10. The Balance-of-Payments Problem and Foreign Economic Policy
1959–1960

DURING EISENHOWER'S first year in office, his administration developed a foreign economic program based on the concept of "trade not aid"; lower tariffs and private investment would replace public capital in meeting the world's economic needs and assuring world economic prosperity. The program was predicated on the assumption—indeed, the reality—of a world dollar shortage resulting from the impaired output of the industrial plants of Europe and Japan following World War II. The Marshall Plan and the ensuing recuperation of the industrial powers notwithstanding, when Eisenhower became president the dollar shortage was still thought by some to be a permanent fixture of the international economy. As for the world's underdeveloped countries, the administration forecast that their needs also would be met by trade and investment, as well as by a general filtering down of the prosperity that was to come with the recovery of the world's industrial nations. To the extent that public economic assistance was provided to the Third World, therefore, it was largely military in nature or served a military purpose.

Within a few years, however, and especially during Eisenhower's second administration, the White House was forced to pay increased attention to the economic needs of these underdeveloped countries. In the process, the program of "trade not aid" was found wanting and a policy of "trade and aid" was substituted; the new emphasis clearly was on the flow of public capital abroad. Surprisingly, however, the administration's program of relying on trade and investment to bring about further economic recovery in the industrialized countries (based as it was on the assumption of an existing dollar shortage) worked even better than many had anticipated. As trade expanded and investment increased, Europe began to prosper, the dollar shortage disappeared, currency convertibility reappeared, and the role of the United States as a leader in the field of foreign economic policy seemed admirably filled.

What had been a dollar gap at the beginning of the 1950s in fact became a dollar (and gold) drain by the end of the decade. Since America's balance of trade remained favorable, one had to look to its military commitments abroad, its foreign-aid program, and its private investments overseas to ac-
count for this drain. During 1958, U.S. gold reserves dropped by $2 billion, the largest loss ever in a single year, and they declined by another $1 billion during the first three quarters of 1959. The effects of this loss were not all negative; for instance, the conditions that produced it permitted Western Europe to make its currencies convertible at the end of 1958. Nevertheless, for a fiscally conservative administration concerned with losses of gold since at least 1955, the accelerated decline of the nation’s gold reserves became an urgent matter. Indeed, no foreign economic issue received more attention from the president in his last year in office than the growing U.S. balance-of-payments deficit.

The balance-of-payments problem affected the administration’s entire foreign economic program of trade and aid. On the one hand, the White House took unilateral steps to maintain the integrity of the dollar, including a trade promotion campaign and the tying of aid to the fostering of trade. On the other hand, it accelerated its efforts, begun in 1958, to place more of the burden for international economic development on a multilateral basis, and it sought to shift some of the responsibility for military defense onto its West European allies. In fact, the administration attempted to forge a new Atlantic partnership of the Western industrial powers. The White House’s policies were by no means ill-conceived, nor did they represent an abandonment of its own programs for economic development abroad, as indicated by its renewed efforts in behalf of the mutual security program and its decision in 1960 to establish a special social development fund for Latin America under the jurisdiction of the IADB. Nevertheless, the efforts to form an Atlantic partnership failed, in part because French President Charles de Gaulle opposed any common Atlantic effort that included the United States and England, but also because the White House was unwilling to establish an institutional framework capable of dealing multilaterally and collectively with world economic problems.

The programs pursued by the administration did make clear, however, that the position of the United States as one center of a bipolarized world economic and political system had shifted considerably. The nation’s overwhelming postwar economic supremacy had been whittled down by the military-oriented output of the Sino-Soviet bloc and even more by the production of the very countries whose postwar recovery the United States had generated. In addition, the power of the United States had been weakened by the growing economic and political unity of Western Europe and its waning dependence on Washington for economic and military assistance. Long-run developments such as the continued population growth of Asia, Africa, and Latin America and the quest of these regions for economic development and political recognition portended an even more fundamental alteration in the world power balance, a change that would affect Western Europe as well as the United States.
The Balance-of-Payments Problem

The possibility of a balance-of-payments problem was first brought to President Eisenhower's attention as early as 1955 by the then Treasury Secretary Humphrey, who presented the president with figures on the United States' declining gold reserves and increasing foreign dollar obligations. While the nation's gold holdings had dropped from a high of $24.77 billion in 1949 to $21.79 billion at the end of 1954, foreign short-term dollar claims had increased from $7.83 billion to about $13 billion during the same period. Some of these claims were necessary working balances, and other technical considerations had to be kept in mind in analyzing these figures, but it was conceivable that all these foreign accounts could be converted into gold. In that extreme case the United States would be left with a balance of $8.78 billion in gold, or $3 billion short of the legally required reserves for the Federal Reserve System. "There is nothing to worry about yet," the treasury secretary conceded, "but this illustrates definitely how the monetary reserves of other countries have been strengthened and our own weakened to a point where we need to give careful thought to making sure of continued confidence in the U.S. dollar and safeguarding our remaining reserves."  

Eisenhower largely ignored Humphrey's warnings about declining gold reserves relative to dollar holdings. "Frankly," he told Humphrey, "it appears from your memorandum that a lot of bad things would have to happen in a hurry to get into real trouble about the matter. . . . If people have such huge credits in this country, maybe our business is going to boom for quite a while filling their orders." Over the next three years Humphrey and other financial experts made occasional reference to the balance-of-payments problem. The treasury secretary cited potential gold losses as one reason for not expanding U.S. aid commitments abroad, and in at least one cabinet meeting in 1956 he made a lengthy presentation on the gold issue. The next year he sent Eisenhower a letter he had received from Russell Leffingwell, a Wall Street financier who had been warning Humphrey for some years of the increasing claims of foreigners against the nation's gold reserves and even of the possibility of a flight from the dollar. "I continually wonder if we aren't seriously overlooking the possibility of a real danger unless we change the current continuing trend from loss of position to some regular, very moderate gain or at least the maintenance of a balance by reduction of our military forces and expenses abroad," he told the president once more. 

