

Oral History Interview

With

MERRILL C. GAY

Assistant Chief, Division of Commercial Policy, in charge of Far and Middle Eastern Branch, 1944-49; Economic Advisor to Assistant Secretary of State for Far Eastern Affairs, 1949-; Negotiator, U.N. Conference on World Trade and Employment, 1947; Advisor to U.S. representative, Economic Commission for Asia and Far East, 5th session, Singapore, 1949; Alternate U.S. representative to ECAFE, 6th session, Bangkok, 1950; U.S. representative at 7th and 8th sessions, Lahore, 1951, and Rangoon, 1952; and at 9th session in Bandung, 1953.

Washington, D.C.
July 6, 1973

by Richard D. McKinzie, University of Missouri-Kansas City

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Summary Description:

Topics discussed include the influence of Middle Eastern oil on U.S. policy toward that region; the General Agreement on Tariffs and Trade; U.S. trade agreements with China; the International Trade Organization; the Economic Commission for Asia and the Far East; U.S. trade relations with Japan; the economic reconstruction of Japan; the economic reconstruction of Korea; the Colombo plan; the standardization of trade statistics; U.S. aid programs in the Far East; regional conferences in the Far East, including the Bandung conference; the Southeast Asia Treaty organization; exports of U.S. films; U.S. private investment in foreign countries; and the Lend-lease program.

Names mentioned include John D. Condliffe, General Douglas Mac Arthur, John Foster Dulles, J. Arthur Rank, Stuart Rice, Dean Rusk, and Harry S. Truman.

Donor:

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MCKINZIE: Professor Gay, why did you choose Government service? You did prepare for an academic career at the University of Michigan and the University of Illinois.

GAY: My interest in international economics goes back quite far. I was aided and abetted by the fact that at the University of Michigan I did most of my work under Prof. John B. Condliffe, the great English -- New Zealand to be exact -- economist, who used to write the annual World Economic Surveys for the United Nations. He was a great scholar and friend. He stimulated an already incipient interest in international economic affairs. Consequently, throughout my graduate study I aimed toward concentrating in this field, and I located in the East

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near Washington, with this in mind. This strategy worked at least to the extent of soon obtaining a position in the State Department during a very interesting period. It started in 1943 just before Bretton Woods, the creation of the World Bank, the Monetary Fund, the GATT, and some of the UN structure. It was a period of innovation and intellectual excitement. One of the first things that struck me in coming into the Department was that everybody was talking about "postwar planning;" it was a period that attracted many high caliber "professionals."

MCKINZIE: How did you feel about Cordell Hull's view that after the war there was going to have to be more economic integration than there had ever been before?

GAY: This was one of the reasons I wanted to get into this work. My views were essentially the same as those supported by Mr. Hull. My doctoral thesis was in the field of commercial policy. I felt that the terribly bad situation we found ourselves in after World War I, leading to the great Depression of the '30s, the rise of Hitler; and eventually World War II, was basically the outgrowth of extremely unwise economic policies following World War I. Consequently, it was a great satisfaction --

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almost at the beginning of my career -- to be involved in a program which was aimed to avoid a repetition of similar mistakes.

I might say, before we proceed further, that a couple of the things that were done later in the period -- the creation of the Marshall plan and lend-lease -- in my opinion were accomplishments of politico-economic genius with deep impact upon the course of world development, helping to avoid the kind of economic deterioration that followed World War I. These were very controversial matters, but I look upon them as works of vast importance -- episodes in our history in which the United States can take considerable pride.

MCKINZIE: You worked first with Harry Hawkins. Could you describe how you happened to get into the Far Eastern and Middle Eastern Branch of the Division of Commercial Policy?

GAY: I did have at that time a particularly strong interest in the Far East. This may have been partly because of my close association with Professor Condliffe who was a long-time expert in Far Eastern affairs. Within a year or so, I was made Chief of the Far and Middle Eastern

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Branch, which was composed of some twelve, fifteen people -- professionals on international economic problems. Of course, bureaucracy being what it is, one can't make blanket statements without some reservations, but economic problems, particularly trade problems, anywhere in the Far and Middle East and South Asia that had trade and commercial policy implications, were supposed to funnel through my branch. Obviously, we had contact and certain responsibilities with many interesting developments.

MCKINZIE: As the end of the war approached, do you recall what you anticipated about trade with the Middle East and the Far East? There never had been very much trade with the Middle East except for oil, and the Far East was always more potentiality, I think, than it was actuality. What kinds of projections were you making at that time about trade?

GAY: Well, I recognized, as you say, that trade with that part of the world had not developed as much as it could have under different circumstances, and that this was an area where there was a great need for finding ways and means to exploit those potentialities. I was particularly

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pleased, therefore, to get into the part of the Department concerned largely with Far and Middle Eastern problems. This involved an early and intensive introduction into petroleum matters. Petroleum matters, of course, were always an important element in our international economic policy; particularly in that part of the world. It was always a very active field. Many things had been going on which were not widely understood by the public, or perhaps even known by the public. The Department tried to keep it developing in a mutually satisfactory way from the standpoint of the oil countries and the consuming countries. This came to a dramatic climax at the time of the Suez crisis in 1956.

