



### The Economic Implications of Early Military Assistance to Western Europe under the Truman Administration, 1949-1951

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My aim in this research is to frame the early years of U.S. military assistance to Western Europe within the context of economic, financial, and industrial issues. I focus on military support for the West European North Atlantic Treaty Organization (NATO) countries from mid-1949 through the end of the administration of Harry S. Truman in 1952. I argue that during this period the United States changed its approach to the economic dimensions of rearmament. I trace the main features of the first military aid program, a bilateral assistance program based on a widespread fear that military aid would impair the ongoing economic recovery promoted by the Marshall Plan; and a strengthening of military security in Europe aimed at reinforcing existing military forces rather than promoting new defense industries. I also address the structure of mutual security in 1950-51 as a multilateral rearmament program, touching on the main limits of military assistance and its procedures as they affected transatlantic relations. The reorganization of military aid to Europe with offshore procurement programs after 1952 was closely linked to a new concept elaborated by the Truman administration in which rearmament could promote development and aid economic recovery.

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Both Italian and international historiography view the year 1950 as a watershed in post-World War II U.S. foreign policy. In particular, the year allegedly marked a shift in U.S. foreign aid policy from economic assistance programs such as the Marshall Plan to a series of initiatives aimed at providing the free world with both security and well being. This objective was pursued through a set of military assistance programs wherever the Soviet threat appeared likely to turn into an attack on Western bloc countries. The outbreak of the Korean War on June 25, 1950, is often regarded as the point when Soviet threats gained momentum. Indeed, during the months before hostilities began in the Far East, the West and its leaders had been anxiously viewing events such as the Soviet development of atomic devices and the Communist takeover in

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China. Within this overall shift from an economics-oriented to a security-minded model of foreign assistance policy, historians note particularly both the signing of the North Atlantic Treaty in April 1949 and the subsequent approval by the U.S. Congress of an impressive military assistance program to the Western European countries, the Mutual Defense Assistance Program (MDAP). These two events more than any others, according to the literature, account for the ongoing transformation that marked U.S. policy toward Western Europe from the late 1940s through the early 1950s.

The two most important historiographical interpretations of the nature and meaning of U.S. foreign policy shortly after the end of World War II are that American policy was led either by economic intervention or by a focus on security aspects of the transatlantic alliance. Most scholars concerned with this distinction have concentrated their attention and research efforts on these two options, which faced the U.S. government throughout the postwar era. On the one hand, some historians and political scientists view the Truman Doctrine and the two-year period from 1947 to 1948 as the turning point when U.S. policy shifted from economic to military containment of the Soviet Union. This process was seen as culminating with the endorsement in Washington of the National Security Council's Policy Paper 68.<sup>1</sup> On the other hand, many scholars are convinced that this shift came about sometime later, with the outbreak of hostilities in Korea.<sup>2</sup>

Among the impressive number of studies and accounts of these events based on this twofold approach are the two most important works on the Korean War. According to William Stueck,

the Korean war played a pivotal role in the rearming of the West and in expanding U.S. military commitments on a global scale.

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<sup>1</sup> Daniel Yergin, *Shattered Peace: The Origins of the Cold War and the National Security State* (Boston, Mass., 1978); David Ellwood, *Rebuilding Europe. Western Europe, America and Postwar Reconstruction* (London, 1992), chap. 7; Melvyn Leffler, *A Preponderance of Power: National Security, the Truman Administration, and the Cold War* (Stanford, Calif., 1992); Bruce Cumings, *The Origins of the Korean War, vol. 2: The Roaring of the Cataract, 1947-50* (Princeton, N.J., 1990).

<sup>2</sup> John Lewis Gaddis, *Strategies of Containment: A Critical Appraisal of Post War American National Security Policy* (New York, 1982), chap. 2; Robert A. Pollard, "The National Security State Reconsidered: Truman And Economic Containment, 1945-1950," in *The Truman Presidency*, ed. Michael J. Lacey (New York, 1989), 205-34; see particularly pp. 207 and 214-20; Pollard, *Economic Security and the Origins of the Cold War, 1945-1950* (New York, 1985); William Stueck, *The Korean War: An International History* (Princeton, N.J., 1995), introduction and chap. 10; Michael J. Hogan, *A Cross of Iron: Harry S. Truman and the Origins of the National Security State, 1945-1954* (New York, 1998); Marc Trachtenberg, *A Constructed Peace: The Making of the European Settlement, 1945-1963* (Princeton, N.J., 1999), 86-88, 100-101, 111.

U.S. aid to foreign countries, which before June 1950 had been more economic than military, shifted decisively to the latter category.<sup>3</sup>

To Bruce Cumings, in contrast, this conflict on the Far East stage of the Cold War should be regarded only as one of the most important steps in the building of a world-scale American hegemony based far more on military and ideological containment of the enemy than on economic assistance. Cumings observed, “much of the security program established in early 1947 was a ratification and public airing of previous decisions.”<sup>4</sup>

Studies of the European Recovery Program (ERP) and the Atlantic Pact have produced conflicting interpretations of post–World War II U.S. foreign policy. Within this historical discourse, it is noteworthy that some interpretations do not focus on the distinction between economic assistance and military aid on the part of the United States. Those studies come from completely different disciplines and theoretical perspectives, which view U.S. foreign policy after World War II as the last chapter of a long-term policy that began in the early twentieth century and post–World War I era.

Thus, scholars such as Frank Ninkovich see U.S. foreign assistance policy after 1945 as the latest chapter in the history of Woodrow Wilson’s internationalism, which led Franklin Roosevelt to intervene against Germany and its allies during World War II. From that perspective, modern international politics is based on a strict interdependence among world powers, economic centers, and nations. What matters is the building of a free and stable international order, whether the means to achieve it are based on security or prosperity.<sup>5</sup>

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<sup>3</sup> Stueck, *The Korean War*, 5; his more recent work is *Rethinking the Korean War: A New Diplomatic and Strategic History* (Princeton, N.J., 2002).

<sup>4</sup> Cumings, *Origins of the Korean War*, 37.

<sup>5</sup> Frank Ninkovich, *Modernity and Power: A History of the Domino Theory in the Twentieth Century* (Chicago, 1994); Ninkovich, *The Wilsonian Century: U.S. Foreign Policy since 1900* (Chicago, 1999); see also, consistent with this interpretation, Anders Stephanson, “Liberty or Death: The Cold War as U.S. Ideology,” in *Reviewing The Cold War: Approaches, Interpretations, and Theory*, ed. Odd Arne Westad (London 2000), 81-100; Stephanson, “Quattordici note sul concetto di guerra fredda,” in *Novecento: Rivista di storia contemporanea* 2 (Fall 2000): 67-87; Warren F. Kimball, *The Juggler: Franklin Roosevelt as Wartime Statesman* (Princeton, N.J., 1991); a recent reworking and appraisal of the literature aimed at accounting for U.S. policy in Europe after 1945 through the nexus between Wilsonism and bipolarism can be found in Federico Romero, “Il Wilsonismo,” *Parolechiave* 29 (Rome 2003), 177-88, particularly pp. 182-84; a test of this historiography focused on the Italian case, and containment pursued by Washington from 1948 onward can be found in the excellent and concise Mario Del Pero, “L’Italia e la comunità atlantica,” in *La prima legislatura repubblicana: Continuità e discontinuità nell’azione delle*

From yet another perspective, Harvard University professor Charles S. Maier interprets post–World War II U.S. foreign economic policy as Washington’s attempts to deal with a worldwide economic and social crisis to both stabilize American society at home and to promote international economic integration. To Maier, this was Washington’s way of coping with international slumps throughout the twentieth century, from the post–World War I period through the world economic crisis in the 1970s. Foreign policies such as containment and productivity were used to stabilize an economically unstable and politically weak and insecure international relations system.<sup>6</sup>

Turning from studies aimed at providing long-term interpretations to focus on the late 1940s, we can see that the Truman administration was sensitive to the security aspects of the intensifying Cold War even before 1950 and the onset of war in Korea. The launching of the Brussels Pact as early as 1948 and the ensuing Washington talks to set up a military alliance to provide the United States and its West European allies with peace and security make clear the extent to which a divided Europe determined the military and strategic policies of the Western bloc countries as a whole and of the U.S. government in particular. Peace and stability became increasingly important to security in the late 1940s. In 1948 there was a breakthrough: whether we view the United States as answering the French and British call for U.S. military involvement across the Old Continent<sup>7</sup>, or as the Truman administration undertaking a free

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*istituzioni*, vol. 1, ed. Ugo De Siervo, Sandro Guerrieri, and Antonio Versori (Rome, 2004), 207-19.