The precipitous drop of $2 billion in the nation's gold holdings in 1958 produced considerable uneasiness in financial circles and widespread predictions of trouble to come, but it caused remarkably little concern within the administration. In 1958 ten West European governments took steps to make their currencies more freely convertible into dollars by making them convertible for nonresidents but not residents. Without the expansion of world trade and the flow of dollars into Europe that accompanied the U.S. payments
deficit, this significant accomplishment in rebuilding a sturdy world economy most likely would not have taken place. From the White House's perspective, European convertibility was a welcome event that was even more important than the balance-of-payments problem, the full world impact of which remained undetermined. Thus it was the relative strengthening of the European economy and the rough balancing of world trade rather than any fundamental economic weakness on the part of the United States that accounted for the imbalance of payments.\(^6\)

Nevertheless, the move toward convertibility in Europe, along with further gold losses in 1959 and general economic stagnation in the United States, led the administration to seek a multilateral approach to world economic development. In August, the White House also established a cabinet-level group headed by Treasury Secretary Anderson to formulate an overall policy for dealing with the balance-of-payments problem. To carry out the broad objectives laid down by the cabinet group, a deputies group, including representatives from most agencies involved with foreign economic matters, was constituted under Assistant Treasury Secretary Alfred H. Von Klemperer.\(^7\)

**Tying Aid to Trade**

Thus, by the summer of 1959 the administration had begun to deal with the balance-of-payments problem in a concerted way, but even then it did not believe that the disequilibrium in the balance was so fundamental as to necessitate precipitous action. It rejected, for example, the notion that U.S. exporters were suffering from disadvantages so acute that they could be adjusted only by such drastic measures as devaluation of the dollar. Nor was the White House willing to risk distorting the domestic economy by raising interest rates to reduce inflation and attract foreign capital. Similarly, it refused to resort to restrictions on imports or to limit expenditures by American tourists overseas, since this would invite retaliation.\(^8\)

Rather, the solution to the balance-of-payments problem lay in more modest measures designed to improve the nation's balance of current accounts—that is, the surplus of goods-and-services earnings over goods-and-services payments. In this respect, the administration's most pressing task was to improve the nation's trade balance (the surplus of exports over imports). In 1959, the balance of trade, which two years earlier had reached a high of $6.1 billion, fell to only $1 billion, the lowest level for the entire decade. The drop in the trade balance was actually not as drastic as it appeared, for both 1957 and 1959 were abnormal years. The huge surplus for 1957 reflected the large volume of sales abroad generated by the Suez crisis in late 1956, while the dramatic decline in 1959 was precipitated by the United States' earlier recovery from recession (relative to Europe) and its consequently greater demand for foreign imports. In 1960 the excess of exports over imports would rise above the 1956 level, and for the entire fifteen-year period from 1950 to 1964, exports
would actually increase by a greater percentage than either imports or the gross national product.\(^9\)

Yet from the perspective of 1959 the drop in the balance of trade seemed critical, and there is no doubt that had the trade balance not declined so precipitously between 1957 and 1959, it would have more than offset the drop of slightly over $3 billion in the nation's gold stocks. Furthermore, the balance of trade affected the administration's entire foreign economic program, including foreign aid. According to Don Paarlberg, who had left the Department of Agriculture to become a special assistant to the president at the White House, the trade balance had permitted the United States to contribute to economic development abroad. If the balance dropped sharply, the nation's capacity to provide economic aid would be reduced proportionately.\(^10\)

Paarlberg attributed the decline in the trade balance to the worsening competitive situation of the United States—to differences in the price, promotion, availability, and quality of merchandise. In the minds of most other White House officials, however, an even more fundamental cause was the fact that foreign-aid funds supplied by Washington were no longer being spent in the United States. Many of Europe's industrial powers had payment surpluses not only with this country but also with the less developed countries, and it was difficult to determine what percentage of these imports was being financed directly by Washington or indirectly through a general freeing of purchasing power in the countries receiving aid. The White House believed it was considerable. The amount of untied foreign aid extended by the United States therefore affected both the nation's trade balance and its balance of payments. Conversely, any increase in development aid from the other industrial powers would alleviate these problems and, if not tied to the sale of their own merchandise, might even reverse some of the flow of capital out of the United States.\(^11\)

To deal with the problem of U.S. foreign-aid funds spent in other countries, therefore, and possibly to encourage other industrial powers to extend their own economic assistance, the White House announced in October a new policy by which DLF loans would be used to finance goods and services from U.S. sources. As late as the previous July, the Senate had rejected Allen Ellender's amendment to the Mutual Security Act, which would have accomplished much the same purpose by requiring that not less than 75 percent of the funds authorized under the measure be for goods and services in the United States unless waived by the president. Ellender had based his proposal on the balance-of-payments argument, but opponents of the amendment successfully contended that 80 percent of mutual security funds (except for the DLF) were already spent in the United States and that even DLF dollars not tied to specific American exports eventually came back to the United States. Opponents also maintained that the proposal would be paralyzing administratively and that the purpose of the Eximbank, which required tied loans, was to promote American exports, while that of the DLF was to assist developing coun-

tries and improve their trade. Finally, they remarked that the favorable dollar balances of other countries reflected the success of the United States' previous programs for economic recovery.12

In fact, the Ellender amendment was unnecessary. The president already had the authority to require expenditure of aid funds on U.S. goods, and Treasury Secretary Anderson was anxious for Eisenhower to use this power in awarding DLF loans. Anderson based his position on the premise that Japan and the industrialized countries of Western Europe were economically and financially strong enough to no longer warrant DLF financing of their exports. Moreover, if other industrialized countries were required to extend their own financing, the total amount of goods for less developed countries might increase. According to Anderson, his recommendation by no means departed from the nation's commitment to multilateral trade but merely recognized that a buyer should normally expect to obtain long-term financing from a seller of goods and services, especially if the seller was in a position to provide lending facilities.1