MCKINZIE: Also, there were some discussions in State about what effect bringing in Jewish refugees from Europe might have upon the attitudes of the countries exporting oil to the United States -- this, even before the creation of Israel. Do you recall that issue entering into discussions of the Division of Commercial Policy, or was that considered too much a plain political matter?

GAY: That kind of problem always lurked in the background to some extent. We had fairly forthright relations with

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the oil producing countries during the period in which I was involved. We kept in close contact also with other major consuming countries, such as Great Britain, and the oil producing countries -- trying to maintain a stability in the growth and conduct of the industry. The Department itself also maintained a fairly close relation with U.S. investors, partly due to their considerable initiative in keeping in touch with the Department.

MCKINZIE: Did you deal with those people?

GAY: Oh, yes. Looking toward their handling of their part of this evolving relationship, which was of such great importance to both the development of the oil producing countries and the oil consuming countries, in a way which would encourage long-range stability of mutual benefits to the oil countries and the consuming countries. This was not always an easy task, but it was always there. It was always a subject of a good deal of discussion among the tripartite arrangement I mentioned -- the officials of the producing countries, the leaders of the private sector of the petroleum industry, and the officials of the consuming countries like Great Britain and ourselves.

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MCKINZIE: There was talk at the end of the war about the revolutionary rising expectations. Some said that increased living standards were going to be necessary just about every place as a result of the communications revolution during the war, and all kinds of other developments. The same people usually said that one way of bringing about higher living standards was through a vast increase in world trade. Did it seem to you that it was possible to raise the living standard -- given the political situation -- in the Middle East through trade?

GAY: Yes. That theme has been an important one, but with relative degrees of importance, at various times, for many years. It was certainly much in our thinking in this period. It came to the forefront, perhaps even more noticeably, in connection with the growth of our foreign aid programs, which is another part of the economic work of the department in which I became considerably involved. I got into it in one way or another, particularly after shifting from the Bureau of Economic Affairs to the Bureau of Far Eastern Affairs around 1950.

MCKINZIE: Franklin Roosevelt said that China was going to

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be one of the "big four" in the world at the end of the war. This must have had some impact upon the workings of the Department, did it not?

GAY: I'm sure it did. I recall that I personally shared that view very emphatically. I felt that China had a great potential and was certain, in the long run, to exercise great influence on world affairs. I spent five or six months, as the head of the negotiating team, with China in the first session of GATT (General Agreement on Trade and Tariffs). We got out of that negotiation a fairly good trade agreement, but it took a long time to get it, and it was only a year or two after that until the revolution, and much of the work done went down the drain. I say this only to indicate the belief that China would inevitably play an important role in the course of world trade.

MCKINZIE: In a narrative way could you outline how you got involved in the U.N. Conference on World Trade and Development (UNCTAD), and explain, then, how you came to Geneva to be the negotiator with China?

GAY: From the organizational point of view, I suppose

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I was the logical one to do this. I had been working on Far Eastern problems from the beginning of my assumption of the role as Chief of the Far and Middle Eastern Branch. There had been many smaller problems that had come to our attention. We already had two or three trade agreements that had been negotiated earlier on a bilateral basis. When I first came into the Far and Middle Eastern Branch we were negotiating a treaty of friendship, commerce and navigation with China -- a broad bilateral trade agreement. I thus had had some experience in this area. I also had got into this kind of thing in some depth in my doctoral thesis, even before I had entered the Government.

So, in response to your question, it was this background, and the fact that from the organizational point of view I was the logical one to head up the team to negotiate with China, that it fell my lot to do so. We -- the team -- had members drawn from the Tariff Commission, from Commerce, from Agriculture, the Treasury, and occasionally ad hoc members. I was the spokesman for and the coordinator of the team's work.

MCKINZIE: That whole convention in Geneva was supposed to be a prelude to an international trade organization, which

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much more than just the things that you mentioned here. Did you personally subscribe to the goals of the International Trade organization, which would have involved "full world employment?"

GAY: Yes, indeed, I did. In fact, that might be said to be the final objective, which was to have a world production -- including the integration of economies and the healthy movement of trade. This was the organizational aspect of it; that is, the creation of an International Trade Organization (ITO). In Geneva, as a matter of fact, we negotiated various parts of that proposal with the other countries. I spent quite a bit of time trying to negotiate various parts of the ITO Charter with my opposite members in the Chinese delegation, and also with Syria, Lebanon and

their Customs Union. In fact, it only took about six weeks to finish up with them, but it took about seven months to finish with China. This was a very interesting experience. I had the responsibilities for certain chapters given me to specialize on from time to time, and instructions to try to win the acceptance of the Chinese delegation to these particular parts of the International Trade Organization. This was sometimes

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an exercise in frustration. The Chinese would assign somebody to be a specialist on this chapter. He and I would discuss it for several weeks. I would feel that I had just about accomplished the desired results and would pull out, and some completely new man would be given that assignment. I'd have to start de novo educating and converting another Chinese delegate to accept this chapter. So it was a rather tortuous overload on top of the negotiation of the tariff agreement.

