 million for ordinary loans and $150 million for soft loans. Brazil responded by urging a total capital of $5 billion. Later it modified its position by proposing an initial capitalization of $2 billion for ordinary loans and a special fund for soft loans.

Under considerable pressure from the United States, which warned the drafting committee that the U.S. Congress was unlikely to approve the charter during the current session if it was not completed by the end of March, the committee finally agreed to a compromise worked out by the administration. According to this agreement, the initial capitalization of the bank was set at $1 billion, to which the United States would subscribe $450 million, $250 million of which was to be paid in installments and $200 million in callable capital. Of the $1 billion, $150 million would be set aside for a Fund for Special Operations, which would make soft loans; $100 million of the United States' subscription would be designated for this fund. The charter also specified that an additional $500 million would be added to the callable capital after all installments of initial paid-in capital had been made and provided the increase was approved by three quarters of the members represented on the board of governors. This gave the United States a veto over any increase in bank funding, but as even President Eisenhower conceded, it left Washington morally obligated to subscribe approximately $200 million more in callable capital after three to five years.

Congress and the Reorientation of Administration Policy

For the most part Congress approved of the White House's efforts to promote economic growth abroad on a multilateral and regional basis. In May 1959 Eisenhower presented the draft agreement for the IADB to Congress with the recommendation of the NAC that the United States participate as a
The House and Senate received the administration's proposals warmly. In hearings before the House Banking and Currency Committee, Representative Henry S. Reuss of Wisconsin, a Democrat, remarked that the strongest criticism he could make of the legislation was that a similar bill had not been presented to Congress three or four years earlier. In the Senate, Foreign Relations Committee member Wayne Morse, an outspoken critic of the administration's mutual security recommendations, led the support for the measure, noting that the United States had too long taken Latin America for granted. In July the House and Senate passed identical bills approving U.S. membership in the IADB and adding only a minor amendment to tighten congressional control over the financing of the bank.

Likewise Congress easily passed administration-sponsored legislation to increase America’s subscriptions to the World Bank and the International Monetary Fund. In October the White House asked members of the Bank and Fund who were meeting in New Delhi to raise the quotas and capital of the two institutions and to consider establishing a soft-lending affiliate of the Bank. The members agreed to increase the Fund quotas of most countries by 50 percent. They also agreed to raise the total authorized capital of the Bank to $21 billion and to increase the subscription of the present members by 100 percent. This amounted to a new commitment on the part of the United States of $1.375 billion for the Fund and $3.175 billion for the Bank. As a contingent liability only, the increased capital subscription for the Bank required no immediate expenditure of funds, but the revised quotas for the Fund necessitated an outlay of $344 million in gold and $1.031 billion in non-interest-bearing notes. In June, Congress passed the necessary legislation approving the World Bank increase and the new appropriation for the Fund. After a brief and partisan debate over whether the money for the Fund should be charged to the fiscal 1959 budget (which the president wanted) or to the 1960 budget (which would have left the budget unbalanced, as the Democrats wanted), the House went along with the president's request and the Senate conceded to the House's position.

Congress and the Struggle over Mutual Security Legislation for 1960

Despite the reorientation of its policy toward multilateral and regional means of dealing with the problems of world economic growth, there is no evidence that the Eisenhower administration ever intended to abandon its own aid program. So long as fear of Soviet expansion dominated administration planning, the White House would emphasize the importance of expanding its own economic activities overseas. In 1958 the administration thus recommended an increase in the lending authority of the Eximbank from $5 billion to $7 billion, and Congress approved it. Similarly, in testimony before the House Banking and Currency Committee in support of U.S. member-
ship in the IADB. Deputy Undersecretary of State Dillon remarked that at some point in the future the United States might even use the DLF to augment the IADB’s Fund for Special Operations.52

The Eximbank was a hard-lending institution, however, whose borrowing authority came directly from the Treasury Department and therefore did not require annual congressional appropriations. Its operations were also not the kind that particularly concerned most proponents of economic aid, who sought public assistance mainly through grants and soft loans. In contrast, the DLF, a soft-lending institution, was subject to the rigors and uncertainties of regular congressional authorizations and appropriations. The DLF’s uncertain status concerned a number of senators because they were worried about the effects the administration’s new policy (which they nevertheless generally supported) would have on the fund and because they believed that the White House had not sufficiently emphasized the kind of economic aid provided by the DLF when preparing its mutual security program. To remedy this situation they proposed a substantial increase in the size of the DLF and long-term Treasury financing of the kind enjoyed by the Eximbank.