Not all the members of the NAC, which acted in an advisory and coordinating capacity on foreign financial matters and would have to recommend to the president any change in the DLF's loan practices, agreed with the Treasury Department's position. The Department of State in particular opposed the tying of DLF loans to U.S. procurement because it believed the political ramifications would more than offset any improvement in the nation's balance of payments. The United States would be accused of turning back to protectionism, and other countries might retaliate. At the same time, economic development in a place like India would be slowed down while New Delhi dickered over financing. Undersecretary of State Dillon even requested that the CFEP study the problem of DLF procurement as part of an overall examination of the balance-of-payments situation.14 But the consensus in the NAC and the DLF, whose membership for the most part overlapped, was for tying loans to American exports, and this became the administration's policy. At the end of October 1959 President Eisenhower defended the new policy at his weekly news conference. "This is not a turnaround, a reversal, or going in another direction," the president stated. "It is simply to point out that when we are making this money available, it's dollars that's being made available."15

Having to accept the new lending practice, Undersecretary Dillon made it clear that he intended to apply the restriction only to DLF loans and not to procurement by such other agencies as the ICA. In a letter to Senator Fulbright, Dillon explained his rationale. DLF loans largely covered capital expenditures, which he believed should be financed on a long-term basis. The West European countries that were capable of joining with the United States in providing such equipment were also capable of providing their own long-term financing. ICA funds, on the other hand, were used to procure defense support, not special assistance, and for the most part consisted of grants for industrial raw materials and consumable products. According to Dillon,
therefore, the tying of ICA aid to U.S. exports was not likely to stimulate additional financing by other industrial countries, because they were “not in a position to undertake large scale additional grant programs.”

The Attempt to Forge an Atlantic Economic Partnership

Even so, as another part of its program for dealing with the nation’s balance-of-payments problem, the White House was already negotiating with a number of West European countries in an effort to get them to provide more economic aid to Third World countries. In fact, by the fall of 1959 the United States was attempting to forge a new economic relationship with the West European powers.

The division of Western Europe into two rival trade blocs as a result of the formation of the European Economic Community (EEC, or Common Market) in 1957 and the European Free Trade Area (EFTA) in 1959 greatly troubled Washington. Because of a long-held desire to bring about a politically and economically integrated Western Europe as a barrier to the Soviet Union, the United States had strongly supported the formation of the European Common Market. Moreover, the Treaty of Rome, which established the Market, raised the possibility of eventual European political unification. Besides a common external tariff, for example, it provided for the free movement of persons, services, and capital; a common agricultural policy; and the creation of a European Social Fund and a European Investment Bank. In contrast, EFTA, which was organized by England and whose membership included six other countries, all outside the Common Market, was intended to be merely a free trade area. Thus it would create all the trade discriminations inherent in a customs union but, from Washington’s point of view, none of the political advantages of an economic community. Indeed, because a rival to the Common Market was considered counterproductive to the Western harmony being promoted by the White House, EFTA was generally unwelcome in Washington, particularly in the view of Undersecretary of State Dillon, who became its most vocal opponent within the administration.

Despite the formation of these rival trade groups and the differences that existed among the European powers, most of Western Europe shared America’s concern about Soviet economic and political penetration abroad. Moreover, there remained a strong—albeit declining—sense of Atlantic unity in Europe and a desire to deal cooperatively with world economic questions. Article 2 of the North Atlantic Treaty, for example, provided for economic collaboration among the members of NATO, and the NATO countries in 1957 considered the possibility of using this article to coordinate aid efforts aimed at less developed countries. The United States thus hoped to get Europe to act with it in meeting the growth needs of Third World nations.

Because of NATO’s military orientation and its unsuitability as a forum for neutral nations or other nonmember, the idea of using NATO for economic
purposes was shelved. In talks with President Eisenhower in September 1959, however, Prime Minister Antonio Segni of Italy raised the possibility of NATO aid to underdeveloped areas. After Segni commented that Italy had a particular interest in providing assistance to Turkey and Iran, two countries Eisenhower planned to visit in December, Foreign Minister Giuseppe Pella remarked that the Italian government had also discussed the subject of foreign aid with French President Charles de Gaulle and with representatives of the Benelux countries, Iran, and Turkey. He spoke too about Italy's desire to develop policies within the Common Market that would enable its members to increase their aid to, and purchases from, the world's underdeveloped areas. Finally, he expressed the view that aid should be extended on a regional basis, remarking that such regional groupings would give aid recipients a greater sense of equality and participation and would induce greater responsibility in the use of the aid. Italy hoped that the proposed IDA could be linked with the implementation of this regional plan, and Pella referred to the meeting of the Common Market countries scheduled for October as a possible forum for discussion of the idea. In view of the upcoming conference, his government wanted an indication of the United States' position on Italy's ideas with respect to foreign aid.

Eisenhower refused to make any firm commitment to the Italian leaders, but he took advantage of the opportunity to lay the groundwork for a future conference of the Western powers on world economic problems. He responded to Foreign Minister Pella that although all the leaders he had contacted in recent months had expressed considerable interest in aid to underdeveloped countries, a number of them had a particular group of nations in mind. For example, de Gaulle had a special interest in providing aid to the French Community, while London was interested in development within the British Commonwealth. Only the United States, Germany, Italy, and some of the smaller nations remained flexible about providing economic assistance abroad. There was thus a need to get together to consider how the burden of providing aid should be divided. When the Italians asked Eisenhower what countries he included in this last remark, he replied that he meant all of the free nations, including France and England. He had not intended to imply that just those countries that were flexible in the matter of extending aid would confer, although he conceded that France and England might not want to work on a broad international scale or assume a role with respect, for example, to Burma or some of the Mideast countries.