<sup>6</sup> See the following works by Maier: “The Politics of Productivity: Foundations of American International Economic Policy After World War II,” in *Between Power and Plenty: the Foreign Economic Policies of Advanced Industrial States*, ed. Peter J. Katzenstein (Madison, Wisc., 1978), 23-49; “The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe,” in *In Search of Stability: Explorations in Historical Political Economy*, ed. Charles S. Maier (New York 1987), 153-84; “Consigning the Twentieth Century to History: Alternative Narratives for the Modern Era,” *American Historical Review* 105 (June 2000), 807-31; Charles S. Maier, “*Due grandi crisi del XX secolo: Alcuni cenni su anni Trenta e anni Settanta*,” in *L’Italia tra gli anni Sessanta e Settanta*, ed. Luca Baldissara (Rome 2001), 37-56. For an in-depth reflection on the complementarity between growth and security pursued in Western Europe by American leaders after World War II, see Maier, “Alliance and Autonomy: European Identity and U.S. Foreign Policy Objectives in the Truman Years,” in *The Truman Presidency*, ed. Michael J. Lacey (New York, 1989), 277-83.

<sup>7</sup> Geir Lundestad, “Empire by Invitation? The United States and Western Europe, 1945-52,” *Journal of Peace Research* 23 (Sept. 1986): 263-77; Lundestad, *The American “Empire” and Other Studies of U.S. Foreign Policy in a Comparative Perspective* (New York, 1990); recently this thesis has been reappraised and framed within a long-term perspective by the same author in “Empire by Invitation: The United States and Western Europe: Past, Present and Future,” in

and independent foreign policy decision, it represented a real watershed in U.S. foreign aid policy.

This turning point is clearly shown by testimonials such as that of John Ohly, Special Assistant to the Secretary of Defense in the late 1940s, and Deputy Director for the MDAP at the Department of State between 1949 and 1950:

Except in the cases of Greece, Turkey, and China I have no recollection of any proposals for large-scale military assistance to any area as far back as early 1947. However, by the end of 1947, the possibility of providing some military assistance to Western Europe was already under consideration in both the National Military Establishment and the Department of State and, in early 1948, very serious consideration was given to the addition to the then proposed Foreign Assistance Act of 1948 (authorizing economic aid to Europe and other aid programs), of a new separate Title VI that would authorize military assistance on a large scale to any country that the President might find required.<sup>8</sup>

In March, the Western bloc governments began talks and summits to set up a transatlantic security system. At the beginning of summer 1948 the U.S. Senate passed the so-called Vandenberg Resolution, which committed the White House to support the creation of a series of local security systems “based on a lasting and real self help and mutual aid.” Then it endorsed a National Security Council directive suggesting that the Truman administration shape the new Atlantic community as both a military and an industrial alliance. U.S. intelligence promoted the creation of a large-scale transatlantic security system based on close cooperation and coordination among the Atlantic Pact countries to make their respective defense productions work together. This was supposed to match the security objectives of the North Atlantic Treaty Organization (NATO).<sup>9</sup>

Thus it is indisputable that even shortly after the launch of the European Recovery Program in spring 1948 we cannot identify U.S. assistance policies toward Western Europe only with economic assistance and reconstruction aid. Indeed, in Washington it was agreed that the Marshall Plan was not enough to secure the European allies from Soviet threats. On the contrary, both in Congress and within the Truman administration, many policymakers and politicians were convinced that it was necessary to do much more, as President Truman recalled only a few

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*Un ponte sull'Atlantico: L'alleanza occidentale, 1949-1999*, ed. Agostino Giovagnoli and Luciano Tosi (Milan, 2003), 21-48.

<sup>8</sup> John H. Ohly oral interview, 30 Nov. 1971, p. 24, Oral History Interviews, Harry S. Truman Presidential Library, Independence, Mo. [hereafter, HSTPL].

<sup>9</sup> NSC 14/1, 1 July 1948 in *Foreign Relations of the United States* [hereafter, *FRUS*] 1948, vol. 1: *General: United Nations*, part 2 (Washington D.C., 1976).

years later.<sup>10</sup> Following the signing of the North Atlantic Treaty, the U.S. president had shown his sensitivity to the close relationship between security and prosperity and their importance to U.S. policy toward the Atlantic Pact countries: “the security and welfare of each member of this community depends upon the security and welfare of all. None of us alone can achieve economic prosperity or military security. None of us can assure the continuance of freedom.”<sup>11</sup> Clearly, the idea that it was necessary to balance the Atlantic bloc countries’ military security and economic stability was widely shared in Washington.

The idea of security within the context of transatlantic relationships in the late 1940s is crucial to understanding Washington’s European policies at that time: the organization of treaties and defense pacts aimed at securing the most exposed Western bloc areas against the Soviet threat led the White House to provide its partners with either military or financial aid. Nonetheless, the rearmament-oriented support became extensive only after 1949. In fact, throughout the second half of the 1940s, rearmament was not at the core of Washington foreign policy. As a result of legislative obstacles, the recent war experience, and the ever-changing diplomatic relations between the United States and the Soviet Union before the onset of the Cold War, military assistance was not the top priority of Washington’s foreign economic policy, which was clearly led by the European Recovery Program and its stabilization policies. According to the Truman administration, before the birth of the Atlantic alliance a U.S.-centered international relations system set among the Western bloc countries could be achieved only through economic reconstruction and growth, as well as trade cooperation and integration among their economies, whereas the security of borders and nations was regarded as a secondary policy priority. In this context, it can be understood why in summer 1948 the Brussels Pact military establishment had to ask that the United States grant military assistance to the European member states.

But security increased in importance to Washington with the establishment of defense pacts and their coupling with financial and military assistance to the recovering West European economies. Within a few years U.S. international economic policy was interwoven with the early years of NATO. The process gained momentum with congressional of the Mutual Security Program in late 1951. With this foreign aid legislation the Truman administration merged economic and military assistance and for the first time centered all its foreign aid policy on the military.

Therefore, if we view rearmament within the narrower framework of Truman’s international economic policy rather than that of late 1940s U.S. foreign policy, we can see that the Truman presidency did not propose the

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<sup>10</sup> Harry S. Truman, *Memoirs*, vol. 2, *Years of Trial and Hope* (New York, 1955), pp. 240ff.

<sup>11</sup> Harry S. Truman, Press Release, 12 April 1949, Development and Ratification of NATO Collection, HSTPL.

increased defense budgets necessary to provide NATO and its member countries with military assistance to Congress until the early 1950s. In this context, 1949 and 1950 can be regarded as watershed years, as has often been suggested in the historical literature. Before exploring this relationship between military spending for foreign aid purposes and the overall U.S. foreign assistance policy in the early 1950s, it is necessary to examine the structure and evolution of American military assistance to friendly nations before the signing of the Atlantic Pact.

