CHAPTER - III
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EVOLUTION OF UNITED STATES FOREIGN ECONOMIC POLICY.

For a true assessment of the Indo-US economic relations, it will be quite relevant to have a picture of the involvement of the United States of America in the contemporary world economy.

The U.S.A. had continued to adopt an isolationist foreign policy and the country's Government was almost indifferent towards the affairs of the world. The classic delineation of the United States foreign policy is to be found in President Washington's Farewell Address which many U.S. Presidents have viewed as an enunciation of the basic principles of the foreign policy of the United States. During the period from the Republic's infancy to its strength, the United States (a) has been watchful about its

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*The Foreign Policy as enunciated by President Washington (1799) in his Historic Farewell Address and as practised by him in his administration was adhered to and even expanded by all the succeeding Presidents. John Adams reaffirmed...*
neighbour's activities;
(b) avoid strengthening existing political treaties with European countries;
(c) donot shirk "unavoidable wars"; and
(d) enter into temporary alliances only for periods of emergency.

The pronouncements of the Presidents not only affirm the policy of isolationism but also enable us to catch a glimpse of the reasons which recommended such a policy as being best suited to the interests of the Republic. These reasons may be broadly divided into five heads:
1. Recoil from Europe's aggressive and competitive political system,
2. the comfort of geographical isolation,
3. the supposed incompatibility of the European political system with the aims the American system had in view,
4. peace in isolation was essential for the growth of the United States,
5. policy of isolationism commanded overwhelming sentimental attachment of the people.

* Contd.from the previous page * -

the principle that the U.S.A. ought not to involve itself "in the political system of Europe" and should keep itself distinct and separate from it. Jefferson thought that the U.S.A. was "kindly separated" by geography from the "exterminating havoc of one quarter of the globe". Quincy Adams, Andrew Jackson, Van Buren all considered world alliances as adverse to American peace.
With such an isolationist foreign policy, the U.S.A. had therefore no economic alliance with the rest of the world till the First World War. But gradually, the United States leadership began to realize that complete isolation was neither possible nor indeed desired. During 1790-1860, United States concluded as many as two hundred treaties with about thirtyfive countries mostly of Europe. Her trade, hence, expanded from 50,000,000 dollars in 1790 to 700,000,000 dollars in 1860 with shipping tonnage rose from 370,000 to almost 5,000,000. Between 1789 and 1945 there were nine European Wars including seven between England and France. The American people were involved in every one of them. S.F.Bemis, in his "A Diplomatic History of the United States" (1960) remarked, "America has never been and probably can never be, completely separated from Europe". (pp 73)

During the inter-war period (1919-38) there were occasions, when the U.S.A. found it to be in the national interest to assist other nations with poor economy and poor military strength. During this period, the U.S.A. lent more than 10 billion dollars to some twenty countries and most of this money was not repaid.*8 It had been, however, the American tradition to help other nations through relief, missionary programmes and such other activities.

Though the Second World War began in 1939, the Government of the United States of America appeared not to get
Itself directly involved in the War and was quite alert noticing that the War scene remained away from the American soil. The United States Government simply extended its moral supports to its European allies. The historic Japanese attack on the U.S. strategic base at Pearl Harbour on December 7, 1941 probably compelled the U.S. Government and its 130 million people to jump into the World War II. On Monday, December 8, 1941, the Congress declared that "a state of War" had existed since the unprovoked and des­ tardi V Jap­ anese attack. Britain declared War against Japan. Germany and Italy declared war against the U.S.A. Bulgaria, Hungary and Rumania also entered the War. When Thailand went over to Japan, its action led the U.S. Government to a declaration of War on 26 January, 1942. Thus, the United States had been compelled under circumstances to deviate from her historical policy of isolationism to that of inter­ national entanglement.

War Time Foreign Assistance Policy.

Foreign economic policy is a vital factor of a country's foreign policy. Economic and technical assistance programmes towards other countries form the basis of a country's foreign economic policy and the same is the guiding factor for the development of international economic relations. The United States assistance programmes officially began in 1938. The Lend-Lease Act enacted in March, 1941
gave the President power, in the interest of the national

LEND LEASE ACT  defence to supply the country's poten-

MARCH, 1941.  tial allies with arms and other goods

for War purpose. In his annual message to Congress of
January 6, 1941, President F.D. Roosevelt stated the ob-
ject of the World struggle, the survival and continued
spread of the Four Freedoms: freedom of speech, freedom
of worship, freedom from want and freedom from fear. He
also asked for 'Lend Lease' to Britain and its struggling
allies as a measure to defend the United States. Instead
of outright loans, he proposed to lend defence articles
which could, at least, in part eventually be returned.