MCKINZIE: That tariff negotiation was unprecedented in that you had so many multilateral negotiations on an item by item basis.

GAY: Yes. There were critics who didn't see how it could be done. I think we proved that it could be done. In fact, considering the objectives, it was probably the most efficient way to do it.

I think that a good deal of thought was contemplated, as the functional role of the ITO has in subsequent years been gradually taken on by the structure in Geneva -- the GATT structure -- so that this wasn't a complete loss. It was a different way of organization than was originally contemplated, but it's been a going concern, and much of

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what was thought of as being the central role of the ITO has been carried on through the GATT organization.

MCKINZIE: There is some indication that the Chinese were angling for fantastic concessions (US concessions) at the end of the war -- concessions of a tariff nature which would ultimately mean a kind of economic aid. Did you have that feeling when you were negotiating with them?

GAY: Not to the extent that you imply, but they probably did have larger expectations. I think we came out with a good agreement from our point of view and, perhaps, probably from theirs too. I think it was a reasonably balanced agreement. The Trade Agreements Organization, which was sitting in Geneva and reviewed all these agreements as we made accomplishment, certainly looked at it from that point of view. I think there was a feeling on the part of the U.S. Government that we had struck a pretty good balance in the agreement with China. I never had the feeling that the Chinese were terribly unhappy about it or unhappy at all as a matter of fact. They never gave any indication that they felt that they had taken us for a ride. That was my own judgment.

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MCKINZIE: During this same period -- 1944 to 1949 -- when you were in the Far Eastern and the Far and Middle Eastern Branch of the Division of Commercial Policy -- you also had to think about Japan. I wonder if you could describe your part in that?

GAY: Yes. I think the main thing that I'd like to say about Japan is what I would pick up just a little bit later -- particularly during and after the period in which I, for a number of years, was head of the U.S. delegation to annual meetings of the Economic Commission for Asia and the Far East (ECAFE) which was the Far Eastern Branch of the United Nations. To the Far East, that is perhaps the most vivid part of the U.N. In many Asian eyes, that was the U.N.

First, I might say that some of the Asian countries, without much doubt, anticipated this new ECAFE organization, which is the product of the U.N., as a possible means of getting more assistance from the West. It was soon determined, however, that this organization was not primarily an "aid organization," in the sense that the term is usually used. It was an aid organization in the sense that we were constantly talking about programs and policies and issues which would have to do with economic

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growth and development and integration among the countries of the area. But it was not to direct economic assistance. In other words, they soon found that it was not, in itself, a direct channel through which to get external aid.

MCKINZIE: I take it then that some delegates did approach you about this possibility.

GAY: Oh yes.

MCKINZIE: Do you recall any notion in particular which did this at an early point?

GAY: Well, the one that comes to mind first of all is Malaysia. For a period of two or three years they made quite a point of that. This was a difficult problem for the United States because we looked upon Malaysia as primarily a responsibility of the British. I think, finally, we did find ways and means of cooperating with them on a somewhat stepped up basis. Now, you asked me a few minutes ago about Japan. Well, I know that there was a great deal of interest in Japan's postwar role, and a recognition on the part of the United States -- certainly supported by the President at the time -- that it was to our advantage as well as to the advantage of the world at large for Japan to

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reconstruct itself and become an active participant in world trade matters. Very early in my own experience with ECAFE we made quite an effort to bring Japan into it, and later into other economic organizations which had to do with economic cooperation, mutual assistance among the countries of the area, and between countries of the area and countries such as the United States, and to get for Japan "most favored nation treatment." That would indicate they would not be discriminated against by the trading countries, and that would have, we thought, tremendous physiological effect on the Japanese, as well as direct economic effect over time.

The United States took a good deal of leadership in attempting to persuade other members of the organization to put Japan in the category of a "most favored nation," which means that it would have treatment equal to that of any other country. Of course, that philosophy was really part of the very basic philosophy of the whole GATT operation. As part of this thrust, we undertook to get Japan into ECAFE and we served, as a matter of fact, as the advocate for their becoming a member. This was around 1950-51. Japan was strikingly modest and free of anything approaching aggressive tactics to push

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itself into the international programs such as this one, or, later on, the Colombo plan. In fact, a good deal of encouragement was necessary to bring them to the point where they really wanted to become participants.

In the United States Government no single individual has full responsibility for anything, as you well know; it's a teamwork undertaking. As Chairman of the U.S. delegation, I was spokesman, and I did take a good deal of initiative in writing papers -- drafting papers -- including an aide memoir to the British to try to get them to support us in this, and also to exercise their influence on various Commonwealth countries. As the head of the U.S. delegation, it more or less fell on my shoulders, in a modest way, to serve as their advocate in the plenary sessions where this matter was taken up.

