4 | Foreign Aid and the Balance-of-Payments Problem: Vietnam and Johnson's Foreign Economic Policy

Burton I. Kaufman

WHEN VICE-PRESIDENT LYNDON JOHNSON was suddenly elevated to the White House after the assassination of President John F. Kennedy on November 22, 1963, he was faced with a series of problems—and opportunities—in the area of foreign economic policy. The most important of these were maintaining at least the present level of foreign aid against growing congressional opposition and resolving the nagging balance-of-payments deficit. Until about 1966 the president enjoyed strong congressional support in dealing with these problems. But the United States' growing involvement in Vietnam changed all that.

The war affected the administration's foreign economic policies in at least two ways. First, it exacerbated the balance-of-payments problem, thereby helping to weaken the dollar in international money markets and to undermine the international monetary system, based as it was on the stability of the dollar. Second, by helping to turn a once friendly into an increasingly hostile Congress, this country's growing involvement in the conflict also undermined the administration's effectiveness on Capitol Hill and made it difficult for the White House to get its high-priority items, including its spending proposals for foreign aid, through the House and Senate without major cuts and revisions. Indeed, foreign aid became the focus of congressional misgivings and discontent over the war and over U.S. foreign policy in general, and the huge cuts that the program sustained were directly attributable to Congress' displeasure with the administration's escalation of the war after 1965.

I

Initiatives that had begun under Kennedy and, in some cases, under President Dwight D. Eisenhower before him set the agenda of the new administration after Johnson entered the White House in 1963. Basic to that agenda was maintaining or even increasing the
size of the nation's foreign-aid program. This promised to be difficult, for foreign aid had never been particularly popular, either among the American public or on Capitol Hill. Dating back to the Truman Doctrine of 1947 and the Marshall Plan of 1948, the aid program had moved gradually from European reconstruction to defensive alliances and, finally, during Eisenhower's administration, to the economic development of Third World countries. President Kennedy had called for an even greater emphasis on economic aid to Third World nations, and soon after taking office, he had asked Congress to replace the Mutual Security Act, by which foreign aid had been administered for the previous ten years, with new legislation that would emphasize an expanded program of development loans. Congress responded by authorizing $7.2 billion for such loans over a five-year period. This allowed Kennedy to streamline the entire foreign-aid program and to establish, in November, 1961, the Agency for International Development (AID), which combined into one agency most of the nation's technical- and economic-assistance programs overseas.

However, the House and Senate rejected Kennedy's request for a five-year appropriation, insisting that the funds be appropriated annually as they had always been. Furthermore, Congress cut heavily into the administration's requests for foreign aid, questioning the management and effectiveness of foreign aid, arguing that too much emphasis was being placed on military aid, and raising doubts about the United States' ability to fund the program. In fact, by the time Kennedy was killed in 1963, congressional opposition to foreign aid had reached a new high, and Congress had cut the president's recommendations for fiscal 1964 by a record 34 percent, a problem that his successor would have to face almost immediately after assuming office.

The new president shared many of the same concerns that Congress did about the foreign-aid program. Indeed, in a number of respects, Johnson was more in sympathy with the program's critics than with its defenders. As majority leader in the Senate for most of Eisenhower's eight years in office, Johnson had almost always helped to push the president's foreign-aid requests through Congress. Having taught Mexican-American students as a young man and then having represented in Congress a state that had a large Spanish-speaking population, he had also long regarded himself as an expert in Latin American affairs. As president he would display a particular interest in the Alliance for Progress, which had been established in 1961 to stimulate economic recovery and development in Latin America. In addition, he had a real interest in eliminating hunger and in providing
adequate nourishment world-wide, which he would make clear throughout his administration.\(^5\)

On the other hand, many of Johnson's own views on the foreign-aid program were narrowly circumscribed. As a congressman and a senator, he had not displayed any particular interest in world affairs, and to the extent that he had considered such issues as foreign aid, he had been concerned not so much with their long-term economic or social benefits to other nations as with their costs and with the political return to the United States (and to himself). Even after he had been in the Oval Office for more than a year, he had said to a group of congressmen, "One of the troubles with the aid program is that you fellows place all the incompetent people you know in aid jobs"; he added, "I know, because I used to do it myself." In other words, as president, Johnson was not against foreign aid; far from it; but he did have doubts about the cost effectiveness and the administrative efficiency of the program, concerns that were sometimes more important to him than the program itself. Furthermore, he expected some form of measurable political return for America's munificence, if nothing more than evidence of political gratitude on the part of the recipient towards its benefactor.\(^6\)

Other considerations also heavily influenced Johnson's attitude on foreign aid and, for that matter, on most foreign economic issues. In the first place, while he loyally supported Kennedy's aid program, with its increased emphasis on development assistance, just as he had supported most of Eisenhower's requests for aid, Johnson never felt comfortable with Kennedy's approach to the Third World. Johnson believed even more strongly than Kennedy had in regional programs of mutual self-help, such as the Alliance for Progress, for Latin America, and similar programs for Asia and Africa. He was also convinced that the world's other industrialized nations had to assume more of the responsibility for the Third World, and he placed far more emphasis than Kennedy had on the importance of private investment in underdeveloped countries. In this respect, Johnson's approach to economic development was a throwback to the early years of the Eisenhower administration, when Eisenhower had tried to substitute a program of expanded trade and private investment for foreign aid.\(^7\)

Perhaps as important, Johnson rarely failed to consider the domestic political consequences of his foreign economic programs. Just as he expected a political benefit to the United States from the assistance that it provided to other countries, he was hesitant to undertake any initiative that might either weaken him politically or undermine the office that he represented. Conversely, he was willing to expend great
effort and to take considerable risks in order to maintain presidential integrity.

The limits of Johnson's commitment to foreign aid and his abiding concern with political considerations was clearly evident in his conflict with Congress over Kennedy's aid program for 1964. To be sure, after taking office, Johnson stated his determination to restore some of the large cuts that had already been made in the separate authorization bills passed by the House and the Senate. He even made an unexpected evening visit to Capitol Hill to meet with House Speaker John W. McCormack's informal "Board of Education" session of congressional leaders to press for the full authorization, and Johnson warned Otto Passman of Louisiana, who led the fight against foreign aid in the Appropriations Committee, that if he [Johnson] did not get the full $3.6 billion, he would carry the battle to the House floor, where he would whip Passman.  

The president was far more concerned with Kennedy's tax bill and his civil-rights measure, however, than he was with the foreign-aid legislation. Thus, Johnson never carried through with his threat to the Louisiana congressman. Even with respect to the aid program, Johnson was worried more about an amendment to the appropriations legislation that had nothing to do with foreign assistance than with the aid program itself. Just before Kennedy was killed, Republican Senator Karl E. Mundt of South Dakota attached to the measure a rider, which would have prohibited the Export-Import Bank from guaranteeing loans to finance trade with any Communist countries. Johnson regarded Mundt's amendment and other similar ones as a challenge to his office and as a test of his new authority as president. Therefore, he decided to take whatever steps were necessary to defeat the proposals. The vote on the amendment was set for November 26, the day of President Kennedy's funeral. Johnson later commented: "We could not afford to lose a vote like that, after only four days in office. If those legislators had tasted blood then, they would have run over us like a steamroller when they returned in January, when much more than foreign aid would depend on their actions."