### **Dollars and Weapons: The Structure and Organization of U.S. Military Assistance after the Second World War**

U.S. military and security commitments abroad after the end of World War II are usually underestimated. There is an extensive and well-known literature concerning the postwar demobilization of both the military and war industries undertaken by the Truman administration shortly after 1945 through the late 1940s. Likewise, historians of American foreign relations and international political economy have examined the reconversion of the American military industrial complex to civilian production. Most works that view post-World War II U.S. foreign policy as a shift from economic assistance to security are based on only a few main arguments. They argue that the two-year period spanning 1948 and 1949 should be regarded as the starting point of this major reassessment of U.S. policy in Europe, which often has been studied and reconstructed with regard to its effects on domestic politics and the U.S. government. And the impressive rise of military spending after 1949 is well known. Between 1945 and 1947 the Pentagon budget was reduced from \$81 to \$13 million.<sup>12</sup> Between summer 1949 and winter 1951, in contrast, the defense budget nearly tripled, stepping up from \$13.5 to \$45 billion. The Korean War alone cannot explain such an expansion.<sup>13</sup>

If we set aside these arguments, however, and frame U.S. military assistance within the broader framework of foreign aid rather than its impact on the defense budget, U.S. military involvement in foreign affairs can be regarded as part of Washington's international economic policy and its history during the early 1950s. From this perspective, we find that military assistance initiatives anticipated the endorsement of the MDAP by

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<sup>12</sup> Michael S. Sherry, *Preparing for the Next War: American Plans for Postwar Defense, 1941-45* (New Haven, Conn., 1977).

<sup>13</sup> Benjamin O. Fordham, *Building the Cold War Consensus: The Political Economy of U.S. National Security* (Ann Arbor, Mich., 1998). On the important debate within the Truman administration on the Pentagon budgets and the feasibility of expanding them between 1949 and 1951, see: Hogan, *Cross of Iron*, chap. 7; Fred L. Block, *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present* (Berkeley, Calif., 1977), chap. 4; Paul H. Nitze, *From Hiroshima to Glasnost: At the Center of the Decision: A Memoir* (New York, 1989), 93-98.

the U.S. Congress and the Atlantic Pact countries. It is unquestionable that military aid was expanded significantly only after the outbreak of war in Korea. Accounting for 8 and 48 percent of total foreign assistance in 1947 and 1952, respectively, the proportion of foreign aid used for military purposes became impressive and significant only after the beginning of war in the Far East.<sup>14</sup> Nonetheless, the tendency dates back to the second half of the 1940s, when Washington had begun to support and protect its friendly nations militarily.

After the end of World War II, the United States began to distribute some military surplus to the West European allies, though such transfers were not carried out according to any priority attached to military aid in U.S. foreign policy directives. But this type of transfer continued during succeeding years for foreign policy purposes. For example, the government of Alcide de Gasperi requested and received weapons, bazookas, and trucks before the 1948 elections.<sup>15</sup> U.S. funds granted to other nations for military purposes were far more significant than a relatively less strategic and important country like Italy received from the Truman administration. When the president brought the Truman Doctrine before Congress, it allocated \$400 million to Greece and Turkey, which increased to \$670 million in 1949. These funds supported both the Turkish military and the right-wing monarchist political elites of Athens in their fight against the leftist Greek liberation movement.<sup>16</sup> In 1948, Washington also

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<sup>14</sup> For these data and statistics I drew on International Monetary Fund [hereafter, IMF], Western Hemisphere Department North American Division, "Review of the United States Foreign Aid Program," May 15 1953, in Historical Archives of Italy's Central Bank [hereafter, ASBI], Carte Caffè, pratt., n. 50, fasc. 1.

<sup>15</sup> Chester J. Pach, *Arming the Free World: The Origins of the United States Military Assistance Program, 1945-50* (Chapel Hill, N.C., 1991); Lorenza Sebesta, *L'Europa indifesa: Sistema di sicurezza atlantico e caso italiano* (Florence, Italy, 1991), 149.

<sup>16</sup> Indeed, the major military assistance initiatives to Middle Eastern countries indirectly involved a country like Italy, which at this time was still on the border between East and West and could not be rearmed before the national poll of 1948, which became a watershed in Italy's post-World War II history. Nonetheless, as early as 1947 the Americans understood that military aid, even if granted to third countries like Turkey or Greece, could be used to rebuild a war-torn economy and its industrial system like the Italian one. In fact, shortly after the appropriation of funds to these two nations, the Americans approached the Italian government's representatives in Washington to offer military procurements for Italy's state-owned steel and mechanical industries. See "La possibilità di concorso delle aziende IRI nella esecuzione del Piano Truman per l'assistenza alla Grecia e Turchia," 6 July 1947, in Historical Archive of the Institute for the Industrial Reconstruction, Ufficio Tecnico Centrale (IRI Roma), b. Commesse belliche 1945-48, ID/611,6.

supported the Chinese nationalist government with \$125 million to assist their fight against the Communists.<sup>17</sup>

The attention paid to Turkey and Greece, as well as U.S. concern about the future of Iran and Palestine, can be explained by the increasing importance of these countries to the Truman administration's foreign policy in the Middle East. If such attention can be explained in Turkey's case by referring to the Soviet pressures on Ankara and Iran since about 1946, it can be less easily grasped in the case of Greece, which had not been pressured by Moscow.

President Truman knew that Turkey and Greece posed different problems of security and required different means to insure their western loyalty. In the Greek case it was a matter of providing the national military with what it needed "for their task of destroying the rebel guerilla forces and eliminating the Communist menace to the political stability and national integrity"; in the Turkish case, security meant being prepared to face external threats.<sup>18</sup> Furthermore, in both cases as well as all across the Mediterranean area, what made the U.S. government grant military assistance was an ever-increasing need for energy resources, particularly oil. This problem became especially crucial in the postwar years to the West European countries, which suffered following the division of Europe between the two superpowers and their blocs from a lack of the natural resources that has been supplied by the East European nations until the outbreak of the Cold War.<sup>19</sup>

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<sup>17</sup> IMF, Western Hemisphere Department, North American Division, "Review of the United States Foreign Aid Program," 1; *ibid.*, "The Recent Pattern of United States Foreign Aid," April 9, 1956, p. 1, in National Archives of Italy, Ministero del Tesoro, Direzione Generale del Tesoro, Ispettorato Generale per I rapporti con l'estero (IRFE), b. 10; Diane B. Kunz, *Butter and Guns: America's Cold War Economic Diplomacy* (New York 1997), 30-31. As for the appropriations to Greece and Turkey up to 1949, see also Truman, Press Release, 12 April 1949.

<sup>18</sup> Harry S. Truman, Final Draft of President Truman's third quarterly report on Greek-Turkish aid, 12 May 1948, in Truman Doctrine Study Collection, folder 1, HSTPL.

<sup>19</sup> For an overall sketch of the geopolitical framework within which U.S. military aid to the Middle East existed before the founding of the Atlantic alliance, see Bruce R. Kuniholm, *The Origins of the Cold War in the Near East: Great Power Conflict and Diplomacy in Iran, Turkey and Greece* (Princeton, N.J., 1980); and Kuniholm, *The Near East Connection: Greece and Turkey in the Reconstruction and Security of Europe, 1946-1952* (Brookline, Mass., 1984). For different policies carried out by the Union of Soviet Socialist Republics (USSR) in Greece and Turkey after the end of World War II, see particularly Lawrence S. Wittner, *American Intervention in Greece, 1943-1949* (New York, 1982); Bruce R. Kuniholm, "U.S. Policy in the Near East: The Triumphs and Tribulations of The Truman Administration," in *The Truman Presidency*, ed. Lacey, 299-338, esp. pp. 302-5; for an interpretation of U.S. military intervention in the Middle East

In the case of China, to which Washington granted both military and economic aid, the United States was interested not only in securing the country from internal threats, but also in shaping it as the key nation for the security of the Far East as a whole.<sup>20</sup> Even South America and its instability were to be dealt with through military deterrence: there, policy was set by the Rio de Janeiro Pact.