MCKINZIE: In what way did you encourage them? By collaring them...

GAY: I think that might almost describe it. Most of the specific efforts, I think, were aimed at other members of the organization to get agreement in the plenary session to accept their membership. I do remember that I made the first major statement in the plenary session in support

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of Japanese membership, and other statements from time to time. The Japanese were modest in answering questions; they didn't push themselves. There was a surprising friendliness on the part of many Asian countries -- in view of the recent past. That wasn't the case always, of course. The United States did take considerable leadership, I think it's fair to say, in bringing Japan back into the family of the economic cooperating nations, in the immediate sense through membership in such U.N. organizations as ECAFE and the Colombo plan. That helped bring them back into cooperative activities in U.N. programs.

MCKINZIE: To what do you attribute the lack of enthusiasm on the Japanese part?

GAY: I don't think there was any lack of enthusiasm. I think they were timid and self conscious and perhaps a little ashamed; in general they were not particularly articulate. I think they felt a high degree of sensitivity, in view of the attitude of some Asian countries toward them -- having in mind the old "Asian co-prosperity sphere" experience and so on. I don't think they wanted to appear in any way to be pushing themselves. I think

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they leaned over backwards to avoid that.

MCKINZIE: Could we go back to the period before 1950 when Japan, for all practical purposes, was under the control of General Douglas MacArthur. Japan's situation was quite different from that of Germany. Germany began to evolve toward participation in regional economic plans much earlier than Japan. Can you shed any light on the reason why Japan was slower in integrating into the regional economies than was Germany?

GAY: I think the Marshall plan had a great influence in Europe. Many of the European countries, including Germany had much in their economic and social background that was similar to ours; they thought the way we did about economic matters. It was easier to negotiate economic matters with countries of similar background -- similar economic points of view. This fact was brought out on later occasions when there was talk of some kind of a Marshall plan program in some other part of the world, such as the Far East or Latin America. I remember frequently commenting that it was very questionable whether a Marshall plan would work in any other part of the world, because of that difference in the background

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and the experience of working together as we had over many decades with the European countries. I think Japan actually moved very fast when you consider the degree of destruction -- the fact that, as an economy, Japan was flat on its back after the war. I was there many times for a number of years; the progress that was made from one six months to another was almost astonishing.

You've asked about MacArthur's influence on this situation. That's pretty hard to assess. I consulted with SCAP [Supreme Commander of the Allied Powers in Japan] frequently when I would be in the Far East for perhaps two or three different reasons. I think that SCAP in many ways was very helpful in bringing Japan back, although there may have been some misunderstanding and resentment from time to time. I had some feeling myself, occasionally, that certain details might have been handled from a psychological point of view with more skill.

If I may inject a sidelight on this matter: Coming back from Tokyo on one of the old China Clippers, leaving in the middle of the night, I found myself down below in the underbelly (the bar area) with a European gentleman

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of very interesting background. I found that he had certain royal family attachments in Rumania. In a sense, he was a man without a country. He had a most unusual passport. As I sensed the situation, he had been in quasi exile status for a while. He had been in Japan a number of weeks prior to this conversation day. He was a very intelligent, sophisticated gentleman. We got to talking a little bit about what was going on in Japan and about SCAP. I raised the question as to whether the Supreme Commander was in all cases handling matters in the most desirable fashion -- having in mind the fact that many of the finest homes were taken over for SCAP personnel to live in, and things of that sort. Whereupon this gentleman differed with me sharply. He pointed out that this was the first time in history that a conquering nation had treated the defeated nation with such farsightedness, decency, and humanity, in spite of these surface matters that I had

noticed. At no time in history, that he knew of, had this ever happened before. He felt that there was no need for the United States to be apologetic about the performance of SCAP -- quite the contrary.

This would go down in history as an almost unique new type of relationship between the defeated and the

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conquering nations. Of course, we can all see now that Japan has taken advantage of our friendship and help in subsequent years, and has grown perhaps more rapidly than almost any country in the world. So I guess he must have been right.

MCKINZIE: Did Mr. [John Foster] Dulles or anyone on his staff consult with you at the time he was negotiating the peace treaty with Japan?

GAY: Yes. There were a number of us who prepared basic directives for SCAP. I participated in some of that work. I think from a personal standpoint I had more consultation with him in connection with Okinawa. Partially by accident, we both happened to have been there at almost the same time, and both of us were talking about the same kinds of issues, and we consulted in Tokyo and then back in Washington.

As far as the SCAP [General Douglas MacArthur] is concerned, I don't recall much personal discussion with him. There was the Far Eastern Commission of which, for a while, I was Chairman or Acting Chairman. We did have a number of directives which were worked on by the relevant parts of the Department of which the Bureau of

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Economic Affairs was certainly one. I participated in some of that work.