By using his considerable powers of persuasion and by displaying all the political acumen that had made him such an effective majority leader when he was in the Senate, the new president was able to defeat Mundt's amendment and similar efforts. From the White House, Johnson stayed on the phone, contacting his supporters to keep them in line. At the same time he invoked Kennedy's memory to win over undecided or uncommitted members of the House and the Senate. Towards the end of the fight, when the House balked at a con-
ference report that excluded restrictions that the House had recently passed, he called the members of the House, many of whom had already left Washington for the Christmas holidays, back to town for another vote. On the next day, December 23, he invited the congressmen to the White House for a reception, where he stood on a chair in the State Dining Room to press his case. In an unusual 7:00 A.M. session less than twenty-four hours later, the House agreed to a second conference report, which allowed the president to authorize export guarantees if he found them to be in the national interest.10

As a number of newspapers later noted, Johnson's decisive actions during his first few weeks in office, including his successful fight against credit restrictions on East-West trade, quickly established his reputation as a strong and dynamic leader. But the new president left his first bout with Congress over foreign aid convinced that dramatic changes would have to be made in how the aid program was presented to Congress if additional cuts were to be avoided. Believing that there was a great deal of waste and mismanagement in the aid program and having real reservations about its benefits for the United States, the new president even considered splitting up the Agency for International Development in order to make the foreign-aid program more palatable to Congress.

Eventually, Johnson decided against this, having been advised by congressional leaders that too many changes had already been made in the administration of the program.11 Instead, Johnson adopted another tactic. Believing that previous cuts had seriously eroded the prestige of the presidency, he decided to present Congress with a "pre-shrunk" request for 1965, which would make it extremely difficult for the House and the Senate to reduce it still further. At the same time, he would make clear to the House and the Senate that he was placing more emphasis on self-help by recipient nations and that he intended to rely more on private investment to assist in the economic development of Third World nations, even making such investments eligible for a special tax credit.12

Accordingly, in his message to Congress in March, Johnson asked for only $3.52 billion in foreign aid, or approximately $1 billion less than what Kennedy had asked for a year earlier. "The funds I am requesting," Johnson remarked, "will be concentrated where they will produce the best results, and speed the transition from United States assistance to self-support wherever possible."13 During the ensuing legislative process, administration leaders and congressional supporters pushed the point that the request for aid represented a "harder figure" than any of the other proposals in recent years. They also con-
continued to emphasize the program's increased emphasis on self-support and private investment.\textsuperscript{14}

In all, Johnson encountered relatively little difficulty in pushing his program through Congress and in getting most of what he had sought. There continued to be the usual objections to foreign aid that had been raised since at least Eisenhower's administration. Significantly, Johnson's request in May for $125 million in additional economic and military assistance for South Vietnam troubled some congressmen who were already worried about the worsening crisis in Southeast Asia. Compared to a year earlier, however, the congressional debate over foreign aid in 1964 was muted. For the first time in the nineteen-year history of the foreign-aid program, the House Foreign Affairs Committee approved the president's full requests for funding, including the additional aid for Vietnam. Furthermore, the final appropriation of $3.25 billion was only $267 million, or 7.6 percent, less than the original request, the lowest percentage cut in the entire history of the aid program. Johnson's strategy of presenting Congress with an already scaled-down program, his usual attention to every detail of the legislative process, and the death in May of the chairman of the House Appropriations Committee, Clarence Cannon of Missouri, who had supported past efforts to trim foreign aid—all accounted for getting the program through Congress relatively unscathed.\textsuperscript{15}

By the time that Johnson signed the foreign-aid legislation into law in October, he was also having to pay more and more attention to the balance-of-payments deficit. This, too, was a problem that he had inherited from the Eisenhower and Kennedy administrations. In fact, because of a precipitous drop in U.S. holdings of gold—from $24 billion in 1954 to about $18.7 billion in 1959, as a result of the payments deficit—Eisenhower had been forced to adopt many of the same policies that Johnson would later employ. These included the tying of aid to the fostering of trade, a cutting back in military expenditures overseas (a major item in the deficit), and the discouraging of Americans from investing abroad, except in Third World countries where U.S. capital was still considered to be essential to economic development.\textsuperscript{16}

Nevertheless, the balance of payments had continued to deteriorate even after Kennedy had become president. As large amounts of gold continued to leave the United States, the dollar came under speculative attack. In order to reestablish confidence in the dollar, to offset speculative surges, and to put an end to the heavy losses in the nation's gold stock, the Kennedy administration had
created a series of new financial tools and had obtained an agreement among the finance ministers and the central bankers of the ten leading industrial countries (the so-called Group of Ten) to make available $6 billion in supplementary resources to the International Monetary Fund (IMF) for lending to any one of the ten. But while these measures stopped the hemorrhaging of America's gold holdings and the gold outflow for 1961 and 1962 slowed by half from what it had been in 1960, the balance of payments, on which the stability of the dollar ultimately rested, continued to worsen.

In an effort to deal with this continuing problem, Kennedy had announced in July, 1963, a comprehensive balance-of-payments program, the major feature of which was an interest-equalization tax, designed to stem the flow of U.S. capital abroad by increasing the cost to foreign borrowers of raising money in the United States. The program also provided for a further tying of foreign aid to U.S. exports, a further reduction in overseas military costs, and a decision to seek a $500 million standby credit from the IMF. But before the program could be fully implemented, Kennedy had been killed, and it was left to Johnson to deal with the whole thorny problem of the balance of payments.

From the time that he had taken office, the payments deficit had affected almost every aspect of Johnson’s foreign economic program. Because of the unfavorable balance of payments, for example, the president had directed, in December, 1963, that maximum use be made of dollar credits rather than local currencies for the purchase of agricultural goods that were being sold under PL 480, or the Food for Peace program. Similarly, the administration had increased the tying of AID grants and loans to American procurement as part of its program to reduce federal expenditures abroad. For the same reason, it had ordered significant cuts in overseas military spending and in the number of government personnel who were serving abroad. Finally, it had proposed a 50 percent increase in the quotas of the IMF as a way of bolstering the dollar and the much weaker pound.

In fact, finding ways to achieve both additional financing for the U.S. deficit and increasing international liquidity were the main thrusts of Johnson's international monetary policy, just as they had been for Kennedy. But the Europeans—especially the French, Dutch, and Belgians—opposed a significant enlargement of the IMF (which provided deficit nations with short-term balance-of-payments loans) because the fund operated under the existing gold-dollar system, which, they believed, allowed Washington to pay its debts by speeding up its printing presses. President Charles de Gaulle of France, espe-
cially, wanted to dethrone the dollar as a reserve currency and to force
greater discipline on the U.S. economy, which he considered to be
profligate. Instead of a 50 percent increase in the IMF quotas,
therefore, the Europeans agreed in August to only an overall increase
of 25 percent, an action that White House aide Francis Bator and Na­
tional Security Adviser McGeorge Bundy termed "more mouse than
elephant."