The European powers endorsed Eisenhower's proposal for economic discussions, and the talks took place in Paris in December as part of a summit meeting of Western leaders following Eisenhower's whirlwind visit to Turkey, Pakistan, India, and Iran. Prior to the meeting the Economic Policy Committee of the Organization of European Economic Cooperation (the OEEC, which had been organized in 1948 to formulate a program of European economic recovery as part of the Marshall Plan, but which had since become a
highly effective institution in the areas of intra-European trade and payments) agreed unanimously that Europe should provide increased capital to less developed areas of the world. Just before the summit was to begin, Undersecretary of State Dillon reported from Paris that in his talks with European leaders he had found “full recognition” that Western Europe had to increase its level of help to the less developed nations.

Yet as Treasury Secretary Anderson stated in a memorandum to the president on points to raise at the summit meeting, none of the European countries had translated these general principles into concrete actions. In fact, each of the European countries was anxious to accumulate more reserves for itself for fear its present economic strength might prove to be temporary. Each also suspected the others of being better able to shoulder the burden of economic aid, and all overemphasized the need to coordinate their own efforts with those of the United States and the World Bank. Finally, and perhaps most important, none of the European powers had established any fully satisfactory banking or budgetary arrangement for providing long-term loans adapted to the needs of the less developed countries. Anderson therefore recommended to Eisenhower that in Paris he press the Western leaders for a commitment to long-term lending for the Third World. Europe’s strong financial position, as well as the West’s political objectives in less developed areas and the need to keep world trade in balance at a high level, all required increased European financing on both a bilateral and a multilateral basis. The United States’ experience in the field of economic development had made it clear that the industrialized countries could not successfully carry out their responsibilities in financing less developed areas solely through private investment or private lending institutions. Therefore, virtually all the European countries needed to establish a public or semipublic lending institution, perhaps financing its operations through the sale of government-guaranteed securities on the local capital market.

We do not know what actually took place at the summit conference, but Anderson’s presummit memorandum to the president makes clear the negotiating position of the United States with respect to European aid. The United States expected Germany to make the largest contribution to Third World economic development. It was economically the strongest of the European nations and the most important exporter of heavy equipment to many less developed areas. Germany maintained that it was losing rather than gaining foreign-exchange reserves during 1959 and that this showed it was doing as much as it could in the field of foreign lending. But its total gold and dollar holdings still exceeded $4 billion (down $200 million from 1958) and it had virtually no short-term liabilities to other countries.

Italy’s problem was mainly psychological. Italians still considered their nation small and poor and they pointed to the development problems of southern Italy to support this view. But their official gold and dollar reserves were now the third-largest in Europe (rapidly approaching the size of England’s)
and showed every sign of continuing to grow. Though southern Italy’s needs might make it somewhat more difficult politically for Italy to finance foreign lending, the nation had a heavy stake in the sale of equipment to less developed areas outside Italy. In addition, Italy’s strong banking and capital market should make the establishment of a development lending bank a relatively easy technical matter.  

The British believed they were doing about all they could in the field of foreign finance, considering that their gold and dollar reserves were still low relative to their trade needs and financial responsibilities, that their prospective balance-of-payments problem was very small, and that they already had heavy development responsibilities within the Commonwealth. Their position was not unreasonable, but in view of the United States’ interest in obtaining increased bilateral aid from many European countries rather than from only one or two, Anderson advised that London be encouraged to take additional steps to provide financing for development projects outside as well as inside the Commonwealth.

France presented special problems, and Anderson believed it was probably not desirable to press the French immediately for help in the field of trade (except to seek their firm support for the proposed IDA). France’s capacity to provide additional foreign lending was currently limited by foreign-exchange difficulties and the country’s huge development responsibilities in the franc area, particularly in Africa. Moreover, Anderson reminded the president that it was of great importance to restrain President de Gaulle (whose views on Atlantic unity were already at odds with those of most other Western leaders) from pressing his previous notions about a new multilateral scheme for financing economic development, a scheme which involved Soviet participation.

Despite this last note of caution in Anderson’s memorandum, the Paris meeting in December proved to be highly gratifying to the United States. In a special communiqué issued after the conference, the Western leaders set the stage for new efforts to achieve U.S.–European cooperation by calling for an informal conference in Paris on January 13 of the ten European nations, the United States, and Canada. News reports were already being circulated that out of the conference and a high-level OEEC meeting that was to follow, a new, twelve-nation Atlantic Council would be formed that would include the United States and Canada as full members. According to these reports, which were later confirmed, the new organization would take over the OEEC, including its staff and secretariat.

Besides dealing with Western aid efforts, the new organization would act as a forum for other common economic problems, the most urgent of which remained the division of Western Europe into rival trade blocs. Prior to the Paris summit, German Chancellor Konrad Adenauer informed Undersecretary of State Dillon that British Prime Minister Harold Macmillan had told him that unless the Common Market was merged with the EFTA in a broader European free-trade area, there would be serious military and political
consequences. Germany, France, and the Commission for the EEC also told the American diplomat that they were adamantly opposed to any merger, for fear it would destroy the EEC. Dillon warned that unless some initiative was taken by the United States, there was a real danger that the already serious European trade problem would develop into a bitter political dispute.32

The initiative taken by the United States was the winning of an agreement from the Western leaders at the Paris summit that the problem of regional trade organizations would be one of the two major topics (the other being foreign aid) discussed at the mid-January Paris conference. In their communiqué announcing the meeting, the Western leaders even emphasized the “cooperative principles” they said should be the basis for discussion of the two regional blocs. They also made it clear that they expected the two groups to operate within the framework of GATT. It thus followed that besides coordinating economic assistance to the underdeveloped countries, any new organization that might result from the Paris meeting would have as a second major purpose healing the fissures apparent in Europe and—from the White House’s point of view—protecting U.S.–European trade interests in the process.33