MCKINZIE: It seems that the Far Eastern Division never had the kind of influence over policy in Japan that a lot of people expected it might have when it was created in 1942.

GAY: I think that's true. But I do think that, in summary of what I have been saying, that what the United States did during the Truman years in taking leadership in pulling Japan back into the channels -- trade channels -- and into the economic integration process, into membership in organizations, and the "most favored nation treatment," may historically turn out to have been of great importance.

MCKINZIE: There were, before 1950, a couple of missions to Korea; there was an economic mission in Korea, for instance. Could you describe your involvement?

GAY: Yes. The picture is somewhat the same. We also made some efforts in this later period to bring Korea back into the family. I was in Korea occasionally on a consultative basis. I don't believe I was ever

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actually in one of the missions. But my branch of specialists -- twelve to fifteen varying from time to time -- participated in many Korean policy decisions. Korea was also brought into the ECAFE and the Colombo plan. And like Japan, even hosted the Colombo plan in more recent years. Like Japan, too, I guess one could say partly because of the very efficient economic assistance that the United States has provided to Korea, Korea has had a tremendously rapid reconstruction and economic growth, almost a phenomenal one. If those two countries can be harnessed together and will cooperate in a fully friendly and mutually advantageous fashion, that will undoubtedly have a tremendous bearing on the future of Asia, and, consequently, on the future of the world's economy. And, of course, if you add to that China, the potential of which is very great, you will have...

MCKINZIE: But if you do that, don't you almost have the Greater East Asian Co-prosperity Sphere?

GAY: Well, what's the matter with a Greater Asian Co-prosperity Sphere if it's properly defined and properly structured? The psychological aspect of the old notion,

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I suppose, is hard to get rid of in some countries, but I think to a large extent it has been eradicated.

After moving out of the ECAFE around the mid-fifties, the Colombo plan became my conference responsibility. The Colombo plan was set up under the aegis of the [British] Commonwealth with the primary, almost singular goal of stimulating economic cooperation in that part of the world. It was a catalyst for understanding each other's economic problems, for coordinating their economic policies, and also for stimulating better understanding between the developing countries and the Western members (which were traditionally called "donor" countries). Japan is now considered a donor country in the Colombo plan.

There was a degree of friendship and mutual cooperation which was spawned under this organization. The annual meetings were in the general nature of confrontations--of initial explanation of the problems they were experiencing in their economic growth and economic planning; these confrontations inevitably led to a measure of coordination. It must be noted, though, that economic plans of these countries were not closely coordinated -- perhaps not as closely coordinated as they

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should have been. But it was the only device available at the time, and we tried to make as good use of it as possible.

MCKINZIE: In connection with that, could I ask you to address yourself to the dispersion of donations. The United States in 1949 had proposed the Point IV program of technical assistance to underdeveloped areas of the world. Then the Colombo plan was a kind of veneer over that. The Colombo plan, in some ways, seems a duplication.

GAY: I am glad you mentioned that because this is very widely misunderstood. The United States has had aid programs with many of the members of the Colombo plan -- bilateral agreements under which we have made our assistance available. In other words, these bilateral agreements have been the legal basis on which we have operated. We have continued to do that and insisted on being able to continue to do that when we became members of the Colombo plan about 1951. With respect to the other members, that was not the case. It was much more an avenue of negotiating aid arrangements between members (with the other members) than it was with us. Our negotiations were, as I say, almost entirely done

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bilaterally. In many cases, we had missions on the spot -- in Korea for example, in Taiwan -- all over that part of the world. But many of the countries, and particularly the Commonwealth countries, used this device as their legal device to go to their parliaments for the appropriations necessary to render aid. Relatively more negotiations -- "corridor negotiations," you might say -- took place between the other members than was the case for the United States. In a sense, the Colombo plan was superimposed so far as the United States was concerned. We probably would have done pretty much what we have done whether we had been a member or not. This would have been much less likely to have been the case for all the other members. One of the objectives of the Colombo plan was to stimulate cooperation -- find ways in which they could help each other. This was of help to us, too. We were then able to find out what the other countries wanted; what they had been doing; what their major problems were. It had some usefulness to the United States, but not relatively as much as in the case of Canada or Australia.

Now, in regard to the idea of a dichotomy between the donor and recipient countries which has prevailed

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pretty much throughout the history of this organization (now twenty odd years old): One of the interesting consequences of the way this mutually cooperative effort worked was to stimulate the so-called underdog countries to help each other. This was one of the original objectives, as a matter of fact. Increasingly, the regional members have tried to find ways of becoming donor countries on a limited basis. India, in particular, has offered various educational opportunities to members of the littler countries, and has taken great pride in the fact that it was not only a recipient country, but also now is a donor country. The Philippines -- other countries -- wherever there was a little bit of donorship built into their relationship with some other country in the area, they took great pride in it and made a great point of it at the annual meetings. Consequently, these two to four week sessions, I think without question, stimulated cooperation among the members of the region, as well as a better understanding of their mutual problems.