Nevertheless, the administration's overall scorecard for dealing
with the balance-of-payments deficit during its first year in office was
encouraging. The liquid deficit for 1964 was pegged at $2.4 billion,
down 28 percent from 1963 and down 39 percent from the annual
average for the years 1958 through 1960. Gold losses were even more
encouraging, being 60 percent less than the previous year and almost
90 percent less than the annual average for 1958 through 1960. To
be sure, the United States was still not out of the woods. Indeed, figures
for the last quarter of 1964 showed a worsening of the payments deficit,
so that at the end of January, a cabinet committee on the balance of
payments met at the White House to review possible additional
measures for holding down the dollar outflow from the United States.
For the most part, however, the mood of the meeting was sanguine.
Although there was by now consensus that additional measures were
called for, most participants at the meeting did not regard the situa­
tion as critical. "There is danger in too small and too weak a program," 
Chairman Gardner Ackley of the Council of Economic Advisers [CEA]
thus told the president. "But there is also danger in too strong and
restrictive a program" (Ackley's italics). Consequently, the commit­
tee recommended only a program of carefully monitored voluntary
restraints on direct investments and short-term loans abroad, a pro­
gram that McGeorge Bundy referred to as one of "moral suasion."

On February 10, President Johnson presented the proposal to Con­
gress. Although he asked the House and the Senate to renew and ex­
tend existing legislation, including the 1964 Interest Equalization Tax,
the president made clear that the heart of his program was a volun­
tary program of credit restriction. Assuring Congress that the state
of the dollar throughout the world was "strong—far stronger than three
or four years ago"—and that the dollar remained "as good as gold,
freely convertible at $35 an ounce," he said his recommendations were
"designed to serve our balance-of-payments objectives without im­
posing direct controls on American business abroad." "We seek to
preserve the freedom of the market place," he concluded [Johnson's
italics]. Publicly, the administration refused to estimate the impact
that the program would have on the payments deficit. But privately,
administration officials anticipated cutting the deficit in half, from about $3 billion in 1964 to approximately $1.5 billion for 1965.27

One proposal for dealing with the balance-of-payments problem that the White House decided not to adopt was tightening credit and raising interest rates as a way of discouraging imports and of attracting foreign capital. Although considerable discussion took place over this issue, the administration concluded that the domestic economy was still not sufficiently robust to withstand such a tight money policy.28 Powerful groups, including organized labor, also spoke out against tightening credit, which George Meany, president of the American Federation of Labor (AFL), told Johnson would be "a dangerous measure in an economy of persistent unemployment and rapid increases in both productivity and labor."29

In Europe, reaction to the president's balance-of-payments program was mixed at best. On the one hand, there was satisfaction that the United States was concentrating on limiting the outflow of capital, and there was a sense that the bank part of the program would probably work. On the other hand, there were serious doubts about the administration's ability to curtail corporate outflows by voluntary means, and there was much regret that in its program, the White House did not include provisions for tightening domestic credit.30 The attitude in the United States was also mixed, as some businessmen expressed puzzlement as to what exactly they were expected to do, while others made clear that they could not curtail foreign spending projects that were already under way. For the most part, however, the general feeling within the business community was one of giving the program a chance to see what it would accomplish.31

Congress felt much the same way. In hearings before the Senate Banking and Currency Committee that began in March, Treasury Secretary Douglas Dillon and other administration officials spelled out the administration's case for restricting the flow of capital abroad. A number of economists and academicians also testified before the committee, debating among themselves whether the balance-of-payments deficit represented a "crisis" or a "near crisis," an argument that mystified some senators.32 On the whole, however, the administration had an easy time in Congress. By the end of September the House and Senate had passed virtually unchanged the entire package of legislation that Johnson had requested.33

Indeed, 1965 marked the height of achievement insofar as Johnson's foreign economic policy was concerned. Not only did Congress give the president almost everything that he wanted with respect to his balance-of-payments program, but the payments deficit itself
declined to $1.3 billion, the smallest deficit since 1957 and less than half the $2.8 billion figure for 1964. This was enough to convince administration officials that the problem was under control.\textsuperscript{34} Almost as important, Johnson succeeded in getting his foreign-aid request of $3.38 billion through the House and the Senate pretty much intact, just as he had a year earlier. The final appropriation of $3.2 billion represented a cut of just 6.9 percent, the smallest on record, smaller even than the 7.6 percent reduction a year earlier.\textsuperscript{35} A major debate did take place over the future and structure of foreign aid, which taxed relations between the White House and Chairman Fulbright of the Senate Foreign Relations Committee, who wanted to separate economic from military assistance and who favored a multiyear authorization for foreign aid.\textsuperscript{36} The differences between Fulbright and the administration, which did not want to stir the already-murky waters of foreign aid, might have served as a warning of the difficulty that the president would soon face in the Senate.\textsuperscript{37} But together with the payments legislation that Congress has already approved, the passage of the aid legislation for 1965 added to the already existing image of Johnson as being the most effective president since Franklin Roosevelt. The year 1965 had indeed been a very good one for President Johnson.

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It was the last such year, however. As a result of the Vietnam War, matters changed dramatically during the next year and stayed that way for the remainder of Johnson's administration. The improvement in the balance of payments that had taken place in 1965 proved to be transitory, not intrinsic. Although there were complex reasons for this, having to do largely with excess demand and weak fiscal policies, a major factor—as the administration realized but failed to do anything about—was the cost of the Vietnam War, which further inflated an already overheated economy, creating import demand, cutting into export growth, and causing an outflow of gold and dollars that threatened the very stability of the dollar, and indeed, the international monetary system.\textsuperscript{38} But the balance-of-payments deficit was not the only casualty of the Vietnam War; the White House's foreign-aid program became a victim as well. For opponents of the war, particularly in the Senate, opposition to foreign aid became a way of striking back at the White House where it was particularly vulnerable while presenting their own case to the American public. As a result, the debates over foreign aid, beginning in 1966, became increas-
ingly acerbic, and the cuts in the program became more and more severe.

It would be unfair to blame the Vietnam War entirely for the nation’s balance-of-payments problem. As we have already seen, the payments deficit was one that President Johnson had inherited from Presidents Eisenhower and Kennedy. Furthermore, as early as 1965, a number of administration officials had begun to express concern about Johnson’s program for dealing with the payments deficit, both before and after Congress had acted on the program and before the war could have much effect on the nation’s economy. For the most part, however, the recommendation of these economic experts was merely to ask for stand-by controls on foreign credits should the president deem them necessary. 39

More important, the administration chose to ignore the connection between the Vietnam War and the nation’s balance of payments even though it was well aware that such a connection existed. It did not act to counter the impact that the war had on the payments deficit, through a combination of fiscal and monetary policy, because (1) it did not think the payments deficit posed any major threat to the dollar and (2) it was committed until too late to a “guns and butter policy.” As a result, the conflict in Southeast Asia continued to exacerbate the nation’s balance-of-payments problem, thereby weakening the dollar and ultimately undermining the international monetary structure, which was based on the dollar.