The administration rejected these proposals, however. Notwithstanding its apparent intention to maintain and perhaps expand the size of the DLF, the White House was not prepared to make the type of commitment to the fund currently being proposed in the Senate until its new economic policy had been tested. President Eisenhower also objected in principle to Treasury borrowing as a means of avoiding the regular appropriations process. As a result, the struggle for foreign aid in 1959 pitted the administration as much against the proponents of economic aid as against its opponents. The final bill that came to the White House was a compromise between the Senate and administration versions of the mutual security legislation, although it incorporated a substantial increase in economic assistance and reflected in part the reform proposals of a group of senators led by J. William Fulbright.

Fulbright and all but one of the Democratic members of the Foreign Relations Committee (the exception being Russell Long of Louisiana), as well as Republican William Langer of North Dakota, had expressed displeasure with the existing foreign-aid program in a letter they sent to President Eisenhower at the end of August 1958, shortly after passage of the mutual security appropriations bill for 1959. Released to the press by Fulbright on September 8, the letter noted “a serious distortion” of the amounts of economic and military assistance going to Third World countries and urged the president to correct the situation.53 Eisenhower responded that the proportion of military aid to economic aid had been reduced since he took office. Adding that enlargement of the nation’s economic programs in 1959 “would of course further decrease the military proportion,” he also noted that in view of “the threatening posture of the Sino-Soviet bloc” and the increasing costs of modern weapons, future reductions in military expenditures would require “a most careful weighing before they could be seriously contemplated.”54
Eisenhower nevertheless believed that the issues raised by the senators warranted another study of the mutual security program, despite the fact that several major studies had been completed less than two years earlier. It was his intention that the new examination concentrate on the military aspects of the mutual security program, but he knew that these could not be separated from the economic questions posed in the Foreign Relations Committee’s letter to him. Enclosing a copy of the senators’ letter in his letter to William H. Draper, Jr., chairman of the board of the Mexican Light and Power Company and a former undersecretary of the army, the president asked Draper to head a committee of nine civilians and former military commanders to study “all relevant aspects of U.S. international security programs.” “I am especially interested in your committee’s critical appraisal . . . of the relative emphasis which should be given to military and economic programs, particularly in the less developed areas,” the president concluded.55

On March 17, 1959, the Draper Committee delivered the first of three interim reports to the president. By this time Eisenhower had presented his mutual security requests for 1960 to Congress in a message that, perhaps better than any other, described his view of the Soviet design for world conquest. “[There is] loose in the world,” he said, “a fanatic conspiracy [that in the past forty years has] seized control of all or part of 17 countries, with nearly one billion people, over a third of the total population of the earth.” At the center of this conspiracy, the president continued, was the Soviet Union, which through ruthless means had made itself the second military and economic power in the world and which was prepared to resort to any means, including economic coercion, to intensify world unrest. Moreover, Communist China was displaying the same ruthless drive for power. “Communism masquerades as the pattern of progress, as the path to economic equality, as the way to freedom from what it calls ‘Western imperialism,’ as the wave of the future.” It was therefore incumbent upon the free world, the president concluded, “to convince a billion people in the less developed areas that there is a way of life by which they can have bread and the ballot, a better livelihood and the right to choose the means of their livelihood, social change and social justice—in short, progress and liberty.” To meet the threat of international communism, Eisenhower proposed a mutual security program for fiscal 1960 of $3.9 billion, or about the same as the previous year’s request but $600 million more than was finally appropriated. Among his recommendations were $1.6 billion for military assistance, $835 million for defense support, and $700 million for the DLF, which were, respectively, $85 million, $85 million, and $300 million more than Congress had appropriated for fiscal 1959.56

Like the president, the Draper Committee emphasized the international Communist conspiracy facing the free world. Remarking that the Communist military threat was greater than ever before, the committee proposed that an additional $400 million in military assistance be made available for new commitments, primarily in the NATO area.57 Eisenhower called the report a
“top flight document” and told Draper he had already ordered the White House staff to review its recommendations. However, the president decided to defer until 1960 any decision on whether to recommend an increase in the size of the military assistance program.58