MCKINZIE: From the tenor of your remarks I gather that you believe the ECAFE and the Colombo plan organization are working as effectively as things might have worked

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had the United Nations itself become the instrument for economic cooperation and development.

GAY: Yes. Of course, ECAFE was an U.N. organization, but it was not, as I said earlier, directly an aid-giving [entity]. We did not, for example, provide funds to ECAFE to be dispersed over the area. We did try to help in other ways. We made many suggestions to the ECAFE commission, some of which were accepted and have been quite significant. One suggestion that the United States made back in the early fifties was for rather an extensive statistical program aimed at standardizing statistics and the technicalities of trade arrangements. We scrounged around and got what we considered the best statistical brain in the country to go over to attend a special meeting to help them get this project started. The late Stuart Rice was the person we sent. I remember, very vividly, talking to him about this. He got much interested in it. This program has continued to this day. I don't know how much actual good it has done. It would be hard to quantify, I suppose; but without doubt it has been of very substantial significance. There have been a number of other things, many of which were suggested by the United States, and for which the United States

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was not actually providing money.

MCKINZIE: Perhaps my question was ill put; I meant to ask whether or not you believed that an error had been made by not using the U.N. as the channel for external aid.

GAY: I would hardly know how to answer that. I think ideally it would have been better. I have supported, especially in more recent years, the shifting toward multilateral aid. In fact, at one time I was spending a great deal of time on this problem, and also a great deal of time on getting back to the old trade picture again, in pushing the notion that in regional trade -- regionalism -- there were many things these regional countries can do among themselves trade-wise -- payments union perhaps, and other ways in which they could stimulate their growth which might be a more effective and efficient way of doing it than depending upon foreign donations or loans.

As far as the United States was concerned, this was to a considerable extent a political issue. The American Congress quite understandably has always been concerned that the funds that it provides for economic

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aid are well used, and wants to keep some eye on how they are used, and there would naturally be some reluctance to turn large volumes of funds over to a third party and "kiss them good-bye" -- and say, "Do the best you can." This is almost what we did in the case of the Marshall plan, but, of course, we were dealing with old friends who spoke the same economic language that we did, and we could work with them very closely and informally. Well, in any case it wouldn't have been nearly as easy in any other part of the world.

As you must know, there has been a growth in the U.N. aid program as the trust increases. We have supported this. Sometimes, I have thought, we haven't supported it as actively and aggressively as we should, but I think there is a trend even in the United States, trying to push more responsibility on to the multi-plan in the direction of multilateral arrangements of some sort. I think the degree of sophistication among the body of recipient countries has reached a point now where it's easier for it to be done that way.

MCKINZIE: The first ECAFE meeting you attended was in Singapore in 1949 and the next year it was in Bangkok;

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then Lahore, Rangoon, Bandung. Those are exotic cities that most American diplomats don't get a chance to go to very often. I notice you had the personal rank of minister in 1951.

GAY: The extent to which the United States Government makes use of the practice varies from time to time. I never particularly felt the lack of that title when I didn't have it. In fact, once I was over there for a while I realized I did have it. These were interesting meetings. You got a heterogeneous group of people. You've got delegates from Bhutan, Nepal, Lahore, Afghanistan, Australia -- countries in all shades and degrees of political sophistication, and different social, economic-philosophical backgrounds. I was struck by the degree of friendship -- personal friendship -- that it was possible to maintain with the members. I suppose in this connection I should mention the U.S.S.R., which was a member the SCAFE.

Many of these meetings, until about 1954, tended to be, to some extent, propaganda battles. I always felt this was unfortunate and tried to play this down. I always regretted it when the Russians undertook obviously

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to use the forum for strictly political purposes. Twice they walked out (I think in Bangkok). This was over the seating of Communist China issue, I believe. We did a lot of so-called "corridor work;" I suppose they did too. We had, I always thought, surprisingly good cooperation from many of the developing countries. I'm thinking particularly of those countries that tried to maintain a non-alliance status such as Burma and India. Those were the ones that naturally we focused on. I suppose the U.S.S.R. did likewise. We got amazing cooperation from these countries. I'll never forget a couple of instances, just to illustrate a point. On one of these instances, the Russian delegate had made a very harsh statement aimed at the United States, the thesis of which was that our assistance to this part of the world was merely a disguised means of keeping it under our thumbs and of maintaining de facto imperialistic order. I found the Burmese delegate very agreeable; in fact, I liked him personally and we had quite a bit of social contact. I knew before I left Washington that he had some reputation of being pro-Soviet in his thinking. But, personally we got along quite well. Almost every year at the meeting there

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was some discussion of the importance of their developing their agriculture as well as their industry. We urged them not to think in terms of becoming an industrial power overnight. These things came slowly, and you had to have some balance in the growth process. But this Burmese delegate, who had a booming voice (he would have made a marvelous cheerleader; he had a voice that would carry over a football field), pounded the table and said, "If this is imperialism (this referring to what the United States was doing), give us more of it." The delightful aspect of this was (particularly coming from him) the publicity that it got all over Asia.