At the January meeting, which was attended by the United States, Canada, and the eighteen members of the OEEC, Undersecretary of State Dillon announced that the United States was prepared “to assume full and active membership” in a reorganized OEEC designed to “facilitate cooperation between the industrialized nations of the free world” in tackling major economic problems. A preparatory committee known as the “Four Wise Men” was then formed to consider the U.S. proposal, and in April it recommended creation of the Organisation for Economic Co-operation and Development (OECD). After six months of negotiations in which the details of the new organization were worked out, twenty nations met again to sign a convention formally agreeing to the formation of the OECD.34 In his final budget message to Congress in January 1961, President Eisenhower called for approval of U.S. membership in the body, and Congress gave it at the end of March. By this time, of course, Eisenhower was back on his farm in Gettysburg and the Democratic administration of John F. Kennedy was in the White House.35

In helping to organize the OECD and then seeking U.S. membership in the new organization, the president had taken an important step toward creating an Atlantic economic partnership. In his message to Congress he remarked that the organization would “extend and invigorate the practice of consultation among its members and [would] find ways to facilitate the flow of investment funds to less-developed countries.”36 Yet the administration never intended the OECD to be more than a consultative body with flexible but limited powers. Thus, as insisted upon by the administration and approved by Congress, the organization’s charter provided that decisions and recommendations made by the OECD would be by unanimous vote of its members, with
each member having one vote. If a member abstained from voting, a decision or recommendation would not apply to that member but would be applicable to the voting members. No decision would be binding on a member unless it complied with that country’s constitutional requirements. In the case of the United States, this often meant that congressional approval was required.37

The reasons for putting conditions on America’s membership in the OECD included, of course, the administration's concern that without them the OECD convention would never be approved by a protectionist-minded Congress, which was determined to maintain its prerogatives in the area of foreign economic policy. However, an even more fundamental consideration was involved. Despite its desire for an Atlantic partnership that would relieve the United States of some of its economic responsibilities abroad while maintaining Western unity—and, incidentally, assuring U.S. access to European markets—the White House was by no means prepared to play a more direct role in European economic and political affairs. Least of all was it ready to assume responsibility for any of the backlog of decisions dealing with trade, capital movements, and related matters which had been made by the OEEC. Largely for this reason Treasury Secretary Anderson had opposed U.S. membership in the OEEC even before Eisenhower had discussed the subject at the summit meeting in Paris. Although he failed to win the president to his position, after Paris, Eisenhower assured him that he had no intention of binding the government to European obligations and policies. As he told Anderson, “Each country would have to determine for itself its policies and intentions so that he will not be duplicating or competing [sic].”38

This remained the administration's position throughout the months in which the terms of the OECD were worked out. In fact, during the negotiations, the United States made it clear that it particularly did not want the new organization to become involved in trade matters, insisting that this would merely duplicate GATT functions. Continued efforts by EFTA, led by England, to bring about a European free-trade area had failed, and the Eisenhower administration, which vigorously opposed these diplomatic maneuvers, was not prepared to countenance their continuation under OECD auspices. In other words, a direct relationship existed between the White House’s interest in restructuring the OEEC to include the United States and its concern about European discrimination against American trade.

Douglas Dillon, who led the administration’s efforts against EFTA and its attempt to establish a European free-trade area embracing both the members of the Common Market and the EFTA, explained the government's policy with respect to the OECD best. The American position reflected its view that the principal concerns of the OECD should be facilitating the attainment of the highest sustainable economic growth and contributing to sound economic growth in the underdeveloped world. “At the same time,” he said, “we believe that the role which the new organization could play in the field of trade with-
out duplicating the work of other organizations is limited.” The establishment of a broad free-trade area, including EFTA and Common Market countries, Dillon noted, “might very well take the incentive out of a general negotiation to lower tariffs in both areas.”

The White House’s rejection of a strong OECD and its general stand on a European free-trade zone greatly annoyed a number of the smaller nations of EFTA, which had benefited considerably from the OEEC’s trade liberalization code and its other unifying ties; these countries wanted the new organization’s provisions on coordinating trade policy to be binding. Similarly, the British were infuriated at Dillon for leading the opposition against their attempt to “build bridges” between EFTA and the Common Market. Clarence Randall reported that in England he had heard “the most hostile and brutal statements” made against Dillon. In addition, America’s ambassador to Switzerland told Randall that the Swiss were greatly perturbed at the United States because of its opposition to EFTA and warned that something would have to be done to remove “the onus of suspicion” that Washington had engendered.

Even if the United States had wanted to, it probably could not have established an organization deemed satisfactory by these countries. It is unlikely that it could have overcome France’s opposition to a strengthened OECD. Although France acquiesced in the United States’ initiative in forming the OECD, it would have been perfectly satisfied to have the OEEC wither away without a replacement such as the OECD; France had achieved its objective of establishing a Common Market and it would not tolerate a European free-trade arrangement. Under the leadership of de Gaulle, who had returned to power in 1958, France was already mapping out an independent foreign policy, evoking a kind of French grandeur that was clearly aimed against the United States and England.

Nevertheless, by rejecting a major role for the OECD in the area of trade liberalization and by seeking in other ways to limit its authority, the White House greatly restricted the organization’s capacity to provide an institutional framework for developing a coordinated foreign economic policy for the Atlantic community. Accordingly, the OECD proved to be a useful body in terms of disseminating economic information and providing a forum for discussion of common problems. In 1960, it also established a Development Assistance Committee (DAC) to promote economic development in less developed countries that were not OECD members. But the organization never had its own funds or staff of technical experts or independent status, and thus was unable to develop a unified program of Third World economic development. For the most part, each of the major industrial powers followed its own independent program, and the OECD and DAC remained unwilling to take a position in behalf of Third World countries or in support of greater Atlantic unity that might embarrass or annoy member governments.
Foreign Trade and Agricultural Policy

Moreover, even as the Eisenhower administration sought to promote an Atlantic partnership to deal with the problems of Third World economic growth and to otherwise aid the United States in its balance-of-payments problems, it continued to pursue bilateral policies. This was particularly evident in its trade policies and especially in its foreign agricultural program, which actually exacerbated rather than contributed to the Atlantic harmony the president had hoped to achieve.