These military assistance programs demonstrate to what extent the United States was interested in providing its allies with political stability, as well as how they were implementing that policy. Even if these programs were not framed within an overall foreign aid policy like the broad and well-structured Marshall Plan, they had positive effects on the U.S. economy and its postwar recovery. According to World Bank president Eugene Black, who later testified on these issues before an Eisenhower Presidential Commission, between 1946 and 1952 one-third of U.S. exports (roughly \$30 billion) had been funded and led by the assistance programs promoted by Washington abroad.<sup>21</sup>

These early programs anticipated the two types of military assistance offered to the Western bloc allies and the NATO partners in the following years. In the first, Washington provided its partners with end-item materials and weapons from either U.S. war surplus or obsolete and no longer used military stocks. In the second, the White House provided military assistance by sending dollars abroad. This way of supporting security through financial aid was aimed at letting the West European countries rearm themselves without undermining the recent improvements in their balance of payments deficits, particularly related to U.S. currency: the European balance of payments dollar deficit had been cut through the anti-inflationary use of ERP funds. For this reason Washington chose to grant funds for both military and non-military purposes in U.S. dollars.<sup>22</sup> All the military assistance projects scheduled

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affairs to control the raw materials in that key area, see Cumings, *The Origins of the Korean War*.

<sup>20</sup> Dean Acheson, *Present at the Creation: My Years in the State Department* (New York, 1987), 7-8, 303-7; John W. Dower, "Occupied Japan and the Cold War in Asia," in *The Truman Presidency*, ed. Lacey, 366-409, esp. p. 377.

<sup>21</sup> International Bank for Reconstruction and Development, Statement of Mr. Black to the Randall Commission, 21 Oct. 1953, in ASBI, *Carte Caffé*, Pratt., n. 53, fasc. 3; for a different interpretation of U.S. foreign aid programs since 1945 based on the ratio between Cold War security concerns and domestic industrial policies, see Judith Stein's excellent *Running Steel, Running America: Race, Economic Policy, and the Decline of Liberalism* (Chapel Hill, N.C., 1998), in which she argues that Washington's foreign assistance program, from the Marshall Plan to military aid, weakened American industry and made way for market-oriented industrial development without any state control over the economy.

<sup>22</sup> U.S. policy toward Italy demonstrates that the Truman administration gave priority to balance of payments deficits in relation to U.S. currency. Washington

under the 1949 MDAP were given either as material assistance or financial aid. Thus, U.S. military assistance was organized much as the ERP was in both grants and loans. Weapons and end-user military supplies, components for European military production, and spare parts to be used in Europe were called, respectively, end items and machine tools, whereas U.S. financial assistance was called defense support. This included both dollar inflows aimed at supporting the European balance of payments deficits and, in cases such as the Italian one, budgetary contributions that would decrease the impact of military spending on European budget deficits.

U.S. opinion makers and the American public were aware that the military assistance program brought before the U.S. Congress shortly after the signature of the North Atlantic Treaty in April 1949 was meant to provide friendly nations both military items and financial support. During the first year of MDAP implementation, in autumn 1950, doubts and concerns raised by the American public and voiced by U.S. commentators on the use of funds for military assistance focused on the distinction between “dollars” and “weapons,” between which the \$4 billion military appropriations for the next fiscal year was to be shared: many observers were concerned with the effects of military assistance on ERP appropriations.<sup>23</sup>

### **Rearmament versus Economic Reconstruction: Peculiarities and Limits of the First Military Assistance Program for Western Europe**

As Lorenza Sebesta shows, the Truman administration was hampered in drafting its postwar military assistance projects by the lack of any legislative instrument to appropriate funds to the Western bloc. Sometimes the White House was forced to rely on the Constitutional provision that allowed the president, as the supreme head of military forces, to bypass Congress.<sup>24</sup> The most outstanding example of these difficulties can be found in the failure to implement the language of the National Security Council’s policy paper NSC 14/1 of July 1948, pledging that the United States would defend its West European and Far Eastern allies both politically and militarily from the Soviet threat. In fact, Washington did not go beyond sending a representative to London to participate in the Brussels Pact conference called to set up a military alliance aimed at providing peace and stability to the Western bloc. On

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paid less attention to the Italian balance of payments deficit in relation to the British pound. See, for example, “Memorandum by the Assistant Secretary of State for European Affairs (Perkins) to the Under Secretary of State (Webb),” Washington, 4 March 1951, in *FRUS* 1951, vol. 4: *Europe: Political and Economic Relations* (Washington D.C., 1985), 577.

<sup>23</sup> See, for example, *New York Times*, 15 Oct. 1950.

<sup>24</sup> Sebesta, *L’Europa indifesa*, 148-49.

that occasion, the United States participated in the debate according to the principle that they would not cooperate directly in military operations, but reserved the right to be involved in European security issues.

Greater involvement would come about only when the Western powers and the United States began negotiations to set up the Atlantic Pact. This time Washington pledged to contribute on a permanent basis to European security. Above all, in article 3 of the Atlantic Treaty (which concerned the importance of mutual aid and self-help to the Atlantic community), the Atlantic alliance committed the United States, as the Atlantic partner best armed and most sound financially, to an ongoing presence across Europe. There were few other financial resources available to strengthen the weak European security system. In fact, even if the Atlantic Treaty did not force the United States to provide the allies with weapons and war materials, it was assumed that U.S. military power and economic stability committed Washington to assist the Western alliance over the long term. This interpretation of the U.S. commitment to the Atlantic community under the treaty was clearly stated by Secretary of State Dean Acheson and widely agreed upon within the State Department.<sup>25</sup> When it was brought before the U.S. Congress on July 25, 1949, the first MDAP was viewed by the Truman administration as close to, and interwoven with, the U.S. commitment to help its NATO partners, even though it was formulated before the signature of the North Atlantic Treaty.

Since the conception of the North Atlantic Treaty, U.S. policymakers had been concerned about the balance between the newly established military aid program and the ongoing implementation of ERP. Would it be possible to appropriate funds for both military and civilian purposes without short-changing the latter? The Foreign Assistance Correlation Committee (FAAC) was one of many inter-ministerial boards created to study and plan feasible military assistance programs for Europe. It was composed of representatives from the Defense Department, the State Department, and the Economic Cooperation Administration (ECA; the government agency charged with administering the Marshall Plan). In February 1949, the FAAC warned the White House not to sacrifice

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<sup>25</sup> Dean Acheson, Address to the Committee on Foreign Relations of the Senate, April 27<sup>th</sup>, 1949; Summary of Telegrams by the Office of the Secretary of State to unspecified recipients, 10 May 1950, NATO Collection, folder North Atlantic Council, HSTPL; "The North Atlantic Pact: Collective Defense and the Preservation of Peace, Security and Freedom in the North Atlantic Community," 20 March 1949, in *FRUS* 1949, vol. 4: *Western Europe* (Washington D.C., 1975), 240-41; Department of State, "Statement on the U.S. Military Assistance Program," 22 May 1949, in *FRUS*, *ibid.*, 299-300; see also Lord Ismay, *NATO: The First Five Years, 1949-1954* (Paris [?], 1954 [?]) (Lord Ismay's memoirs can also be accessed by browsing the NATO web site at <http://www.nato.int/archives/1st5years/index>).

economic reconstruction in favor of rearmament and suggested that economic assistance be given top priority, so that rearmament funding would not weaken or delay economic reconstruction in Europe.<sup>26</sup> Even Secretary of Defense Louis Johnson was concerned about the effect of rearmament on reconstruction. He told the Senate Committee on Foreign Relations that the new military assistance program should not interfere with the implementation and accomplishment of ERP.<sup>27</sup> Dean Acheson repeatedly voiced his apprehension about the new program's possible repercussions on the Marshall Plan. He hoped to solve the problem and avoid that risk by coordinating and rationalizing the distribution of military supplies between the United States and the receiving countries as much as possible.<sup>28</sup> The search for financial sources to provide military assistance throughout Western Europe without impeding European budgetary stability led the American bureaucracy to produce a wide range of proposals. It can be argued, for example, that the replacement of bilateral military assistance between the U.S. and each European ally provided for by MDAP with the multilateral principle and structure that underpinned the Mutual Security Program and its implementation in NATO answered the need not to weaken the budgetary stability that most European countries had barely reached during the postwar years.