Isolationists fell upon this proposal with vicious glee,
but it was rammed through and an initial appropriation of
7 billion dollars was made. The World War II cost the
United States 350 billion dollars. Of this, about 50.7
billion dollars were devoted to Lend-Lease, and about 7.8
billion dollars were furnished by the allies in the form
of Reverse 'Lend-Lease'. A considerable amount of Lend-
Lease money was spent for civilian supplies, United Nations
Relief and Rehabilitation Administration, military aid and
technical assistance. After the War, there had been great
need for relief, rehabilitation and reconstruction and
recovery. Germany, Japan, Phillipines and many others rece-
ived massive U.S. Lend-Lease assistance during and after
the War.
After the close of the War, the U.S.A. came out to be the leading power of the world with an affluent economy. Experiences of the World War really changed the American attitude towards the world affairs and this led to the growth of an era of a new foreign policy. The isolationist country switched over to world co-operation. The war time President F.D. Roosevelt, his successor President H.S. Truman and Secretary for States George C. Marshall were the architects of the new dynamic foreign policy for the country; and it was interesting that economic and military aid programme was always the key-stone of the U.S. foreign policy. American leaders made historic efforts to establish a 'bipartisan foreign policy'.

The role of American leadership in the constitution of the Atlantic Charter (1941), organisation of the U.N.O., the I.M.F., the I.B.R.D. cannot be overemphasised. After the death of President F.D. Roosevelt, President Truman created an atmosphere of international economic co-opera-

*Such a thesis has, from an idealistic point of view, a great deal to be said for it. And indeed, regarding the question practically, those who support the new concept of bi-partisanship are not likely to take the position that all differences of opinion should be suppressed in the name of an effective foreign policy. There is, certainly, no chance of this happening in America, and it would be a calamity if it did happen. Bi-partisanship, in essence, ought to mean something else. It means, fundamentally, that the administration in power will seek to consult the opposition in advance of the formulation of important principles, and
tion in his historic declaration in the inaugural speech to the U.S. Congress on January 20, 1949 and this policy-statement was known as 'Truman Doctrine'. The 'Point Four' of this Doctrine emphasized the need of accelerated economic growth of the underdeveloped countries of the world.

Post-War Assistance Policy.

The World War caused unprecedented disaster. Europe had been the worst of all the sufferers. European crises had been responsible for America's fall in trade and this adversely affected American economy. American security and the cause of liberty alike demanded a prosperous and contented Europe. Such crises the world had faced before, but it was the measure of American statesmanship that for the first time in history a nation offered economic aid to unfortunate friends and foes alike, deliberately speaking, to restore the competitive power of its trade rivals. The American plan found full expression in Secretary George C. Marshall's speech at Harvard University in June 5, 1947. He said, "It is logical, that the United States should do whatever it is able to do to assist in the return of normal economic health of the world without which there can be

*cont'd, from the previous page:
will, in the grave matters of diplomacy, admit the minority to a share in the making of decisions in the formulation of policy and in the execution of these decisions. (Ref. The American Approach to Foreign Policy, 1954, by Dexter Perkins- Harvard University press- PP,167-168)
no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist*. This Marshall Plan faced wide criticism in and outside the U.S.A. However, the same had firm endorsement in the Congress. The Congress approved a 'bipartisan foreign policy' and in April, 1948 the 'Economic Co-operation Act' was passed with a view to practicalising Marshall's European Recovery Programme under which the Government of United States was committed to eighteen European countries. A four-year economic assistance programme was brought about. From April 1948, through the end of 1950, the whole programme involved the delivery of over 12 billion dollars worth of goods and services to these countries.

There was no end of European misery and distress during the post-War years. By the spring 1947, Finland, Poland, Hungary, Czechoslovakia, Yugoslavia, Rumania, Bulgaria, Austria, Russia-occupied zone in Germany, Greece and Turkey experienced severe crises.*

*The whole world experienced a critical dollar shortage at the moment. The world dollar shortage during the period of 1946-1953 amounted to nearly 18 billion dollars and timely American efforts aimed at mitigating such shortage. (Refer Modern Economic Development of Great Powers- by S. Nages Rao, 1962 PP 390, Good Companions, Baroda).
President Truman appeared before Congress on March 12, 1947 and appealed for the approval of financial support to Greece and Turkey. The President said, "I believe that it must be the policy of the United States to support free-peoples who are resisting attempted subjugation and armed minorities or by outside pressure." The Congress sanctioned 400 million dollars for Greece and Turkey.