With respect to trade, the administration had already tied DLF loans to U.S. procurement on the assumption that this would ensure the purchase of American goods by grant recipients and cause other exporters to Third World countries to extend their own forms of assistance, perhaps on an untied basis. The administration knew, however, that the balance of trade (and payments) would be determined not only by how much untied aid the United States and other industrial powers extended but by how well they were able to penetrate one another's foreign markets. In this respect, the question for the White House was one of trade restrictions as well as trade competition. Rejecting as self-defeating the demands for protection against foreign imports, the White House sought the alternative of expanding markets for American goods by pursuing the nation's free-trade policy. Beginning in 1959 the administration launched a major export promotion drive under the direction of the Commerce Department. In a move to encourage U.S. exporters, the Eximbank liberalized its terms and expanded export credit insurance to cover the political risks of short-term export transactions.43

More important, the United States intensified its efforts to increase the export of American farm surpluses even as it continued to make the disposal of America's excess agricultural production an integral part of its foreign-aid program.44 In 1958 Congress had extended the P.L. 480 program for eighteen months and had increased from $4 billion to $6.25 billion the appropriation for foreign-currency sales, but already the White House was considering a further extension of the farm surplus disposal legislation as part of a program to meet the food needs of Third World nations. In August 1958 John H. Davis, a former assistant secretary of agriculture, presented to the administration the conclusions of a study of the P.L. 480 program that he and a group of economists had been conducting for the administration for the past six months. For the most part the report was highly laudatory of the program and recommended its expansion on a long-term, five-year basis as a "Food-for-Peace Program." "P.L. 480 operations in an underdeveloped country need to become a more integral part of a United States program designed to help the country achieve economic viability and rising standards of living and to become independent of foreign aid within a reasonable time," the report thus concluded. Davis added that the study had convinced him "that the United
States has a challenging opportunity to better utilize its food fiber reserves as a positive force in world affairs. To realize this opportunity, the United States must more effectively relate P. L. 480 to agricultural and foreign policy objectives at home and to country needs and programs abroad.\textsuperscript{45}

The reaction of the White House to the Davis Report reflected the divisiveness of the administration over the P. L. 480 program. The Department of Agriculture called the Davis proposal "a positive approach to gain foreign policy benefits rather than a negative approach." "Our food production is the greatest advantage we have over the Soviet Union," Don Paarlberg of the Agriculture Department argued.\textsuperscript{46} In contrast, the State Department maintained that "[to] put this proposed move [for a long-term disposal program] in the light of benefitting mankind is an impossible public relations campaign. . . . If desirable for agriculture, the Davis plan would be equally applicable to the steel industry."\textsuperscript{47} Other agencies, including the Bureau of the Budget and the CFEP, also opposed the Davis Plan, but the position of the Agriculture Department prevailed.\textsuperscript{48}

In his budget message to Congress in January, President Eisenhower asked for an increase in title I of the P. L. 480 program from $6.25 billion to $7.75 billion, and a few weeks later, in a special message to Congress prepared by the Agriculture Department, he announced the Food for Peace Program. "I am setting steps in motion," he told the House and Senate, "to explore anew with other surplus-producing nations all practical means for utilizing the various agricultural surpluses of each in the interest of reinforcing peace and the well-being of friendly peoples throughout the world—in short, using food for peace."\textsuperscript{49}

The president talked of cooperating with other surplus-producing nations to make food available to Third World countries, but the White House's promotion of U.S. agricultural surpluses and its protection of U.S. industries continued to disturb other food-exporting nations. By 1959 much of the furor that had been caused by the P. L. 480 program had subsided. The United States had adopted tighter regulations to assure that the program did not compete with normal commercial sales by the United States and other countries. In addition, the White House was doing a better job of consulting with third-party countries to protect their interests.\textsuperscript{50} Nevertheless, many exporting nations continued to criticize the program, particularly the barter operations and competitive dollar sales by the Commodity Credit Corporation. Moreover, despite the president's emphasis on cooperation with other exporting nations, these countries were alarmed by the Food for Peace Program, which they realized remained fundamentally a means for the United States to rid itself of some of its farm surpluses.\textsuperscript{51}

The most difficult problems the United States faced as a result of its surplus-disposal program involved the European food-producing nations, who were determined to protect their own farmers from American exports. At the December 1958 session of GATT, the United States had proposed that the agreement sponsor a new round of tariff negotiations beginning in mid-
In making this proposal, the U.S. delegation pointed out that the negotiations would fit in with the need for the six members of the Common Market to adjust their existing tariff concessions before attempting (in January 1962) to establish a common external tariff. Negotiations at that time would also make possible optimum utilization of the authority to reduce tariffs granted to the president by the Trade Agreements Extension Act of 1958. The need to negotiate with the Common Market had, in fact, been one of the principal points advanced by the executive branch in arguing for a multiyear extension of the trade agreements authority.

As Secretary of State Herter told Eisenhower, however, the new round of tariff negotiations was “certain to be extraordinarily technical and difficult in view of the complexities resulting from development of the common external tariff,” and no problem would be more difficult than that of tariffs on agricultural imports. In preparation for the GATT talks, J. H. Richter of the Agriculture Department’s Foreign Agricultural Service met with Karl Brandt of the Council of Economic Advisers and Undersecretary of Agriculture True Morse. Morse stressed the need to get the Common Market, EFTA, and other regional groups to liberalize their import policies with respect to agricultural goods. In a memorandum to Assistant Secretary Thomas Mann in April 1960, the Department of Agriculture presented its response to the agricultural policy proposals of the Common Market as they had developed by that time. The memorandum amounted to a repudiation of the Common Market’s position. As the Agriculture Department pointed out, the draft proposals of the Common Market fixed minimum import prices and variable import fees for many commodities. They also established export subsidies for the disposal of possible surpluses and, in the words of the Agriculture Department, “a formidable apparatus of quantitative control over external trade in agricultural products.” In addition, these proposals included bilateral trade preference and other quantitative restrictions, which the department termed “objectionable,” “discriminatory,” and “ominous.” “No one would wish to rush in with proposals to tell EEC what kind of measures to adopt in place of those we find objectionable,” the memorandum concluded, “but it would be desirable to re-cast the common agricultural policy in such a way as to provide gradually for market unification in the area without intensifying protection against the outside.”