Although the cost of the Vietnam War in terms of the nation’s balance of payments cannot be measured precisely, it certainly was substantial. Several respected economists have put the annual costs at $3.6 billion from 1964 to 1967. Of this amount, they attribute $1.6 billion to increases in direct military spending abroad and $2 billion to the additional costs of inflation. If these figures are even approximately correct, then a major portion of the payments deficit during these years was due to the war in Vietnam. As Robert Shaffer, a senior economist with the Bank of America thus commented in a report to the Senate Foreign Relations Committee in 1970, “The war in Southeast Asia cannot take the blame for the whole of our inflationary and balance of payments problems, but it is obvious that it must share a large part of them.” 40

Furthermore, administration officials were fully aware of the impact that the war was having on the balance of payments. As early as the end of November, when the military build-up in Vietnam was still in its initial stages, a specially appointed cabinet committee commented on the connection between the war and the deficit. Forecasting
an overall deficit of $1.4 billion for 1966, it attributed a good part of
the increase to a growth of $290 million in Defense Department
spending overseas, accountable "entirely to our intensified effort in
Southeast Asia." "A further $200 million increase in expenditures may
occur next year and worsen the projected deficit by that amount," the
committee also stated. However, the committee recommended that
the president merely tighten the existing voluntary program.41
The committee's forecast of a $1.4 billion deficit in payments for
1966 proved to be remarkably accurate. The actual figure of $1.42
billion represented an increase of only $123 million over the deficit
for 1965, which was still only about half the $2.8-billion figure for
1964. Nevertheless, what concerned public officials both in the United
States and abroad, both within the administration and on Capitol Hill,
was the fact that there was any deterioration at all. Although the
cabinet committee had accurately estimated the size of the payments
deficit, other administration officials had predicted at the beginning
of the year that the balance of payments would move into equilibrium,
which was defined by the administration as a deficit or surplus no
greater than $250 million. Not only were they proven wrong, but by
the end of 1966 the deficit was growing, not contracting. Moreover,
the gains that the voluntary program had achieved were being more
than offset by the costs of the war in Vietnam.
That the balance-of-payments program was not working as well
as the administration had hoped was revealed by a report the Depart­
ment of Commerce issued early in 1966, a report that showed that
the country's major corporations planned to spend a record $8.8 billion
in plants and equipment overseas during the year. Also, preliminary
estimates indicated that the nation's trade balance would decline
significantly over the year, thereby exacerbating the deficit. Indeed,
figures on the balance of payments that were released in May showed
a seasonally adjusted first-quarter deficit in payments of $582
million.42
The White House was clearly worried by these latest figures. But
precisely because it attributed the deficit to the military build-up in
Vietnam rather than to any basic weakness in its own economic
policies, the administration concluded that no radical change was
called for in its balance-of-payments program. At a press conference
on May 18, Treasury Secretary Henry Fowler thus blamed the war in
Southeast Asia for the deficit in two ways. Not only did the war in­
volve direct military outlays abroad, he said, but by heating up the
economy, it also raised prices and adversely affected the nation's
balance of trade. As a result, instead of an anticipated improvement
from the previous year's $4.8 billion trade surplus, first-quarter figures showed the surplus dropping to an annual rate of $4.4 billion for 1966. "We suggest that careful analysis will support the proposition that, absent the Vietnam build-up, the United States might have moved substantially closer to equilibrium in its balance of payments," the treasury secretary concluded [Fowler's italics].

What Fowler was saying, in other words, was that the American economy and the American dollar were basically sound. The balance-of-payments deficit could and would be controlled. In the absence of the conflict in Southeast Asia, the United States might already have approached equilibrium. As for the dollar, whatever weakness was attributed to it was more the result of its heavy responsibilities as a reserve currency than of any other factor, including the need to pay for the overseas costs of the war. By sloughing off the economic impact of the Vietnam War in this way and by concluding that the international monetary system was structurally stable, the administration was ignoring the additional stresses and strains that the war was placing on the nation's balance of payments. As a result, the dollar was further weakened in international money markets, and the world's entire monetary structure was placed in jeopardy.

In fact, the administration always remained far more concerned about increasing international liquidity than about the impact that the war was exerting on the nation's balance of payments. If by creating a new reserve currency the dollar could be relieved of some of its international responsibilities, the White House was confident that it could handle the nation's payments deficit. In June, 1965, therefore, President Johnson instructed Treasury Secretary Henry Fowler to establish a special study group on international monetary reform to look into the matter of a substitute for the dollar. An advisory committee, known as the Dillon Committee after its chairman, former Treasury Secretary C. Douglas Dillon, was also formed.

On the recommendation of the study group and the Dillon Committee, Secretary Fowler issued a call on July 10 for an international conference to consider the creation of a new reserve asset in the IMF, which would be based upon a system of "special drawing rights." A number of different versions of this system were already in existence at the time Fowler asked for an international meeting. Although the precise details still had to be worked out, essentially the concept being developed in Washington was to have an asset that, like gold, could be used to buy foreign currencies and to settle balance-of-payments deficits without having to rely on the credit facilities of the IMF.
In August, Fowler and Undersecretary of State George Ball visited all the major West European capitals to push for the convening of a conference on international liquidity, which, they argued, would eliminate the need for new monetary gold or increased holdings of dollars. No mention was ever made of the economic consequences of the Vietnam War. Indeed, the administration presented its case for a new reserve asset on the basis of an insufficiency of gold to keep pace with the rapid growth of world trade, rather than on the United States' payments deficit and a corresponding weakness in the dollar. In explaining the rationale for a system of "special drawing rights," President Johnson later remarked: "By supplementing gold and dollars, the 'special drawing rights' system would relieve pressure on both."

Just as the Europeans had earlier expressed doubts about the administration's balance-of-payments program, so now they expressed reservations about its plan for a new reserve asset. With the notable exception of France, which was still concerned mainly with reducing or ending the special status of the dollar, the Europeans were not so much against a new asset per se; but they preferred an asset that was somehow linked to gold. Most certainly they did not want the United States—or England—to escape honoring their international obligations by paying their deficits with "funny money" instead of with hard currencies. Reporting on a series of sessions that the Group of Ten held in Paris at the end of January, Treasury Secretary Fowler thus informed the president that the meetings "revealed a wide area of agreement on international monetary reform, but a very sticky disagreement on the relation between gold and the new reserve unit" (Fowler's italics). Fowler concluded that "the Continentals are not going to be easily budged from their determination to hitch the new unit to gold and to keep it in a secondary position to gold."

Fowler was right. The Group of Ten held a series of meetings throughout 1966 and well into 1967. It agreed that a new reserve currency was needed, but it failed to agree either on the form of that new currency or on whether it should simply increase existing IMF drawing rights. The deadlock was not broken until the end of April, when the United States agreed that the European members of the Common Market would have veto power over the manufacture of the new asset by increasing their quotas under the weighted voting procedures of the IMF. Even then, there was a further delay until September before agreement was reached in principle on the establishment of the new asset, to be known as Special Drawing Rights (SDRs), and many details of the system were still not resolved. The result was that when an
attack against the British pound began in November, which would spread to the dollar and threaten the entire international monetary structure, the administration was forced, in President Johnson's words, "to deal with it by using the tools at hand."