As Eisenhower realized, any increase in the total amount requested for the mutual security program would only diminish the bill’s chances of being passed by Congress.59 Indeed, in submitting his foreign-aid request for 1960, the president was aware that its legislative prospects were already grim. Herter told him that a poll of congressional opinion indicated that opposition to the aid program was more widespread and vigorous than at any time in the past. By now Eisenhower was accustomed to such bleak forecasts, having heard them practically every year since becoming president. As Herter pointed out, however, there were this time, in addition to those who normally opposed the program, a number of other congressmen who favored large cuts for purely political reasons having to do with the administration’s domestic spending programs and its decision to undertake no new public-works projects during the next fiscal year. Moreover, 1960 was a presidential election year, and several key senators, including Fulbright and Majority Leader Johnson, had presidential ambitions that were bound to shape the fight over foreign aid. In the absence of another major effort by the White House or some world crisis, Herter predicted, the final aid appropriation for 1960 would be around $3 billion or less.60

Some of the difficulty the administration’s program would encounter, especially during the appropriations process, became evident almost immediately after the president submitted his proposals to Capitol Hill. On March 19 the House Appropriations Committee rejected a supplemental appropriation of $225 million for the DLF. When Congress had approved the mutual security appropriation bill for 1959, giving $400 million to the DLF, Eisenhower had indicated he would return to Congress during the next session for a supplemental appropriation. In his budget message in January 1959 he thus asked for an additional $225 million for the DLF to bring the fund’s capitalization to the amount originally recommended for 1959. Despite the president’s insistence that the funds were needed to keep DLF loans from drying up, the Appropriations Committee rejected the supplemental request, later agreeing to restore only $150 million of the amount the president had sought.61

The aid authorization measure approved by the House reflected a $367 million cut in the White House’s requests, or about a ten percent reduction in military aid, defense support, and special assistance. Even in the House, proponents of foreign aid made clear their displeasure with the military emphasis of the existing program. The Foreign Affairs Committee, for example, added $100 million to the president’s request for the DLF. Although this was cut on the House floor, several other revisions made by the committee in an effort to place more emphasis on economic assistance were approved by the House and sent to the Senate. Among the most important of these was a provision re-
quiring the American ambassador in a country receiving military aid to “make
sure the recommendations . . . are coordinated with political and economic
considerations.”

The most serious opposition to the administration’s program, however,
came in the Senate, which in the past had routinely gone along with the pro-
gram before subjecting it to the appropriations process. The opposition in-
cluded not only opponents of foreign aid but the same group of senators who
had written to the president in August to complain of the program’s military
emphasis. Nothing the White House had done in the interim had changed
these senators’ belief that the direction and guiding principles of the program
were wrong. In a speech to the Senate in April, while the aid legislation was
still in House committee, Senator Fulbright proposed a series of amendments
to the measure that would alter the balance between military and economic
assistance, including an increase in the capitalization of the DLF to $1.5 bil-
lion a year for five years. Other amendments offered by Fulbright provided for
a new Mutual Security Act policy statement stressing the common interest of
the United States in strengthening the independence and well-being of other
nations; a statement that military aid to underdeveloped countries should be
programmed “according to the principle that economic development needs
shall have first call on the resources of such countries”; presidential authority
to shift up to 30 percent of military aid funds to nonmilitary uses; and specific
authority for American ambassadors to coordinate military aid proposals
with political and economic considerations.

Of the Fulbright proposals the most important was the one to increase the
capitalization of the DLF and place it on a long-term basis. A number of
senators joined Fulbright in cosponsoring this measure as well as his other
proposals for reforming the mutual security program. Mike Mansfield of
Montana, who had his own amendments to offer, but who supported Ful-
bright’s goal, summed up the doubts and misgivings of many senators. The
uneasiness in Congress over the foreign-aid program was “not a whim out of
the blue,” he remarked. Nor did it represent a retreat from international re-
sponsibilities. “The uneasiness is over the way the concept of helping others
and fulfilling our international responsibilities is being translated into
action.”

The Fulbright amendments, particularly the one for long-term financing of
the DLF, placed the White House in an awkward position. On the one hand,
when it first proposed the establishment of the DLF in 1957, the administra-
tion itself had advocated long-term Treasury financing of the agency. On the
other hand, the president was increasingly concerned about the need for
budgetary restraints. Moreover, he believed that his own requests for in-
creased funding for the DLF, along with the other measures he had taken to
promote economic development on a multilateral basis and to expand the
lending activities of the Eximbank, were sufficient to meet the capital needs of
Third World countries. Finally, he now preferred a provision of “no year
money” (whereby unexpended appropriations are automatically carried over from one year to the next) to Fulbright’s proposed long-term financing through Treasury borrowing, which would by-pass the normal appropriations process. Despite the fact that his aid programs had been cut by the House and Senate Appropriations committees, Eisenhower was convinced that this was the fiscally sound procedure to follow.65