Thus immediately after the World War II, the United States came forward to play purposeful role in world affairs. American 'foreign-aid' programme had much been stimulated by Truman's Policy Statement in his inaugural address delivered on January 20, 1949 describing American foreign policy in terms of four major courses of action. The President said, "Democracy alone can supply the vitalizing force to stir the peoples of the world in triumphant action, not only against their human oppressors, but also against their ancient enemies-hunger, misery and despair". During the forth course of action the President said, "We must embark on a bold, new programme for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas of the world. I believe that we should make available to peaceloving peoples the benefits of our store of technology in order to help them realize their aspirations for a better life. And in co-operation with other nations, we
should foster capital investment in areas needing development". The Congress provided legal authority for this programme of international economic co-operation for a balanced world economic build up, and the International Development Act (Title IV of Public Law 535) was passed and approved by the President on June 5, 1950.

The United States Foreign Economic Policy Since 1950

The United States Government established the Technical Co-operation Administration in 1950. This autonomous unit administered the U.S. foreign technical assistance programme. In 1951, the Mutual Security Act was passed. This Act provided for the establishment of the Mutual Security Agency. This new system put (a) Economic Co-operation Administration, in charge of the European Recovery Programme under the Economic Co-operation Act, 1948 (b) Mutual Defence Assistance Programme and (c) Truman's Point Four Programme under a direction for mutual security. The Act required the U.S. Government to "join in promoting international understanding and goodwill and in maintaining world-peace and to take such actions as may be mutually agreed upon to eliminate causes of international tension".

In 1952, the above Mutual Security Agency and the Technical Co-operation Administration were merged into a
new agency- The Foreign Operations Administration (FOA).

Letter, President Dwight D. Eisenhower established the

FOA AND International Co-operation Administration (ICA)

superceding the FOA. The current United States

foreign economic assistance programmes are operated under

the provisions of the Foreign Assistance Act, 1961. The

USAID Act provided for the setting up of the United

States Agency for International Development (USAID) which

now operates United States foreign aid programmes. In the

mid-fifties several other instruments for technical co-

operation were created so as to extend possibilities of

economic relations with the rest of the world. The Agri-

PUBLIC LAW cultural Trade Development and Assistance Act

was approved on July 1954. The Public Law 480

has been working under the provisions of this Act since

1955. The Development Loan Fund was formed in 1958. This

DEVELOPMENT has been merged with the USAID. The Export-

LOAN FUND & EXIMBANK. Import Bank (1934) was given statutory status

in 1945 and has been playing a very important role in the

U.S. foreign economic policy.¹²

SALIENT FEATURES OF U.S. FOREIGN ECONOMIC POLICY

Let us now observe the following distinguishing

features of United States foreign economic policy of the

post-War era:

(a) Most of U.S. assistance programmes aimed at providing military equipments or for defence purposes.
(b) Economic, military or technical assistance was 'tied', that is, a country receiving U.S. allotment of certain amount of dollar has to utilize the same in purchasing U.S. made equipments etc. in that country (USA).

There has been world wide criticism against 'tying' of aid and in recent years President Nixon is trying to evolve a dynamic foreign techno-economic assistance policy for the purpose of restoring and promoting better relations and understanding with the friendly nations of the world. He proposes gradual untying of aid to developing countries enabling them to procure their needs elsewhere other than in the U.S.A. or in the aid-receiving countries themselves.

Thus, the U.S. official involvement in the world economic affairs began steadily since the Second World War. Since then, every American President expressed his judgement in the necessity of extending foreign aid to and maintaining friendly relations with less developed countries for their economic growth and for the best economic interest of his own country. The genesis of the Indo-US economic relations is, therefore, to be found out in this new foreign policy adopted by the United States of America.

The U.S. interest towards Indian affairs grew during President F.D. Roosevelt's regime. He strongly voiced in
favour of Indian Independence Movement. It has earlier been remarked that Jawaharlal Nehru's visit to the U.S.A. in October 1949 produced an impact upon the leaders of the U.S.A. to be realistic with dynamic attitudes, towards the growth of economic relations with India. Truman's historic 'Point Four' programme enabled the United States Government to pursue the policy of cordial economic relations with India.

Now we would pass to look into the emergence of the concept of international economic relation and of foreign aid and its rationales.


*10.Marshall Plan- U.S.I.S.,
Strategy of Foreign Aid-Lloyd D,Black, 1968.

American Aid and India's Economic Development,1965
PP 59-60.