The assault on the British pound had not been unexpected in Washington. Great Britain's balance of payments was chronically far worse than that of the United States, and its inability to inspire confidence in its long-term economic future had led to recurring speculation against sterling since 1961. In 1964 the United States had taken the lead in arranging a $3 billion package of credits from the Group of Ten members plus Austria. This massive support turned the speculative outflow into an inflow and thus saved the pound. In 1965, Undersecretary of State George Ball personally negotiated an additional $925-million package of credits from the United States and the European central banks. By mid 1966 the British were able to announce that they had repaid all of their short-term debts to foreign banks, although they still owed the United States about $500 million. Already the trade gap had begun to widen ominously again, however; and once more the pound came under heavy pressure, in part because the Vietnam War was helping to drive interest rates up in the United States, thereby attracting capital away from London. The British responded with a tough economic policy at home and with heavy borrowing abroad, which included almost a doubling of their credit (or swap) line with the United States, from $700 million to $1.35 billion. The program worked well through the first quarter of 1967. Towards the end of 1966, Great Britain even enjoyed a surplus in its balance of payments. Then the British were hard hit again by a disappointing amount of exports, by rising interest rates abroad, and, finally, by the Arab-Israeli war of June, 1967. The conflict led to the closing of the Suez Canal, substantial withdrawals of sterling, and increased costs for imports, largely for petroleum. In a last-ditch effort to hold the sterling rate by drawing funds back to Great Britain, London increased the discount rate sharply. The United States tried to help by making selective market purchases of sterling. But this time the speculative pressures were too great. Britain began to lose reserves at a rate of $250 million a day. Finally, on November 18, 1967, London announced to Washington that it was devaluing the pound from $2.80 to $2.40. Those who had gambled on a devaluation of sterling and had cashed their pounds in for gold had won their bet.

The situation that the United States was now facing became perfectly clear. "Now the dollar is in the front line," Treasury Secretary
Fowler remarked rather imprudently but truthfully after news of the devaluation was officially announced in London. Washington was fully aware that the price of gold would come under great upward pressure in the case of a British devaluation, as speculators turned to their next likely candidate for devaluation, the already-weakened dollar. "The gold market has been under strong demand pressure during most of 1966 and 1967, and little relief appears in sight," Secretary Fowler thus informed President Johnson a few days before sterling was devalued (Fowler's italics). If sterling fell, Fowler said, there would be great monetary unrest. Perhaps the only solution to the crisis would be a rise in the price of gold.\(^5\)

The White House was determined, however, to keep the dollar as "good as gold"—that is, to keep the dollar convertible at the exchange rate of $35 an ounce. To do otherwise, to effectively devalue the dollar by increasing the price of gold, would have had far-reaching consequences, not the least of which would be to drive up the overseas expenses of United States defense commitments, including the cost of the war in Vietnam. It would also make imports for American consumers more expensive, something that the administration was anxious to avoid.

Estimating that losses would be as high as $2 or $3 billion a day (compared to Britain's highest daily loss of $1.3 billion), the administration thus turned to the gold pool, which had been established in London during Kennedy's administration in order to prevent undue speculation in gold and to channel gold to central banks in an orderly fashion.\(^5\) The strategy was risky, for it was far from certain that the pool would go along with the United States in holding down the price of gold.\(^5\)

As it was, in the week after the devaluation, the pool was called on to support the gold market to the extent of $580 million in gold, with the United States supplying 60 percent of the gold.\(^5\) Furthermore, the European members of the pool were becoming more and more concerned about the losses that they were sustaining. As demand for gold continued to grow, some erosion of European support became evident. By the end of December, losses in the gold pool reached more than $1.5 billion. Exacerbating the crisis were two additional developments. First, preliminary figures indicated that the U.S. balance of payments would deteriorate very badly during the fourth quarter of 1967. When these figures were made public, concern about the dollar was almost certain to be translated into additional speculative demand for gold. Second, U.S. losses of gold were rapidly bringing American gold reserves close to the amount necessary
in order to meet the legal requirements that gold be held to cover 25 percent of the domestic issue of notes, or about $10 billion. The Federal Reserve Board could waive this requirement, but this was hardly understood in European markets; in any case, the gold-cover requirement had a bad psychological effect on the gold market, because it suggested that the United States would soon be unable to meet its commitment to keep the dollar convertible.\textsuperscript{56}

To meet the immediate crisis, the president outlined, on New Year’s Day, a new and much-tougher balance-of-payments program. Forecasting a payments deficit of $3.5 to $4 billion, the president stated that the United States could not “tolerate a deficit that could threaten the stability of the international monetary system—of which the U.S. dollar is the bulwark.” As the centerpiece of his program, he announced a series of mandatory controls over private investments abroad. He also authorized the Federal Reserve Board to tighten its program restraining foreign lending by banks, and he announced a series of steps that were designed to lower government spending overseas, curtail unnecessary U.S. travel abroad, and increase the U.S. trade surplus. Such a program, he said, would “keep the dollar strong. It will fulfill our responsibilities to the American people and to the free world.” Two weeks later, in his State of the Union message, the president asked Congress to remove the legal requirement for a 25 percent gold cover on issues of notes, remarking that this would free up more gold in defense of the dollar.\textsuperscript{57}

Reaction abroad to the president’s balance-of-payments message was highly favorable, and for a few months, this had a tranquilizing effect on the speculative fever. But doubts about the president’s ability to get his program through Congress contributed to a build-up of pressures against the dollar once more. In Washington, various proposals were considered to deal with this latest chapter in the gold crisis, including a recommendation by the Dillon Committee to close the gold pool, adopting in place of the pool a two-price system that would keep the official price for gold—or the price at which official transactions would take place—at $35 an ounce while letting the private market set its own limits.\textsuperscript{58}

This was the policy that the administration adopted. The resumption of heavy speculation in gold in early March made it abundantly clear that the United States would have to take new steps to protect the $35 price of gold. In the first week of March the pool had to put $300 million of gold into the market. In four days beginning on March 11, the pool lost approximately $1 billion. By the end of the week, speculative fever had gotten out of control. To make matters worse,
the members of the pool, except for Germany, announced their intention to replace their losses by drawing gold from the United States. In response, Secretary of State Dean Rusk informed all diplomatic posts on March 15 that the London gold market was to be closed that day and that the United States had invited the central bankers of Europe to an emergency meeting in Washington to discuss the situation.  

At the meeting, which convened on the sixteenth, Chairman William McChesney Martin of the Federal Reserve Board announced flatly that the United States had ruled out any increase in the official price of gold. He also made it clear that either agreement had to be reached on some plan based on the $35 price or a new system would have to be established in which the dollar would no longer be convertible. With really little choice between going along with the United States or risking total chaos, the central bankers agreed to a two-tier system, pledging neither to sell nor, for the time being, to buy gold in the private market, thereby giving up potential profits but leaving speculators with the problem of unloading their gold at prices that might fall below $35 an ounce. Soon after the announcement of the two-tier system, the price of gold in the private market retreated back towards $35 an ounce.