As a result, the White House clashed with Fulbright over the long-term financing of the DLF. In June, Leverett Saltonstall of Massachusetts, the ranking Republican member of the Senate Armed Services Committee and a close ally of the administration, wrote to the president asking for his support of the Fulbright proposal. “His purpose is, of course, the same as that which you had when you originally sought the establishment of the Development Loan Fund in 1957,” Saltonstall pointed out.66 Responding to an earlier letter from Fulbright, who had asked Eisenhower to clarify the administration’s position on the DLF, the president remarked that although he shared the senator’s wish to put the DLF on a long-term basis, he opposed the move to by-pass the regular appropriations procedure. He suggested instead “a long-term authorization of appropriations in reasonable amounts, together with the concurrent enactment in one appropriation bill of appropriations for each of the years for which the program is authorized.” As for the size of the fund, Eisenhower remarked that doubling the $700 million figure he had proposed for fiscal 1960 would be unwise and expressed the hope that the other industrial countries would “provide a growing volume of financing for the less-developed areas.”67

Although Fulbright had told the president that his proposal for long-term funding could not be passed without full White House support, on June 23 the Foreign Relations Committee reported out a bill containing that proposal and other Fulbright provisions for reforming the mutual security program. For the first time in the program’s history, the committee actually increased the administration’s aid recommendations and provided that the $1 billion authorized for the DLF in fiscal 1960 come from Treasury borrowing; to put the DLF on a long-term basis, it also authorized $1 billion per year for fiscal 1961–64. This action reflected the committee’s growing concern over shortcomings in the mutual security program. In shifting somewhat the program’s emphasis from military to economic assistance, the committee noted that it had merely “done to the bill what it had hoped that its previous expressions would cause the administration to do . . . [and] in the absence of administration initiative [it was] compelled to proceed unilaterally in order to present . . . a bill which is adequate to the task that confronts American foreign policy in 1959.”68

The administration found the Foreign Relations Committee’s aid recommendations unacceptable, particularly since the committee also proposed to shift $300 million in military assistance funds from non-NATO to NATO countries.69 After some preliminary skirmishes that endangered government
programs financed by Treasury borrowing outside of regular appropriations bills (the procedure Fulbright proposed for the DLF), the White House reached a compromise on the measure on the Senate floor. Faced with the prospect that the funding of at least fifteen agencies might be jeopardized, including that of the Commodity Credit Corporation, the Rural Electrification Administration, and the Eximbank, all of which were already authorized to borrow from the Treasury, both sides agreed to a proposal worked out by the new minority leader, Everett Dirksen, and Majority Leader Johnson. The compromise provided $2 billion in regular authorizations for the DLF, $750 million of which was slated for fiscal 1960 and $1.25 billion for fiscal 1961. The funds would be made available only through appropriations bills. Christian Herter, who had replaced Dulles as Secretary of State in April, following Dulles’s resignation due to advanced cancer, had persuaded the president that some concessions on the Fulbright proposal should be forthcoming from the administration.\textsuperscript{70}

The rest of the debate in Congress over the president’s mutual security program was anticlimactic, although as Herter had earlier predicted, Congress made sharper reductions in the foreign aid bill than it had the year before. In the Senate, Eisenhower’s military aid requests were slashed to $1.3 billion, and the president threatened to call a special session of Congress if adequate funds were not restored. (In conference committee, the figure was raised to $1.4 billion.) The House and Senate also agreed to a $700 million authorization for the DLF for 1960 and $1.1 billion for 1961.\textsuperscript{71}

As usual, however, Congress authorized more money than it appropriated, and once again most of the cuts in appropriations were made in the House. As passed by the House, the appropriations measure included $1.3 billion for military assistance, $700 million for defense support, and $550 million for the DLF. At a press conference, Eisenhower protested that the House cuts would damage the national security and expressed the hope that the Senate would appropriate the full amount authorized. The Senate did restore some of the cuts made by the House, including $40 million for the DLF and $45 million for special assistance, but its addition of $95 million contrasted sharply with its actions in previous years. Also, like the House, the Senate rejected a request by the president to give the DLF another $500 million as a down payment for fiscal 1961.\textsuperscript{72}

Final action on the appropriations measure was delayed until the end of the session by a dispute over civil rights legislation and by action on a public-works bill. Breaking from his bipartisan approach to foreign-aid legislation, Eisenhower attacked the Democratic leadership for holding the appropriations measure hostage to partisan politics.\textsuperscript{73} The Senate finally sent the bill to the president on September 14, after rejecting additional cuts in the measure. As signed into law at the end of September, the appropriations bill provided $3.3 billion for mutual security for fiscal 1960, including $1.3 billion for military aid, $695 million for defense support, $550 million for the DLF, and $245
million for special assistance. Eisenhower called the action by Congress deplorable and short-sighted. "In these times especially," he commented, "Americans are entitled to expect better of the Congress than this."