During 1950, one idea of the Truman administration was to provide the manufacturing NATO countries with German raw materials without charge. The German economy could provide NATO not only with raw materials and goods needed by military industries, but also end-user items and capital goods. The U.S. Secretary of State was convinced that the German economy, though in poor repair, could provide immediate and continuous contributions in many sectors, including "steel, coal, non-ferrous metals fabrication, shipbuilding, antifriction bearings, fine mechanics and optics, machine tools, vehicles, chemicals, electrical equipment."<sup>29</sup> When he briefed the European governments on this idea, Acheson expressed his concern with the slowdown in economic reconstruction that the European countries might suffer if the United States could neither expand public spending nor find sources other than public finance for funding European rearmament. According to the Secretary of State, the problem was so pressing that even the military production necessary to provide the armies of the European nations with

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<sup>26</sup> "Basic Policies of the Military Assistance Program," 7 Feb. 1949, in *FRUS* 1949, vol. 1: *National Security Affairs: Foreign Economic Policy* (Washington D.C., 1976), 254-55.

<sup>27</sup> Lawrence Kaplan, *The Long Entanglement: NATO's First Fifty Years* (Westport, Conn., 1999), 46.

<sup>28</sup> Acheson, *Present at the Creation*, 309.

<sup>29</sup> "The Secretary of State to the United States High Commissioner for Germany," McCloy, 18 Oct. 1950, *FRUS* 1950, vol. 3: *Western Europe* (Washington, D.C., 1977), 389-91.

basic materials and weapons could impede budgetary stability and cause monetary disequilibrium as well as a slowdown in foreign trade. “[T]hey do not possess”—he wrote more or less when the MTDP was endorsed—“the necessary industrial capacity without diversions from civilian production which would jeopardize economic recovery.”<sup>30</sup>

Thus we can see that both public and government circles worried that the cost of letting the European NATO partners purchase war material with U.S. dollars could reduce appropriations administered under the European Recovery Program.

The simultaneous flow of military and civilian aid into Europe was certain to cause deeper and wider consequences than those forecast by the Truman administration. Financial imbalances might occur in any European country’s balance of payments: the more they depended on foreign markets to procure raw materials and capital goods, the more their balance of payments could worsen if not funded accordingly. The United Kingdom, for example, provided other West European countries and the United States with strategic materials through its colonies. In this case, however, rearmament was not likely to risk London’s foreign accounts and public finance. In fact, in its supplier role, the Atlantic community’s defense effort represented a chance for the United Kingdom to increase and multiply its dollar and gold reserve assets, which more than doubled within the pound currency area between summer 1949 and autumn 1950. This came about because some primary goods necessary for military production owned by the United Kingdom and its colonies led the pound currency area export; and shortly after the outbreak of war in Korea, those exports increased by 30 percent.<sup>31</sup> Furthermore, when it was forced to import certain scarce raw materials from other currency areas, the United Kingdom was able to balance these pressures on its trade account through impressive capital inflow from the same raw material exporting countries. We can understand this trend if we think about Great Britain as a huge,

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<sup>30</sup> “The Secretary of State to the Embassy in the United Kingdom,” in *ibid.*, 32; for the idea of making the German economy pay for the monetary costs of European rearmament to avoid a slowdown in the reconstruction process throughout Europe, see also “The Secretary of State to certain Diplomatic Offices,” *ibid.*, 34; see National Advisory Council Minutes, Meeting n. 168, 26 Dec. 1950, in National Archives and Records Administration (NARA), RG56, NAC Papers, NAC Minutes, b. 2 (9 Feb. 1950-28 Dec. 1950); for an assessment of German productive capacity in 1950, see “The Ambassador in the United Kingdom (Douglas) to the Secretary of State,” in *FRUS* 1950, vol. 3: *Western Europe*, 50-51.

<sup>31</sup> Henry Pelling, *Britain and the Marshall Plan* (London 1988), 110. For a very different position—that the effects of rearmament on the British balance of payment were negative because of the fluctuations of raw materials prices exported by the United Kingdom in 1951—and use of this fact to account for British trade restrictions as implemented by the new British conservative government from that year forward, see Giuseppina Tullio, *Monete ed economie: Le relazioni anglo-italiane nel secondo dopoguerra* (Naples, 2001), 272-77.

well-structured banking system that attracted capital investments. Thus, even the countries with the scarcest materials reinvested their profits in the United Kingdom, which reduced its prospective balance of payment deficit by expanding its foreign debt.<sup>32</sup>

In the Federal Republic of Germany, on the contrary, imports of war materials were so expensive and their impact on Germany's balance of payments so remarkable that Western European countries established a special credit account to avoid a drop in imports and foreign trade for Germany. That prospect would threaten the entire process of intra-European trade liberalization.<sup>33</sup>

Those charged with managing U.S. foreign economic policy soon understood the extent to which rearmament was going to impede and delay the setting up of a balanced trade and money market among the West European countries pursued through ERP funds. American leaders were worried about both the British, who were strengthening their creditor role, and the Germans, for whom rearmament meant a drop in their trade account.<sup>34</sup> Germany's trade account deficit could bring about a long-term dependency on the American money market, a risk that led the Economic Cooperation Administration to oppose further U.S. financial contributions to the European Payment Union.<sup>35</sup>

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<sup>32</sup> Donato Menichella, "Considerazioni finali, 1952," in *Donato Menichella: Stabilità e sviluppo dell'economia italiana, 1946-1960*. vol. 2: *Considerazioni finali all'assemblea della Banca d'Italia*, ed. Franco Cotula, Cosma O. Gelsomino, and Alfredo Gigliobianco (Rome, 1997), 148-50.

<sup>33</sup> Jacob J. Kaplan and G. Schleiminger, *The European Payment Union: Financial Diplomacy in the 1950s* (Oxford, U.K., 1989), 97-111; Till Geiger and Duncan M. Ross, "Banks, Institutional Constraints, and the Limits of Central Banking: Monetary Policy in Britain and West Germany 1950-52," *Business History* 33 (July 1991): 143-48; Till Geiger and Lorenza Sebesta, "National Defense Policies and the Failure of Military Integration in NATO: American Military Assistance and Western European Rearmament 1949-1954," in *The United States and the Integration of Europe: Legacies of the Postwar Era*, ed. Francis H. Heller and John Gillingham (New York, 1996), 261.

<sup>34</sup> Nonetheless, it is worth remarking that the Europeans did not share this pessimistic outlook, which in some cases (such as the Italian) regarded West Germany's economy as capable of achieving its defense effort without impairing its economic recovery. See, for example, "Ambasciata d'Italia a Bonn a Ministero Affari Esteri, Feb. 29, 1952," in *Historical Archives of the Italian Ministry for Foreign Affairs*, Direzione Generale Affari Politici [hereafter, DGAP], Germania, 1950-1957, b. 90, folder Germ. I/3 (politica estera della Germania: riarmo e partecipazione all'esercito europeo CED).