For the moment, then, the gold crisis was over, and the dollar remained convertible at $35 an ounce. Ironically, a near revolution in France in 1968, led by rioting students and workers who were protesting a rise in unemployment and a slowdown in the growth of the economy, had the incidental consequence of strengthening the dollar while undermining the French franc. Meanwhile, the machinery had been put in place that would finally, in 1970, result in the issuing of a new reserve asset, the SDRs.

In reviewing the critical months from November, 1967, when the British first announced that they were going to devalue the pound, until March, 1968, when the two-tier gold system was established, President Johnson was thus able to claim that a “historic turning point” had been reached in terms of the international monetary system: “The world’s leading bankers were telling the speculators that henceforth the banks would be looking to the new international currency, not to gold, to enlarge monetary reserves. They were committed to building the international economy on the basis of intensive partnership.”

This was hardly the case, however. These critical months had disclosed just how fractured and fragmented the international monetary system really was. Paradoxically, they had also underscored
just how interrelated the world economy was, just how dependent it had become on the shaky dollar, and just how much the stability of the dollar rested ultimately on a resolution of the United States' balance-of-payments difficulties. Here lay the crux of the problem for the White House; here also lay the ultimate dilemma for its entire foreign economic program. Because, as administration officials had always realized, in the absence of a settlement of the Vietnam War or of steps to deal with a basic war-related cause of the payments problem—war-generated inflation—the chances of a settlement of the payments deficit were greatly diminished. Yet the president continued to be committed to carrying on the conflict in Southeast Asia, and he opposed the type of tax increase that might have cooled off the domestic economy.

In fairness to Johnson, in his State of the Union address of January 10, 1967, he did propose a 6 percent surcharge on income taxes, which was later raised to 10 percent. This was really a case of too little, too late, however; for by the time Congress had approved the measure in 1968, the payments deficit had become chronic, and the dollar was under speculative siege. Besides, until the gold crisis at the end of 1967, the heart of the administration's balance-of-payments program continued to be voluntary controls on foreign investments and credit. Only after the crisis had mounted did the White House move to a more comprehensive program that included mandatory controls.

Furthermore, by 1968 the war had so undermined the president's support in Congress that most of his legislative proposals for dealing with the balance-of-payments problem were defeated on Capitol Hill. The president did get Congress finally to pass his tax surcharge, which had been rejected a year earlier; and the House and the Senate also agreed to lift the 25 percent gold cover against Federal Reserve notes, which the president wanted. But they rejected his proposals to tax Americans who were traveling abroad, and they defeated the Trade Expansion bill of 1968, which was designed to increase exports by a further liberalization of world trade. They also failed to act on a third administration proposal, which was aimed at attracting foreign visitors to the United States by waiving visa requirements in certain cases.61

III

The Vietnam War loomed large, however, not only over the balance-of-payments program but also over Johnson's foreign-aid program. Many members on Capitol Hill, particularly in the Senate, expressed their discontent over the war and over the administration's
handling of foreign policy by voting against the program, by severely cutting the president's spending recommendations, and by rejecting his proposals for major changes in the program, including multiyear authorizations and the separation of economic from military-assistance bills.

The White House, in order to get its foreign-aid bill through Congress in 1965, had agreed to conduct a review of the entire aid program. As a result of the review, which was conducted during the fall of 1965, the president forwarded to Congress in January a $3.39-billion foreign-aid bill, which was the smallest in the history of the program, but one that was also substantially different from his two earlier proposals in terms of assumptions and objectives. As in the case of his earlier requests for aid, Johnson continued to place great emphasis on the self-help aspects of economic assistance; indeed, he now made self-help and regional cooperation the core of his program.\(^{62}\)

At the same time, however, the president proposed separating the military-aid and the economic-aid programs by introducing two separate bills, and he requested five-year authorizations for each program. He also spoke more eloquently than ever before about the need to attack the root causes of world misery and poverty, to address the problems of disease and overpopulation, and, above all, to deal with the problems of world hunger, which he referred to as "a catastrophe for all of us." In order to eliminate hunger and to make the developing countries self-sufficient in food, he proposed a broad program of food aid and agricultural assistance, which he labeled his Food for Work program.\(^{63}\) In effect, by asking to separate economic from military aid and by seeking a multiyear authorization for the aid program, Johnson was responding to Fulbright and to the other senators who had long pushed for such legislation. By his eloquent appeal to rid the Third World of disease, overpopulation, and hunger, Johnson may also have hoped for additional support in the upper chamber from senators who had long been concerned with the social plight of the underdeveloped countries. This did not happen, however; for by the time that Congress took up the foreign-aid program, the war in Vietnam had become the Senate's overriding concern.

At just what time the Senate began to turn against Johnson in regard to Vietnam is difficult to say. Certainly even in 1966, the president's conduct of the war was still enjoying considerable support in the upper chamber, perhaps majority support. But stung by the rapid escalation of the war and by the apparent unwillingness of the administration to negotiate a settlement of the conflict on terms that North Vietnam could accept, the Senate Foreign Relations Commit-
tee vented its anger by attacking Johnson’s foreign-aid request for 1966 in nationally televised hearings that were dominated by the topic of Vietnam. Roles became totally reversed in the debate over foreign aid. Now the administration led the fight for multiyear authorization of the aid program, while committee chairman Fulbright, who one year earlier had pushed for this measure, chose to attack the administration’s aid program because it did not place enough emphasis on multilateral aid and because it would aid such dictatorial regimes as the former Diem government in South Vietnam, which, Fulbright held, had led to “full scale war.”

Despite a personal appeal from Secretary of State Dean Rusk for a five-year authorization bill, the committee reported out a bill that limited the foreign-aid program to a one-year authorization. Although the committee did go along with the administration in reporting out separate bills for economic and military aid, it also cut the president’s economic-aid request by slightly under $100 million and his military-aid request by $25 million, not in themselves major reductions but ones that did reflect its change of attitude from a year earlier, when it had cut the president’s original request by $28 million. In sending the measure to the floor of the Senate, the committee made clear just how much it had been influenced by its discontent over the Vietnam War, a war, it said, that “casts a very long shadow” and that had led many members of the committee to “feel that the United States is overcommitted, or in danger of becoming overcommitted, in the world at large.”

Even after the measure had reached the full Senate, the war continued to dominate the debate as Fulbright, who had agreed to manage the legislation, nevertheless voted for a series of restrictive amendments and cuts in his committee’s own bill.

As a result, the total authorization for economic and military assistance was cut by nearly $500 million from what the president had requested. These reductions were salvaged in the House, where support for the war was much greater. Even in the lower chamber, however, the Vietnam War was a major concern. Although many members of the House were reluctant to voice their opinions in an election year and therefore supported the authorization measure that came out of the Foreign Affairs Committee, the committee itself recognized the growing opposition to the aid program because of the war when it stated in its report on the aid legislation, “Much of the criticism of foreign aid reflects dissatisfaction with the world situation or with aspects of U.S. foreign policy which the foreign assistance program has been used to implement.”
Furthermore, in the ensuing appropriations process, the aid program was sharply cut back to $2.9 billion, almost $450 million less than what the administration had originally requested and $567 million, or 16.3 percent, less than what Congress had authorized—the largest percentage cut since 1964 and the first time since 1958 that the aid program had been funded under $3 billion. Trying to explain the rationale for these reductions, Senator Thomas Dodd of Connecticut pointed to a “neo-isolationism which threatens the entire structure of our foreign policy.” He then added that “whatever their motivation . . . it is difficult to escape the impression that [these neo-isolationists] are using the foreign aid program . . . as an instrument of pressure in an effort to compel the Administration to revise its Viet Nam policy.”

