9 The Soviet Economic and Technical Challenge

American foreign aid policy, and especially mutual security programmes, are an important part of the non-military aspect of US national security policy. The Republican administration had initially aimed at a progressive reduction of foreign aid, by encouraging, instead, the liberalisation of world trade and private foreign investment, in order to 'enhance the capacity of free world nations for self-support and defense'. As discussed earlier, foreign aid policy was a divisive issue within the administration. The president and the secretary of state were both keen to preserve and, if necessary, to increase American mutual security programmes to support their allies and to protect the free world. Just as Eisenhower's views on East–West trade were based on pragmatism and sound strategy – he told Radford on 18 April 1956 that he 'did see positive value in pressing forward with trade with the Satellites in Eastern Europe' – the president continued to believe that the foreign aid programme was 'the cheapest insurance in the world', since the 'want of a few million bucks had put the United States into a war in Korea'. The Treasury Department and the Bureau of the Budget took a less generous attitude towards the idea of continuing to provide US aid to foreign countries and Congress remained hostile to American foreign aid programmes, regarding them as wasteful.

1. MUTUAL SECURITY AND FOREIGN AID

By mid 1955, American foreign aid policies had been significantly altered. The timing coincided with the Eisenhower administration's increasing attention to the 'less developed countries', mainly in Asia and other parts of the third world. France's loss of Indo-china in 1954 added to the increasing anxiety in the administration about the future of the third world. Moreover, it soon became evident in Washington that the Republican's policy of 'trade not aid' – utilising various measures to try to increase United States trade and investment to developing countries by lowering tariffs and by extending reciprocal trade programmes – was never likely to have much impact on the economic problems of the third world. American investors were not interested in providing capital to the few private enterprises that then existed in Asia and other countries. Eisenhower told

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Knowland on 18 January 1955 that: ‘[f]rankly, if we say we will not help
the Asian countries economically ... we are cutting off our own noses.
We must do this for our own good’.7

Consequently, the administration decided in January 1955 to provide
public funds to the third world and established the president’s fund for
Asian economic development as part of the mutual security programme.
Thus, prior to the Geneva summit conference, there were three major
changes in Eisenhower’s foreign aid policy – 1) the main recipients were
now Asian and other third world countries, while western Europe was
expected sooner rather than later to stand on its own feet; 2) economic,
rather than purely military, aid was increasingly emphasised; 3) the elim­
ination of the foreign assistance programmes was abandoned as unrealistic
and, as Burton Kaufman put it, the United States now relied on a ‘trade
and aid’ approach to third world problems.8

Furthermore, Eisenhower reorganised the administration of the foreign
aid programmes. Truman’s mutual security agency was replaced in August
1953 by the Foreign Operations Administration (FOA), headed by Harold
Stassen. To ensure the effective coordination of the decision making
process, the Council of Foreign Economic Policy (CFEP) was established
at the end of 1954 under White House control. Joseph Dodge became
special assistant to the president as well as chairman of the CFEP.9 Given
the growing importance of the economic aspects of the mutual security
programme, the responsibilities for mutual security programmes were
divided between the Defense Department – administering military as­
sistance – and the State Department – dealing with economic and
development assistance.

The FOA was phased out in July 1955 and its functions transferred to
the International Cooperation Administration (ICA), with John Hollister as
director.10 The ICA became a State Department responsibility. Military
assistance was to concentrate on the supply of military hardware plus the
costs of ‘direct force support’ involving ‘gasoline, tires, uniforms, medi­
cines, rations’, and other items consumed by foreign military forces.11 The
major part of overseas military assistance went to Turkey, Korea, Taiwan,
and Pakistan. The non-military side of the mutual security programme,
now under the supervision of the ICA, was now devoted to ‘defense
support’ (assisting those countries who could not finance the build up of
their own defence infrastructure from their own resources), development
assistance, technical cooperation, and various other programmes, includ­
ing the president’s fund for Asian economic development.12

The Eisenhower administration faced increasing Communist economic
penetration of third world countries during the 1950s and feared that it