<sup>35</sup> In particular, the concern would be picked up by the experts on the National Advisory Council on International Monetary and Financial Problems, an inter-ministerial body chaired by the Secretary of the Treasury and charged with coordinating the international economic policy carried out by the United States. See, for example, National Advisory Council Staff Committee, Minutes of

One of the most feasible solutions to these problems and to the ERP effects on Western Europe would be to conceive and propose MDAP to the European allies as a warrant for public and private investments in Western European countries assisted and backed by the European Recovery Program. Basically, according to this school of thought, it was a matter of using the security policies promoted by Washington, its resources, and institutions (above all, the North Atlantic Alliance) to protect and stimulate the ongoing economic reconstruction.<sup>36</sup> Averell Harriman, U.S. ambassador to Europe for Marshall Plan affairs between 1948 and 1950, was one of the most ardent supporters of this policy among the Washington leadership. In the interwar years, Harriman's experience and knowledge of European problems had matured during his service on the board of Directors of the International Chambers of Commerce. As a member of that important board, he frequently discussed the effects of trade restrictions on the expansion and economic growth of European markets. He came to the conclusion that in Europe full trade liberalization was not feasible without large-scale military cooperation across the Atlantic: "Because there wasn't a military understanding of some kind, every country, for its own security, demanded to be as autarkic as possible."<sup>37</sup> Broadly speaking, we can understand this approach if we keep in mind that many policymakers within the Economic Cooperation Administration were not much concerned about the impact of NATO on the reconstruction of Europe. This viewpoint was clear, for example, from the recollections of Richard Bissell, Assistant Administrator for the ECA.<sup>38</sup> Unexpectedly, the approach was welcome and widely endorsed within both the State Department and the Pentagon, both of which supported the idea that the economic reconstruction of Europe and its related political stabilization could not be achieved if European citizens did not feel secure and protected from the "red scare."<sup>39</sup>

At the same time, the Keynesian enclave within the Truman administration, led by Leon Keyserling, increasingly emphasized the benefits to the American economy of increasing war production. According to the head of the Council of Economic Advisors, an increase in

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Meeting, n. 275, 19 March 1951, and Minutes of Meeting, n. 280, 13 April 1951, both in NARA, RG 56, NAC Staff Committee Minutes 1945-59, b. 2.

<sup>36</sup> "Basic Policies of the of the Military Assistance Program," 254-55; Harry S. Truman, Address to the Congress, 25 July 1949, in NATO Collection, folder MAP, HSTPL. The European governments viewed the relationship between ERP and MDAP completely differently. In Italy, Piero Malvestiti thought that economic growth was a prerequisite to achieving whatever defense effort was planned. For Malvestiti, see for example *Il Mondo*, 7 April 1951.

<sup>37</sup> Harriman oral interviews.

<sup>38</sup> Richard M. Bissell oral interview, 1971, pp. 48-49, Oral History Interviews, HSTPL.

<sup>39</sup> Ohly oral interview, 33; Pollard, *The National Security State Reconsidered*, 224.

defense expenditures and economic mobilization for purposes of rearmament could quickly create a surge in the domestic economy.<sup>40</sup>

However, attempts to conceptualize a way to promote economic growth and military security at the same time represented a minority view within the Truman administration. Most policymakers thought that the two goals could not be combined and that security concerns would impair the reconstruction process. Paul Nitze, then the deputy to the Assistant Secretary of State for Economic Affairs, was convinced that increased military spending in Western Europe would impede the European economy, where, far from expanding European markets, reductions in growth and consumption were needed. He based this opinion on long-term knowledge of European public opinion on the issues that rearmament posed, which he had extensive experience monitoring on behalf of the Department of State.<sup>41</sup>

Indeed, even the National Advisory Council on International Monetary and Financial Problems targeted this array of problems, offering a somewhat more complex analysis with a country-by-country breakdown of the impact of the Korean War. The German and Italian economies would have suffered from rising inflation as a result of a wider home market brought about by military productions without any corresponding improvement in employees' standard of living. On the other hand, in countries where the average standard of living was higher and already good, employees would suffer from the war effort, where full or semi-full employment status would not let the war effort target any urgent employment problem.<sup>42</sup> Paul Hoffman, head of the ECA, thought that rearmament could not match economic growth and its requirements, and he saw the rise of military spending as a function of cuts in civilian investments.<sup>43</sup> John Ohly, who was not working shoulder-to-shoulder

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<sup>40</sup> Leon Keyserling, memorandum "The Economic Implications of the Proposed Programs," 8 Dec. 1950, *FRUS* 1950, vol. 1: *National Security Affairs: Foreign Economic Policy* (Washington, D.C., 1977), 430-31; Keyserling to Truman, 2 Nov. 1951, *FRUS*, 1951, vol. 1, *National Security Affairs: Foreign Economic Policy* (Washington, D.C., 1980), 245-54; H. Q. Dearborn (Council of Economic Advisors) to NSC, 8 May 1950, *FRUS* 1950, vol. 1, *National Security Affairs*, 309.

<sup>41</sup> "Memorandum by Paul Nitze, Deputy to the Assistant Secretary of State for Economic Affairs, to the Foreign Assistance Steering Committee, Washington, D.C.," 31 Jan. 1949, in *FRUS* 1949, vol. 4: *Western Europe*, 57; see also "Minutes of the 148<sup>th</sup> of the Policy Planning Staff," 11 Oct. 1949, *FRUS* 1949, vol. 1: *National Security Affairs*; Nitze, *From Hiroshima to Glasnost*, 120-23.

<sup>42</sup> National Advisory Council Meetings, Minutes of Meetings, Meeting n. 160, 2 Aug. 1950, in NARA, RG56, NAC Papers, NAC Minutes, b. 2 (9 Feb. 1950-28 Dec. 1950).

<sup>43</sup> Hoffman to Harriman, 9 Jan. 1949, *FRUS* 1949, vol. 4: *Western Europe*, 367; Hoffman probably was pessimistic because he was inclined to make a distinction between military aid and economic assistance programs. See Paul Hoffman, oral

with Hoffman's agency, nevertheless perceived clearly that "there was a great concern in ECA about how the military assistance program could be related to the economic assistance and a fear that a military build up in Europe would divert resources desperately needed to support the economic recovery."<sup>44</sup>

This viewpoint would be revised from 1950 onward, when the War Production Board experience received new attention and the Washington leadership focused on the ratio between defense economics and economic development. In the first half of the 1950s, the United States assumed that expansion of military production was the way to implement the so-called Keynesian multiplier. In other words, defense economics was supposed to depend on a model of economic expansion mainly based on private consumption and investments. Such an approach was likely to let the United States achieve two important objectives. On the one hand, it was feasible to promote economic growth without imposing any expansion of public finance to support the offer of goods. On the other hand, a vast array of government spending policies could be carried out without bringing about an anti-cyclical phase.<sup>45</sup>

The military establishment stated repeatedly that European security should be built by military means. Therefore, the Defense Department regarded the new military assistance program merely as a way to strengthen European security against external or internal threats.<sup>46</sup> Their thinking was far removed from the idea that a collective security system linking the Western bloc countries could have implications well beyond the military. This somewhat narrow interpretation of military assistance by the Pentagon and the military establishment is all the more remarkable if we consider that in a few years the financial and industrial implications of defense efforts would be so widely accepted and shared in Washington that the economic impact of collective security was a cornerstone of the Mutual Security Program.<sup>47</sup> At the time, the American military elites, led

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interview, 1953, p. 23, Oral History Interviews, HSTPL, and Harriman, oral interview.

<sup>44</sup> Ohly, oral interview, 35.

<sup>45</sup> U.S. Department of Commerce, *Markets after the Defense Expansion* (Washington D.C., 1952); on defense economics as a means to stimulate private consumption, see the still eye-opening study by Leonardo Paggi, "Strategie politiche e modelli di società nel rapporto USA-Europa (1930-1950)," in *Americanismo e riformismo: La socialdemocrazia europea nell'economia mondiale aperta*, ed. Leonardo Paggi (Turin, 1989), 43-62; for an interpretation quite different from mine stressing that social spending could not be coupled with security, see Hogan, *Cross of Iron*.

<sup>46</sup> Kaplan, *The Long Entanglement*, 38.