Dodd’s observation applied even more to the 1967 fight over foreign aid. Anticipating a struggle, Johnson had established a special task force on foreign aid in October, under AID’s administrator William S. Gaud, to recommend improvements in the program and to consider “the steps necessary to create a stronger public and congressional constituency for the program.” The task force made a series of recommendations, which emphasized particularly the importance of popular participation and self-help in all phases of the development process, themes that Johnson had underscored in his annual message to Congress, in which he asked for a $3.2-billion foreign-aid package. Stressing also the importance of regional development programs, the president told the House and the Senate that his program represented the “minimum contribution to mutual security and international development which we can safely make.”

Congress had not bought that argument a year earlier, however, and it did not buy it in 1967. Indeed, congressional support for foreign aid dropped to an all-time low when the House and the Senate adopted a series of restrictive amendments that were aimed at curbing the president’s authority to conduct foreign policy. Both directly and indirectly, the war in Vietnam once more had determined the outcome of the debate. In the House the issue was not so much the war itself as it was the need for fiscal restraint. But even this was tied into the costs of the war. A conservative coalition of Republicans and southern Democrats, who had greatly influenced the House’s action on other administration-sponsored legislation, argued that vast cuts were needed in foreign aid so as to reduce the nation’s mounting deficit. They were joined by a number of northern liberals, who were convinced that given the escalating costs of the conflict in Southeast Asia,
cutting foreign aid was the only way to save at least some of the domestic programs of the faltering Great Society.73

In the Senate the link between opposition to the foreign-aid program and opposition to the war was even more direct, as Fulbright and a group of other Democratic senators continued to use the debate over foreign aid as a vehicle for attacking the White House's conduct of the war. Over the summer and fall of 1966, relations between the White House and the chairman of the Senate Foreign Relations Committee had deteriorated from bad to worse, as Johnson and Fulbright had clashed over such issues as sales of arms to the Mideast, which the senator blamed for initiating an escalation in the Middle East arms race and which the president defended as necessary in light of a massive Soviet arms build-up in the region, including the sale of MIG-21s to Iraq.74 They also came to loggerheads over Johnson's decision to increase the number of countries that were receiving development loans and technical assistance under the foreign-aid programs. Fulbright accused the president of violating the intentions of Congress, which had placed restrictions on the number of countries that could receive such aid. Johnson responded that Congress had given him the authority to exceed the statutory limits when he deemed that it was in the national interest to do so.75

Although both of these questions came up in the 1967 debate over foreign aid, it was the war in Southeast Asia which, more than any other issue, shaped the discourse and determined the dialogue that took place. Using the same metaphor as it had a year earlier, the Foreign Relations Committee described the "shadow of Vietnam" as hanging even "far longer and darker" over foreign aid than it had a year earlier.76 Similarly, in responding to Secretary of State Rusk, who had just finished urging the Foreign Relations Committee to support the foreign-aid program as a way of bringing about a more peaceful world, Chairman Fulbright commented: "Perhaps I do not view it in the right perspective. But when you talk about building a peace, while at the same moment we are waging an ever-increasing war, it leaves one with a sense of schizophrenia."77

Consequently, the Senate and the House cut the president's request for 1968 by nearly $1 billion, or from $3.12 billion to $2.19 billion. This was $408 million less than the $2.7 billion appropriation for 1956, hitherto the smallest appropriation in the history of the foreign-aid program. Moreover, they restricted the president's authority over foreign aid in a number of ways, including the ban on selling arms on credit to Third World countries after 1968 and the
revocation of the president's discretion to waive the ceiling on the number of nations that would be eligible to receive development loans, which Congress had set at twenty. In sum, Congress delivered a crushing blow to the president's foreign-aid program, which reflected clearly its displeasure with the administration's policy in Southeast Asia.\textsuperscript{78}

Matters became even worse for the White House in 1968, as the House and the Senate again ripped into the administration's requests for foreign aid, approving a bill that, for the second year in a row, established a record low in funding. In fact, the battle over foreign aid in 1968 was almost a repeat of the conflict between the White House and Congress a year earlier. Once more the president made the smallest aid request, $2.9 billion, in the history of the program, repeating the now-familiar themes about the program's stress on self-help and on multilateral and regional programs of economic development but giving special attention to the need for agricultural growth and population planning in Third World nations in order to win their "war against hunger."\textsuperscript{79} As in 1967, however, the war in Vietnam dominated every aspect of the legislative process. In the hearings before the Senate Foreign Relations Committee, which again were televised nationally, Secretary Rusk was forced to devote virtually all of his testimony to a defense of the administration's policy in Southeast Asia, as Chairman Fulbright set the tone of the hearings on opening day by commenting that it was "not possible to talk about foreign aid, or indeed any problem of this country's foreign relations without discussing the war in Vietnam."\textsuperscript{80} In fact, Rusk had agreed to appear in open session before the committee only because the administration believed the alternative would be no aid bill at all, which would enable the press to report that the White House had "sacrificed foreign aid" for Vietnam.\textsuperscript{81}

Rusk's appearance before the Foreign Relations Committee, however, did the administration scarcely any good, as the committee in July reported out a bill adding an additional $48 million to the $968 million in cuts that the House had already made on the president's request. In sending the measure to the floor of the Senate, which approved the committee's recommendations virtually unchanged, the committee remarked that it had "acted on the foreign aid bill this year against a background of growing concern over the international posture of the United States and over the problems which the American people face at home." The committee added that "over both the foreign and domestic crises hang the fiscal and balance-of-
payments crises...which fundamentally result from the overcommitment both at home and abroad.”

Indeed, the reductions in appropriations that were finally approved by the House and by the Senate in October were, in terms of percentages, the largest ever. The $1.76-billion measure that was sent to the president was $1.16 billion, or 39.7 percent less, than the $2.92 billion Johnson had originally requested. Furthermore, the heaviest cuts were made in precisely those development programs, such as the Alliance for Progress, that the president had emphasized in his February message to Congress. Also, Congress had placed further restrictions on the president's authority to dispense foreign aid, including the ban on such assistance to nations that were already trading with North Vietnam. It would be too much to say that opposition to the war in Vietnam was the only reason for Congress’ hostility to Johnson’s foreign-aid program. Clearly, all the concerns that Congress had been expressing for years about the program, as well as new worries about the balance-of-payments deficit, were evident in this latest debate over foreign aid. But certainly the Vietnam conflict was the central issue in 1968, even more than it had been in 1967.