If I may refer to another case, this was in Bandung. Again the Russian delegate was belittling our United States' efforts as simply devices to gain our political objective and keep these countries under our thumbs. I always expressed regret that the Russian delegation wasted so much time in the forum in purely propaganda forays of this sort, and would keep my responses dignified and as short as possible.

There were occasions when we were able to show clearly that their facts were patently wrong, especially if we

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could cite the various specific United Nations documents. On this Bandung occasion exactly the same thing happened -- the Russian propaganda. I always bemoaned the fact that we had to get into this kind of propagandistic wrangle. But this time I made perhaps the strongest response I've ever made. As I said earlier, I always felt that it was extremely unwise to show any anger or excitement or emotional fervor. I tried to keep my responses clear, simple and dignified, and as concise as possible. But there was naturally some variation on this.

On this particular occasion I took the line, in defending our aid program with these countries that we always first had a negotiated agreement with them. We didn't try to do anything that they didn't want us to do. Usually we weren't able to do as much as they wanted us to do. If there was any dissatisfaction, we were only too glad to change or get out. We did, after all, get out of Burma for a while. These governments weren't stupid; we couldn't pull the wool over their eyes, even if we wanted to. What the Russians were, in fact, doing was to insult the intelligence of these governments with which we negotiated all these agreements.

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They were all the result of mutual agreement.

Well, to my great delight, virtually every regional country -- the Indians, I believe and the Burmese, virtually all of them -- picked that theme up and responded more emphatically in a negative way to the Russians than they had ever done before. My delegation felt that we had achieved a propaganda victory, at least. A few days later we found that the Asian issue of *Time* magazine was practically entirely devoted to this particular meeting, and was saying, in effect, that this was the first time the Asians got up on their own hind legs and talked back to the Russians.

You asked if there was excitement or drama in this. There was this kind of thing, always, and the friendships you made with the people of different traditions and backgrounds. Oftentimes, there was trouble in the city in which we happened to be, for some reason or another. On one occasion in Lahore, there was some demonstration aimed at primarily the French. One day I was driving up to the club for lunch and I was mistaken for French. We ran into a mob of a hundred or so persons. They stopped the car and started shaking it and undertaking to tip it over -- thinking I was French. I think there

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was another member of my delegation with me. I relaxed and smiled at them, and pretty soon a few of them began to smile back. The first thing we knew, my driver got the car started, and we eased our way through there and got to the club without any further trouble.

MCKINZIE: During this period, there was an increasing amount of aid from the United States to Far Eastern and Middle Eastern countries, particularly after 1950 with the beginning of the Korean war. Much of that aid, though, was not going into development -- much of it was going into military preparedness. Did you have anything to do with either the negotiation or execution of those agreements which resulted in military aid and economic aid?

GAY: No. I can say categorically -- no. Although some of the things I did had an indirect relationship to what we were doing. Ideologically -- intellectually, I was always skeptical of combining the two any more than was absolutely necessary. I had a certain bias against military agreements. As an economist, I was concerned with the economics of the total program.

MCKINZIE: An expanded army in a country obviously affects its economic structure.

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GAY: Of course. I might say in this connection, I went to five SEATO (Southeast Asia Treaty Organization) meetings and a council meeting with Mr. Dulles. SEATO had an economic program too; that's why I was attached to his delegation and why I went to a number of meetings on economic problems. We were trying, as we used to put it, to put some economic "meat" on the SEATO bones through regional projects of some sort. This was not easy. It was surprisingly difficult to find projects which it could be widely agreed were regional in nature. It was much more difficult than finding projects to fit into the bilateral program. We did, however, make some constructive contribution. The U.S. Government used to have an Asian regional fund, which the Government found very difficult to tax, because of this point I just made -- difficulty of supporting a project as a regional project. We did, under the aegis of SEATO make a fairly substantial contribution to the Asian School of Hydrology. It is a specialized engineering school attached to the Kuala Lumpur University. The product of that kind of an educational program is something which every country in the area had and has need for. This was a project which was financed fairly substantially from

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United States contributions. The U.S. funds came from that old regional fund. The school still exists and has been a growing success. It turned out to justify itself as a regional project, because it has drawn students from all over that part of the world. They have been able to go back to their countries and apply their knowledge. And there were a few of the others like Tropical Agriculture in Daka. So we did succeed in getting some economic program tacked on the SEATO. So, to that degree, I was involved with the military a bit.

MCKINZIE: You corrected me that your major concern was that of an economist. Did you feel that Asian and Middle Eastern economists had a very different perception of their own situation and of development problems than had American economists? I know that many American economists did not think very much of the economic theories held by Latin Americans. What was "the state of the art," so far as your counterparts on other delegations were concerned?