<sup>47</sup> In order to understand how this approach was increasingly shared in the analysis and appraisals of the collective military build-up promoted by NATO, see, for example, Mutual Security Agency, Office of Assistant Director for Europe, "Developments in NATO," 6 Feb. 1953, NARA, RG 469, Mission to Italy, Office of

by Paul Nitze, focused their attention on the very limited financial resources needed to fund the rearmament program during the 2.5 years before the end of ERP, rather than on the achievement of a military build-up suitable for an international relations system in the face of the intensifying Cold War.<sup>48</sup>

Therefore, the military assistance legislation brought before Congress reflected the Truman administration's primary concerns: the economic repercussions of such a program on the European economies and the objectives of close military and defense cooperation with the European partners that the United States was called upon to provide. For their part, the European governments did not conceive the American offer of aid merely as the provision of weapons, spare parts, and other military items. On March 16, 1949, the Western Union foreign ministers wrote to Lewis Douglas, the U.S. ambassador to Great Britain, that Europe was assuming both military and financial support.<sup>49</sup> The day after the signature of the North Atlantic Treaty, when they officially asked Washington to help the European rearmament effort, the Brussels Pact five powers clearly referred to "financial and military assistance."<sup>50</sup> The idea of U.S. assistance was even more clearly expressed by the Italian Foreign Minister Carlo Sforza: "The Italian government, in order to increase its military production and the industrial capacity of Italy's war industry, due to the lack of dollars, will desperately need American aid to cover the costs in U.S. dollars of its rearmament."<sup>51</sup>

Early on, the U.S. government seemed supportive of this interpretation of the European call for assistance. When Harriman discussed the issue with French Minister of Foreign Affairs Robert Schuman, he took it for granted that European partners were ready to sacrifice other economic and industrial sectors, but he was also aware that the United States should

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the Director, Subject Files (Central Files) 1948-57, b. 25, folder 6 (Evaluation Team); the importance of the financial implications of rearmament had been perceived by the U.S. Joint Chiefs of Staff since 1950. On this point, see JCS, Memorandum for Secretary of Defense Johnson, 13 July 1950, in HSTPL, NATO Collection, folder "Development of NATO as an Organization."

<sup>48</sup> "Memorandum by Paul Nitze," 57; as for the opinion of Paul Nitze on this matter see also Library of Congress, Manuscript Division, Paul Nitze Papers, Subject Files 1942-1989, b.131.

<sup>49</sup> Summary of Telegrams by the Office of the Secretary of State to unspecified recipients, 5 April 1949, in HSTPL, NATO Collection, folder "Mutual Assistance Program."

<sup>50</sup> Ismay, *NATO: The First Five Years*, chap. 1.

<sup>51</sup> "[I]l governo italiano, data la penuria di dollari, avrà bisogno—nel programma di accrescimento della produzione militare in Italia—di aiuto da parte degli Stati Uniti per quello che riguarda i costi in dollari di questo nuovo piano produttivo." "Nota dell'ambasciata italiana a Washington al Dipartimento di Stato, 8 marzo 1949," in Carlo Sforza, *Cinque anni a Palazzo Chigi: La politica estera italiana dal 1947 al 1951* (Rome, 1952), 244-45.

be prepared to cover some additional costs in U.S. dollars.<sup>52</sup> Milton Katz, then Acting U.S. Special Representative in Europe, had the same opinion; for example, he told Hoffman that the U.S. government should fund the European dollar deficit, which was likely to worsen as a result of European procurement of raw materials and machinery from abroad. These purchases would have a negative impact on the European dollar deficit if subsumed under the ERP, because the small U.S. dollar appropriations under the 1949-50 ERP were barely enough to maintain the European economic growth already achieved.<sup>53</sup>

The MDAP, which for fiscal years 1949-50 and 1950-51 would be funded for as much as \$6.5 billion, seemed consistent with the American policymakers' position; it resulted from the legislation presented before the U.S. Congress on July 25, 1949.<sup>54</sup> The Truman administration organized its military assistance into three types. Primarily, they wished to provide the European partners with weapons and war materials previously used by the American troops during the Second World War. Then, they wanted to grant financial assistance in U.S. dollars to fund imports of consumer goods required either to implement European military production or to build it up where it had been dismantled during the war. Finally, there was a reference to the provision of U.S. military personnel to equip and train European troops.<sup>55</sup>

Thus, U.S. military and technical assistance within the broader context of a drive for productivity were by mid-1949 two long-term aspects of U.S. foreign policy. Truman launched a vast program of financial and technical assistance to modernize the European industrial and financial systems in January 1949; from fiscal year 1950-51 technical assistance became one of the most relevant debit items in U.S. foreign assistance programs, measured not so much by the size of the appropriations as by the importance given this program in Washington.<sup>56</sup>

If we break down the aggregate amount appropriated for mutual assistance purposes into its main debit items, the nature of the program is straightforward, as is the extent to which the United States responded to

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<sup>52</sup> "Memorandum by Ambassadors Caffery and Harriman to the French Minister of Foreign Affairs (Schuman), Paris," 3 March 1949, in vol. 4: *Western Europe*, 149.

<sup>53</sup> "The Acting U.S. Special Representative in Europe Under the Economic Assistance Act of 1948 (Katz) to the Administrator for Economic Cooperation (Hoffman), Paris," 31 March 1949, *ibid.*, 257-58.

<sup>54</sup> Federico Caffè, "Appunto per il signor governatore, 'Nuova organizzazione per la distribuzione degli aiuti americani'," in ASBI, Carte Caffè, *pratt.*, n. 48, fasc. 1.

<sup>55</sup> Truman, Address to the Congress of the United States, 25 July 1949; Kaplan, *The Long Entanglement*, 48; Lorenza Sebesta, "I programmi di aiuto militare nella politica americana per l'Europa: L'esperienza italiana 1948-1955," *Italia contemporanea* 173 (Dec. 1988): 43-63.

<sup>56</sup> Alberto Tarchiani to Ministero degli Esteri, *telespresso*, 25 May 1950, in ASBI, Carte Caffè, *pratt.*, n. 50, fasc. 1.

rearmament's effects on European monetary stability. Of \$ 1.45 billion in requests submitted to Congress by the White House, over \$1 billion were for technical assistance, arms, and military equipment, while less than \$300 million would provide U.S. currency to fund expansion of military productions in Europe, and eventually the establishment of a continent-wide military industrial complex.<sup>57</sup> Americans realized from the beginning that supplying European imports of material needed to stimulate military production there via U.S. markets could quickly generate an inflationary pressure on the U.S. economy; this opinion was widely shared in Washington.<sup>58</sup>

The Mutual Defense Assistance Act, as drafted by Congress in the summer of 1949 and enacted on October 6, shortly after the Soviets' first atomic explosion in September, was quite different from the legislation proposed by the White House. First, it was the result of divergent opinions within the Truman administration, particularly between the Defense Department and the State Department, which disputed the nature and main features of the program. Acheson and the Pentagon disagreed about which government branch should head the program. That match would be won by the State Department, which prevailed over both the Defense Department and the proposal to establish a new agency like the Economic Cooperation Administration. Second, the two entities disputed the meaning of mutual assistance.<sup>59</sup> Finally, they debated the structure and organization of aid: Should it be a bilateral or a multilateral assistance program?

Even ignoring these problems within the Truman administration, there were many other changes in the law passed by Congress from the proposal Truman brought before it. China was added to the list of nations eligible to receive assistance, and Congress limited the power of the president in the program. As for the amount of money appropriated and how it was to be spent, the aggregate sum was reduced to \$1 billion; \$900 million would be used later on to support a collective defense plan approved at the NATO level and endorsed by the North Atlantic Alliance Defense Committee.<sup>60</sup> Furthermore, the act increased the disproportion between "dollars" and "arms." In fact, it is noteworthy that since the

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<sup>57</sup> This proportional distribution of the three kinds of aid provided by the MDAP was constant throughout the following two fiscal years. See Record of the Under Secretary's Meeting, Department of State, 22 June 1951, "Progress Report on MDAP," *FRUS* 1951, vol. 1: *National Security Affairs*, 326-27; *Report to Congress on the Mutual Defense Assistance Program* (Washington D.C., 1950-52); this presidential report covers the period from Oct. 1949 through Oct. 1951.