IV

In a real sense, then, President Johnson’s foreign-aid and balance-of-payments programs were casualties of the Vietnam War. One can legitimately ask, “So what? What was at stake here?” After all, the critics of foreign aid had long contended that such assistance to Third World countries (as opposed to Marshall Plan aid to Europe) had been money down the drain, failing either to bring about economic development in the Third World or to make friends for the United States or even to prevent hunger and starvation in places such as Africa or certain parts of Asia. Even President Johnson had had serious reservations about the effectiveness of foreign aid, and there is plenty of evidence to support the position of those who advocated cutting the aid program or eliminating it entirely. As for the impact of the Vietnam War on the nation's balance of payments and, by extension, on the international monetary system, one can also legitimately wonder whether, in the long run, much could have been done to redress the balance of payments or even whether the existing gold-dollar monetary system was defensible or worth defending. After all, it seems perfectly clear in the middle of the 1980s, with record-level payments deficits being recorded almost every quarter, that the United States' balance-
of-payments problems are so generic that no single action taken by any president in the 1960s could have stayed the red ink that has flowed for more than a quarter of a century in America's international accounts, much less could have prevented the system of floating exchanges, which replaced fixed rates in 1971 and with which the world has been successfully conducting international business ever since.

Whether or not the foreign-aid program has successfully achieved even a small part of the many goals ascribed to it over the last forty years, however, the fact remains that it was the central feature of U.S. foreign economic policy from the 1940s through at least the 1960s. Furthermore, as the United States became increasingly concerned with developments in the Third World, beginning sometime in the 1950s, the foreign-aid program became integral to the nation's overall foreign policy and remained so throughout the 1960s. One only has to point to one of the better-known parts of that program, the Alliance for Progress, to illustrate this point. Moreover, whether or not the program has been successful in achieving its goals, it has had a number of important institutional spin-offs, such as the Inter-American Development Bank (IADB), for Latin America, and the International Development Association (IDA), a soft-lending agency of the World Bank, which the United States helped to establish at the end of the 1950s in order to promote Third World economic development and which in the 1980s is assuming an important role in refinancing the huge international debts of Third World countries. Such achievements as these are not to be scoffed at lightly.83

As for the balance-of-payments problem, even if the payments deficit appears in the 1980s to be rooted in fundamental structural changes in the world economy over the last twenty-five years, most notably competition from Japan and other developed or developing nations, the fact remains that in the 1960s the Vietnam War exacerbated an already-serious payments problem, that this weakened the dollar, and that ultimately the weakened dollar undermined the existing international monetary structure. Furthermore, the administration understood perfectly well the interrelationship between the payments deficit and the Vietnam War, but it chose to ignore this fact, because it was satisfied that the dollar was basically sound, it was unprepared to risk the political flack that any economic tightening as a result of the war might create, and it was most certainly unwilling to reconsider its military commitment in Vietnam. So, like its foreign-aid program, its balance-of-payments program fell victim to the war in Southeast Asia.
Although this chapter has emphasized only these two programs, they were by no means the only foreign economic issues that concerned the president during his five years in office. There were a number of other problems, inherited from the previous administration, with which Johnson also had to deal as president. These included the P.L. 480, or “Food for Peace,” program; the Kennedy Round of tariff negotiations; the establishment of the Asian Development Bank; quotas on oil imports; increased funding for the Export-Import Bank; and the expansion of East-West trade. But while all of these matters received considerable attention during Johnson’s administration, none was regarded by the White House as being more important than the questions of aid and the balance-of-payments deficit, and many of them shared the common denominator with aid and the payments deficit of being affected in a way that was contrary to the administration’s policies because of the war.

To take just one example, in Johnson’s well-known speech at Johns Hopkins University on April 7, 1965, in which the president offered to enter into peace talks with North Vietnam, he also held out the prospect of a massive billion-dollar economic-development program for Southeast Asia. As part of the program, in December the United States would join with thirty-two other nations in signing a charter for the establishment of the Asian Development Bank. And in his foreign-aid message of February 9, 1967, Johnson indicated that he would ask Congress for $200 million as the United States’ contribution to a special trust fund to be administered by the bank. Even before he had submitted his proposal to Congress, however, he had been advised by Treasury Secretary Fowler that it was likely to receive a hostile reception because of the war and because of the United States’ huge financial commitments in Southeast Asia. In September, the president did submit a request to Congress in which he asked for $200 million for the bank, but the atmosphere in Congress was so hostile that the president delayed forwarding the proposal for a week, and once the request was sent, it never made its way out of committee. In 1968, Johnson again asked for congressional approval of a $200-million U.S. contribution to the bank’s special trust fund; but the results were the same as they had been a year earlier. The bill died in committee after the Foreign Relations Committee rejected an amendment to the legislation providing that no more than $25 million should be appropriated for the bank in any single year until the Vietnam conflict was ended. In terms of Johnson’s foreign economic policy, then, the war in Vietnam had the same cancerous effect as it had on other
aspects of the administration's foreign and domestic policies, destroy­ing what had been the most promising—and popular—administration since the New Deal and turning it into a dying patient over whose early demise few tears were shed.

Notes


15. After trying unsuccessfully to make sharp cuts in the appropriations bill, Otto Passman told reporters, it was "ridiculous that the President . . . would play politics to the extent he has with this bill" [Congressional Quarterly Almanac 20 [1964]: 67–68]; and ibid., pp. 296–315. See also Memorandum for the President, May 8, 1964, WHCF, box 22, folder FO3-2.
24. The figures used in this essay are based on the liquidity balance, which includes short-term claims against the United States, rather than the basic balance, which measures long-term flows and was generally more favorable to the United States.
43. Memorandum for the President, May 10 and 16, 1966, White House confidential file, box 49, folder FO4-1.
45. “The Department of State during the Administration of President Lyndon B. Johnson,” vol. 1, pt. 8, chap. 9, Johnson Papers.
47. Memorandum for the President, Feb. 5, 1966, WHCF, box 23, folder FO4-1; see also Mayer, Fate of the Dollar, pp. 157–58; Solomon, International Monetary System, pp. 130–31.
49. Johnson, Vantage Point, p. 315. On this same point see also memorandum for the President from Fowler, Sept. 11, 1967, White House confidential file, box 50, folder FO4-1.
50. “The Department of State during the Administration of President Lyndon B. Johnson,” vol. 1, pt. 8, chap. 9; memorandum for the President, Oct. 19, 1967, NSC file, NSC history, box 54, folder—Balance of Payments Program.
54. Ibid.
55. To the President from Rostow, Nov. 22, 1967, ibid.
59. Ibid.
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68. Ibid., pp. 402–6, 415–18.
74. Walt Rostow to Fulbright, Nov. 11, 1966, WHCF, box 48, folder 3-2.
82. U.S. Congress, Senate, Committee on Foreign Relations, *Senate Report 1479*, 90th Cong., 2d sess., p. 3.
84. Memorandum for the President, Sept. 12, 1967, WHCF, box 19, folder IT 80; see also Joe Califano to the President, Sept. 12, 1967, ibid.
86. *Congressional Quarterly Almanac* 24 (1968): 547. On the importance that some members of the administration attached to the bank see also Eugene Black to the President, Jan. 3, 1968, WHCF, box 19, folder IT 80.