In forwarding a copy of this memorandum to Mann, Assistant Agriculture Secretary Clarence C. Miller commented that the Department of Agriculture felt “strongly that it [was] necessary, when the agricultural proposals come in for review on some such occasion, for the United States representatives to be absolutely candid not only in expressing the basic support of the United States for the Common Market, but also our great concern that it be generally understood that this support is predicated on compliance by the countries concerned with GATT.” Addressing the opening meeting of GATT in September 1960, Clarence Randall stressed these very points. The United States
was satisfied that the Treaty of Rome establishing the Common Market was in compliance with liberal GATT policies, but there was “a shadow in the picture.” According to Randall, no matter how well the United States might resolve existing problems in other fields, “we cannot reach a satisfactory overall result unless at the same time those that relate to agriculture are dealt with in accordance with GATT principles.”

The Common Market was not about to open its markets to U.S. agriculture, however, and as a result, GATT failed to reach any common agreement on agricultural trade policy. The final press release on the GATT session stated only that a committee established at an earlier session of GATT to study agricultural protectionism was “now assessing the effects of national agricultural policies on world trade in agricultural products.” The release also noted that the “United States, after reiterating its support for the successful integration of the member states within a liberal trade pattern, stressed the importance of a liberal common agricultural policy in harmony with the GATT objective of expanding international trade.” Nevertheless, the Common Market remained unyielding in its agricultural policy. Its efforts to safeguard its agricultural interests continued to be an issue of contention with the United States even after Eisenhower left office, although the question was brought up again during the Kennedy round of trade negotiations in the early 1960s.

**Cutback in Military Expenditures Overseas**

In the final analysis, therefore, the White House's attempt to deal with the nation's balance-of-payments problem by pursuing a modified version of its foreign economic policy of trade and aid via a closer economic partnership with the Atlantic community largely failed. In fact, the most decisive action taken by the administration to resolve the balance-of-payments problem was considerably different from what it had originally conceived. In the fall of 1960 the administration decided to cut military expenditures abroad by ordering military dependents to return home at a rate of 3 percent a month. It also added further requirements tying economic aid and defense support to U.S. procurement.

At the beginning of October, Treasury Secretary Anderson held an important conference with the president and other White House officials and cabinet officers to discuss the balance-of-payments situation, which had continued to worsen throughout 1960. Preliminary data for the third quarter of the year indicated accumulations by foreigners of $632 million in gold and another $976 million in dollars, or a combined figure, if extrapolated over three additional quarters, of $6.43 billion. The United States' current gold stocks totaled $18.69 billion, $11.91 billion of which was required as a monetary reserve to support outstanding Federal Reserve notes and Federal Reserve deposits. During recent meetings of the World Bank and the IMF a
number of foreign central bankers and ministers of finance had expressed concern as to whether the United States was doing enough to maintain the integrity of the dollar in light of the nation's responsibilities as a supplier of reserve currency and obligor of a growing number of short-term loans in the hands of foreigners. The chairman of the Federal Reserve Board and other Treasury officials had held comparable talks with representatives from the European banking and financial communities. They had been told that foreign governments were becoming increasingly apprehensive about the United States' ability to carry so large a deficit in its balance of payments without precipitating a crisis or taking action that might have the same effect, such as raising the price of gold to curtail dollar and gold outflows.

For a variety of reasons having to do with political damage at home and the possible disruption of the international monetary system, the White House never considered increasing the price of gold, which would have amounted to devaluing the dollar. In his meeting with the president, however, Treasury Secretary Anderson urged that the United States do something additional to combat the balance-of-payments problem. As he made clear, even the policy of tying DLF loans to American purchases as a way of improving the nation's balance of trade was not working. Some of the loans made by the DLF were with international institutions that precluded tying, while other loans were being made for the purchase of local currency and to finance local institutions, such as building and loan associations, which did not result in procurement of goods from the United States. As a necessary additional step in dealing with the balance-of-payments problem, Anderson recommended a reduction in overseas military expenditures, including a cutback in the number of military dependents in Europe, the integration of America's logistics system with the systems of its NATO allies, and an increase in the defense contributions of other NATO countries. Such possibilities had been considered before, but had never received much attention. Now Anderson made a reduction in overseas military spending a matter of the highest priority.

Both the Defense Department and the Department of State objected to the treasury secretary's proposals. The Defense Department maintained that Anderson's recommendations were militarily harmful and would present serious morale problems for soldiers with dependents overseas. The State Department objected to Anderson's proposals on the more political grounds of how such reductions would be received in Europe. Undersecretary of State Dillon noted that his department was now willing to pursue a more vigorous policy in phasing out American dollar contributions to the European defense community and to the redeployment of forces, but he offered 1962–63 as the earliest time frame in which a reduction in force commitments should take place. He also argued that the United States' trade balance had improved substantially and that much of the increased outflow of liquid funds during the past three months was due to the difference between short-term interest rates in the United States and those in Europe, particularly in England and
Germany. He stated that while there might be some disposition on the part of the Germans and the British to reduce their interest rates, it might become necessary for the United States to raise its rates of interest on short-term government securities in order to prevent any outflow of foreign capital.  