The $704 million reduction in President Eisenhower's foreign aid requests fell between the $652 million cut in the 1958 bill and the $1.1 billion cut in the 1957 legislation. Eisenhower did not fight as hard for his foreign-aid program in 1959 as he had a year earlier; there was much less public advocacy of the mutual security program by the White House, and fewer strategy meetings and conferences with legislative leaders were held. In addition, much of the bipartisan spirit of the previous year disappeared as Democrats, stung by the administration’s opposition to their domestic welfare proposals and undoubtedly having the 1960 elections in mind, led the effort to cut the president’s program. As for the president, his comments on foreign aid had always been tinged with impatience and despair, but in 1959, after seven years of fighting with Congress over the mutual security program and contending with proponents and opponents of expanded economic aid, this tone was particularly noticeable.

Yet the mutual security legislation that Eisenhower signed into law contained a number of provisions that in many ways were more important than the actual appropriations approved by Congress and that continued the shift from military to economic assistance begun in 1957. Most important of these was the $1.1 billion authorization for the DLF for fiscal 1961. This authorization almost assured that the size of the fund would be increased in 1961, although probably to a figure well below $1.1 billion. In addition, in the final authorization measure, the House went along with a Senate provision placing future military assistance appropriations in the Defense Department budget. The House had not approved such a provision, and in deference to the lower chamber, Senate conferees agreed to put the plan on an experimental basis for fiscal 1961 and 1962 only. In the meantime, this action by Congress would afford an opportunity for interested persons to gauge more accurately the extent of the nation’s economic—as opposed to purely military—aid programs. The accusation that the government was engaged in a vast “giveaway” would be more difficult to defend.

Furthermore, the foreign-aid bill contained a number of the amendments Fulbright had authored in his effort to shift the emphasis of the legislation from military to economic assistance. As the Arkansas senator had proposed, American ambassadors were now authorized to coordinate military aid with political and economic considerations. The policy statement on foreign aid that Fulbright had prepared also was incorporated into the measure, though with one substantial change; the objective of “giving generously of our knowledge and substance” became in the final bill one of “providing assistance with due regard for our other obligations.” Fulbright’s proposal on programming military aid to underdeveloped countries was reflected in a provision directing administrators of military assistance to “encourage the use of foreign military
forces in underdeveloped countries in the construction of public works and other activities helpful to economic development.”

**Conclusion**

In approving the 1959 mutual security legislation, the House and Senate continued to express their interest in promoting private enterprise abroad and in eliminating grant aid. They did so by passing two additional amendments. The first of these required annual studies of the role of private enterprise in foreign policy and the role of the balance of trade. One of Jacob Javits's favorite proposals, this amendment had been added by the Senate and retained by the House, as had language directing the State Department and other agencies to study methods to strengthen the economies of free nations. The second amendment, approved first by the House and then by the Senate, directed the president, in making requests for fiscal 1961 foreign aid, to submit a detailed plan for the progressive reduction of all bilateral grant assistance. Despite the addition of these amendments, and despite also the sharp cuts in appropriations, the thrust of the debate over mutual security in 1959 had been not so much eliminating or reducing foreign aid as placing greater emphasis on economic rather than military assistance. On this issue, the Fulbright bloc in the Senate won a substantial victory, although the final aid legislation represented a compromise between its views on the future of the DLF and those of the White House.

As for the administration, it too enjoyed considerable success in 1959, not only in reaching a compromise with Fulbright over the DLF, but in placing its program for economic development within a multilateral and regional context. The shift toward multilateralism did not reflect any new confidence on the part of the White House as to the efficacy of a multilateral—as opposed to a bilateral—approach to world economic development. Even less was it a response to the demands of Third World nations, which generally advocated multilateral rather than bilateral assistance (with its implicit danger of big-power hegemony). Instead, the administration moved toward multilateralism because it recognized that the United States’ capacity to provide economic aid relative to the other industrial powers had changed considerably. So long as the Soviet menace remained the administration’s major concern, the United States would continue to emphasize the need to expand its own bilateral aid programs, but this did not lessen the obligation of the other Western powers to contribute to the common effort against international communism.

This reorientation of policy toward multilateralism and regionalism was accelerated by the nation’s growing balance-of-payments problem. By the end of 1959 the problem had become so acute as to be the primary foreign economic issue facing the president in his last year in office.