<sup>58</sup> Bissell oral interview, 23-24.

<sup>59</sup> Kaplan, *The Long Entanglement*, 40-41.

<sup>60</sup> Statement by the President upon using Order Providing for the Administration of the MDAA, 27 Jan. 1950, <http://www.trumanlibrary.org/publicpapers/index.php?pid=596&st=&st1=>.

previous winter U.S. support for the creation of a collective defense structure in Europe had been sketched as a grant-in-aid program based on equipment and arms supplied from the American military to modernize and update the old European military equipment as quickly as possible. This was even more necessary considering that the time needed to plan defense procurements with the American defense industry was likely to delay the delivery of consumer goods and end items to the Europeans. On the other hand, Washington had viewed the financial assistance as specifically covering additional U.S. dollar costs created in the European military-industrial complex by an increase in European military production.<sup>61</sup> In other words, the American leaders did not conceive aid in dollars to cover European monetary system deficits that would accrue through increased expenditures on imports.

Even if the Truman administration had wanted such limited stimulation of European military production, there was widespread concern in Congress about the effects that it could have on the American military-industrial complex. This further weakened support for the principle that the United States should support European industry in order to set up a standing army across Western Europe. This issue surfaced during debate on the legislation when Senator Arthur Vandenberg, and then John Vorys, proposed removing any expenditures for expanding European military production.<sup>62</sup> When the law was passed, the 16 percent of the total aid that had been requested for this purpose became, rather than a fixed sum, a share of the total annual appropriation for foreign military assistance. The funding of European imports was not aimed at further expanding European industry, but at supporting a general updating of European plants. Thus, the United States intended the influx of dollars to stimulate the existing European war industry and maintain its production levels. The United States was committed to letting the Europeans purchase updated machinery and consumer goods. This Congressional reappraisal of mutual security produced a program called Additional Military Production, whose negative impact on European defense economics is ascribable not only to the poor functioning of the program, but also to the limits imposed by Congress's view of mutual security on the development of military production in Europe.

The U.S. Congress severely limited the usefulness of the equipment and arms sent to Europe to stimulate European industry by mandating that equipment be sent only for replacing and updating existing European industry. We can thus grasp the meaning of the distinction between "arms" and "dollars." In fact, as mutual assistance divided military aid into these two categories, there was a clear distinction between the military and strategic side of rearmament and its implications in the

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<sup>61</sup> "Memorandum by Ambassadors Caffery and Harriman to the French Minister of Foreign Affairs (Schuman), Paris," 149.

<sup>62</sup> Kaplan, *The Long Entanglement*, 51.

financial and monetary realm. Even an impressive transfer of machinery and military end-items could not mitigate the impact on European trade and balance of payment deficits, as aid in U.S. dollars was meant to fund the Europeans' balance of payments deficits rather than their defense budgets.

### Conclusion

My goal was to clarify the main features of a mutual security program that marked a watershed in the history of U.S. foreign military assistance. One of its most distinctive characteristics was the attempt to set every military assistance initiative promoted since the end of World War II into a broad framework. The mutual security legislation endorsed by the U.S. Congress marked a major repositioning of military assistance away from providing the allies with equipment and weapons intended to be used for the domestic purposes of producing peace and stability within every Western bloc country. The new aim was to secure Western Europe from external threats; military assistance was aimed much more toward protecting allies from foreign threats than from internal insurgency. The new law let the Truman administration implement the rearmament of the West more quickly than had previously been possible.

Despite the features that shaped the MDAP as a landmark of full multilateralization of Western rearmament, the military assistance program produced by this appropriations bill lacked some of the characteristics destined to influence the West European countries' domestic economies and the European trade integration openly supported by Washington; these were built up only during the years that followed. Above all, what was missing was a close coordination of arms trade among the European NATO members and the establishment of bodies specifically aimed at bridging the European balance of payment disequilibrium caused by rearmament, which during the Korean War was still managed by the European Payments Union.<sup>63</sup> The Temporary Council Committee likely became the most important NATO body charged with this task and the overall balance between national defense efforts and economic stability. Furthermore, the U.S. government still conceived mutual assistance strictly as part of bilateral diplomatic and international relations between the United States and each European partner.<sup>64</sup> Intra-European trade of

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<sup>63</sup> On the TCC, the most recent account is Helmut R. Hammerich, *Jeder für sich und Amerika gegen alle? Die Lastenteilung der NATO am Beispiel des Temporary Council Committee 1949 bis 1954* (Munich, 2003). See also Jan Hoffenaar, "Military Wishes and Economic Realities: The NATO Temporary Council Committee and the Build up of the Dutch Armed Forces 1951-1952," paper presented at the 30th International Conference of Military History, Rabat, Morocco, 1-7 Aug. 2004.

<sup>64</sup> Lawrence Kaplan, *NATO Divided, NATO United: The Evolution of an Alliance* (Westport, Conn., 2004), 6.

arms and consumer goods for military production purposes was a major feature as early as 1949, when the Western Union powers and the U.S. diplomatic representative in Europe considered the possibility of using U.S. military aid to promote European economic integration. By that time, U.S. Ambassador to London Douglas's open-minded approach to building a multilateral rearmament program was broken off by Washington, which accounts for the early obsolescence of the MDAP.<sup>65</sup> In fact, in the years following 1950, the U.S. reappraised their approach to, and solution for, Europe's dollar gap problem. Improvement of Europe's balance of payments deficit against U.S. currency by funding European imports through the U.S. market, as the European Recovery program had done, came into question. Many American policymakers suggested that Washington help its European partners through less rigid trade policies rather than through an influx of dollars into Europe.<sup>66</sup> This prevented the MDAP from letting the European economies earn dollars through the rearmament program, and opened up a discussion in Washington on the role of military assistance in producing financial stability across Western Europe. Such an achievement could not be accomplished by the MDAP; it was fully targeted on military aid only a couple of years later by the off-shore procurement programs signed and implemented under the broader umbrella of the Mutual Security Program (MSP).

Policies for the rearmament of Western Europe, drafted and pursued through the 1949 MDAP and the 1950 MSP, were aimed at strengthening every European partner within a security framework agreed upon at the NATO level, but they did not cope with the European dollar shortage problem and the structural problems of the Intra-European payments system. Through MSP, the European Payment Union was relieved of dealing with the impact of rearmament on the European dollar deficit. In

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<sup>65</sup> Douglas to Acheson, 26 March 1949, telegram, FRUS 1949, vol. 4, *Western Europe*, 250ff.; see also Sergio Chillé, "Gli Stati Uniti e l'integrazione europea 1946-1957," in *Storia dell'integrazione europea*, vol. 1: *L'integrazione europea dalle origini alla nascita della Cee*, ed. Romain H. Rainero (Milan, 1997), 463-523.

<sup>66</sup> In 1950 and 1951, two U.S. government advisory bodies charged with studying and reappraising U.S. international economic policy and its problems (one chaired by Gordon Gray, the other by Nelson Rockefeller) produced reports. Both suggested that the Truman administration end aid to friendly nations through programs like ERP. Rather, Washington should cope with the European balance of payments and monetary difficulties through open trade and tariff policies. For a comparison of these two documents, see Burton Kaufman, *Trade and Aid: Eisenhower's Foreign Economic Policy 1953-1961* (Baltimore, Md., 1982). See also Gordon Gray, *Report to the President on Foreign Economic Policies* (Washington, D.C., 1950); U.S. Congress, Senate, Committee on Appropriations, Special Subcommittee on Foreign Economic Cooperation, *Analysis of the Gray Report*, 82d Cong., 1st sess., 1951 (Washington, D.C., 1951).

late 1951, a new NATO common fund was created to alleviate the pressure of rearmament on European currencies and trade balances.