Treasury Secretary Anderson responded that the United States simply could not afford to delay a reduction in military outlays abroad until 1962–63. Instead, he stressed the need to reverse completely the trend of thinking initiated immediately after World War II, when all embassies and military personnel stationed abroad had been instructed to buy offshore as much as possible and to encourage the accumulation of dollars in foreign hands. As for Dillon’s point about raising interest rates on government securities to prevent the outflow of foreign capital, Anderson replied that the adoption of such a plan would indicate that monetary policy in the United States was no longer responsive to domestic economic considerations, and that in order to protect the nation’s gold, it would have to be motivated essentially by America’s position with relation to other foreign central banks. This, in turn, might result in both public and congressional opposition to the whole program of mutual security and foreign assistance.

President Eisenhower gave Anderson his full backing and directed most of his remarks against the position taken by the Pentagon. It had been the president’s view since the establishment of NATO in 1949 that the United States would not maintain a large, permanent force in Europe at its own expense. Rather, as the countries of Western Europe developed their own armed forces, the United States would play a less preponderant military support role. The president believed that the administration “should evaluate and consider all of the concepts of the Joint Chiefs of Staff and the Service chiefs, [but] they were not national policy makers,” and those who were in charge of making policy decisions “would have to accept the burden of giving such orders as [they] felt were in the national interest.” Taken aback by the president’s remarks, Deputy Secretary of Defense James H. Douglas, Jr., responded that the withdrawal of dependents from Europe might be accomplished without changing military concepts.

With the president obviously committed to reducing U.S. military costs in Europe, the decision was made to explore a series of proposals for cutbacks, including an order prohibiting dependents from accompanying military personnel assigned abroad and a notification to NATO countries that in the future they would be expected to assume a larger share of NATO defense costs. Moreover, negotiations with Germany were to be considered with the aim of getting Germany to contribute to the maintenance of American troops in that country. Even after these decisions were reached, however, the Defense and State departments continued to raise objections to any military reductions in Europe. At another meeting with the president on November 15, the two agencies presented a joint memorandum stressing the need for continued
military assistance to Italy, Belgium, and the Netherlands and noting that these three countries received less than 5 percent of the military assistance budget.  

The president continued to receive warnings, however, about the gravity of the balance-of-payments situation and the need for immediate corrective action through a cutback in military expenditures overseas. A few days before the November 15 meeting with State and Defense Department officials, Treasury Secretary Anderson advised Eisenhower that by the end of the week the United States’ supply of gold would fall below $18 billion, that $12 billion of this amount was legally required to cover the nation’s currency, and that $9.5 billion in instant demands could be filed against the United States at any time. Predicting a budget deficit for fiscal 1961 (in considerable measure the result of unanticipated expenditures in defense), Director of the Budget Maurice Stans remarked that the figures projected for 1962 also were bleak, but that much could be done to improve the situation if military expenditures abroad were cut back. Indeed, Stans said that his main complaint with administration policy was that the action the White House proposed did not go far enough. The United States should cut its troop level without waiting to see what the Germans were willing to contribute, Stans argued. Anderson added that it was essential that these steps be announced before he and Undersecretary of State Dillon conferred with Chancellor Adenauer in a meeting that was to take place in just a few days.

On the basis of the figures he had received from Anderson and Stans, Eisenhower decided to order a cut in the number of military dependents abroad and to ask the NATO allies, especially Germany, to share more of the burden of the common defense. He had been preaching for eight years that the United States “had been too easy with Europe,” he told the State and Defense Department officials meeting with him on November 15. He was not concerned about the morale problem the Defense Department claimed would be created by a cutback in the number of dependents abroad. He did not worry much about the morale of generals, and rank-and-file morale would be “all right” if the armed services exercised proper leadership. Moreover, in a move designed to satisfy the Defense Department, but acting over the objections of Secretary of State Herter and Undersecretary of State Dillon, the president also agreed to a reduction in the number of State Department personnel assigned overseas. At a press conference the next day, Eisenhower announced a reduction in the number of armed services dependents as well as “a similar reduction by all of the departments that have personnel stationed overseas.” The cutbacks would be made at the rate of 3 percent a month down to a maximum of 200,000 persons.

As for the other major parts of the administration’s program to cut military expenditures abroad, the White House did get the NATO allies to purchase more of their military hardware in the United States. The secretary of defense
also took actions to reduce overseas spending, including integrating more U.S. logistical operations with those of European countries. However, although Anderson and Dillon met with Chancellor Adenauer in Germany in November, they failed to reach an agreement about sharing the cost of maintaining American troops in West Germany. “From the standpoint of economics, you’re right,” Adenauer told them when they argued the need for Germany to contribute more to the common defense, “but you fellows are not going to be in office that long. And it could mean I’d have to impose additional taxes on my people.”

The overall result of the president’s cutback program was a gradual reduction in military expenditures overseas from $2.71 billion in 1960 to $2.541 billion in 1961 and $2.049 billion by 1964. Even so, the latter figure represented a significant drain in the American balance of payments.

Conclusion

The balance-of-payments problem continued to be a major concern for the administration—indeed, its most pressing foreign economic problem—during Eisenhower’s last months in the White House. Just a few days before the president’s term ended, Secretary Anderson, “with the express approval of the President,” wrote Douglas Dillon, whom President-elect John F. Kennedy had named as his treasury secretary, to recommend several additional steps for dealing with the balance-of-payments issue. A number of these proposals concerned tax relief for American businesses through more liberal and flexible depreciation allowances, relief that would make business more productive and hence more competitive in world markets. But Anderson also proposed changes in the tax laws which would make it easier for the government to tax the earnings of American subsidiaries operating abroad in supposed tax havens. Because of the implications of these tax havens “for the revenue, the tax system, and the balance of payments,” Anderson wrote, “it would seem appropriate to modify some of the features of the present tax law.” Soon after taking office, President Kennedy would make the balance-of-payments problem one of his top priorities, but he would have little more success in dealing with it than Eisenhower had had before him.