GAY: That is an interesting question on which one could expiate at considerable length. To jump to the conclusion before explaining what I mean. I think, looking back over a number of years experience of this kind of thing,

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that the educational aspects of this kind of meeting are really tremendous. This was particularly true with regard to the importance of agriculture. The first time I went to an ECAFE meeting our delegate (I was the alternate at that first meeting) was saying some things about agricultural development which I knew was going to result in some kickbacks. The experience I had had in the department in this field led me to be quite sure of it. He was saying some things that I knew would be challenged, and I was jotting down some notes which he might use in rebuttal or in getting himself off the limb in case that should turn out to be necessary. Sure enough, the Indian delegate pounced vigorously on what he had said -- just exactly as I had anticipated.

If I may digress for a minute, years later, in Pakistan, I ran across an Indian whom I liked. (We had seen each other at cocktail parties almost every night. At these international conferences you would sometimes have four or five in the course of the evening.) He said one evening that he knew our paths had crossed somewhere before. I said, "Well, I had the same feeling." We explored further and it turned out that he was the Indian who had pounced up on us in

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1949 at Singapore. We got quite a kick out of this -- both of us.

What I started to say was that after ten years or so the Asian countries, which were sensitive about any suggestion that they ought to give more attention to agriculture, began to talk in the same way about it that we did. They had become, if I may say so, much more sophisticated about the role of agriculture in their country's economic health and development, and recognized that this had to be a part of the picture. They were saying the same thing that we had been saying already for ten years, so there was no longer the problem. But at the beginning, in 1949, they all wanted instant industrialization, a steel mill first of all, or a railroad -- something tangible. You know the Russians built a stadium in Djakarta, a real "white elephant;" and a big hotel in Rangoon, which I was in for about a month in 1967 with the Colombo plan meeting there. This was the first time after the Burmese closed their doors to outsiders that they opened those doors to an international meeting. We felt very happy about this. We stayed in this hotel that the Russians had financed, which was virtually idle eleven months of the year. Once

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in a while they had a conference out there; it was five miles out of Rangoon -- virtually a "white elephant." As you know, whatever one thinks about United States aid, we did always try to avoid letting the aid go into the directions which would not be in some respects reasonably productive and useful to the country or its economy. And that's why we studied the thing beforehand and we negotiated with them so that such and such details were actually buttoning up an agreement.

Many of these countries did send good economists to these meetings. Many of the Commonwealth countries had officials that were educated in Cambridge or Oxford. The Indians,

in particular, always sent really first class economists. They talked our language -- we'd get along very well. Granted, they were the great minority in their government perhaps. But usually, referring particularly now to the Colombo plan, the delegates were drawn from the ministry of planning, where a country had such a ministry. Many of these countries have four-year plans, five-year plans; the people who were working on these plans many times were economists -- sometimes British trained. So, there were many sophisticated economists in attendance. The discussions, the

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confrontations, the long explanations, country by country, of what they were doing, what their major issues were, what their goals were, were terribly educational for the young officials who oftentimes sat in the back row of a delegation.

Perhaps five years later they would turn up as Minister of Finance or something. This happened in the case of a Thai. He was a young fellow I first met in one of these meetings. He seemed like a youngster. I think they had about forty people on their delegation. Five or six years later, he was one of the most powerful people in Thailand, Minister of Finance. In fact, he was Ambassador to the United States recently. I don't want to say that ECAFE was the sole cause of his economic and political sophistication, but I do think that these international discussions did serve an educational purpose all around.

MCKINZIE: How did you come to be appointed Economic Adviser to the Assistant Secretary of State in 1949? Were there the circumstances about that that were significant in your career?

GAY: I suppose the reason I was chosen for that job was

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that I had been for at least four or five years Chief of the Far and Middle Eastern Branch, which was in the Bureau of Economic Affairs and had consequently a lot of Washington negotiations with the officials in the regional bureaus -- in this case the Far Eastern Bureau and the Near Eastern Bureau. During the '50s I was in the Far Eastern Bureau as the economic adviser to five or six assistant secretaries, and then for two or three years after that I was in a similar relation in NEA -- Near East-South Asia. I suppose it was that experience that I had in the Bureau of Economic Affairs and the vast amount of negotiation in Washington with the officers in those regional bureaus that led to this transfer. So many times, as I have often said, the negotiations in Washington are more difficult than the negotiations with another government. If you can convince your counterpart in Agriculture, or Commerce, or Treasury that such and such is the right answer, you've pretty well got it licked. Sometimes it's more difficult to reach consensus among some of the agencies -- particularly on certain controversial economic matters -- than it is between governments.

MCKINZIE: I wonder if I might get you to give an example

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of that, using something we discussed before we turned this recorder on; that is the movement of Japan back into the regional economy of the Far East. You mentioned that it took some convincing of people in the State Department.

GAY: I don't think that the officers were opposed to the reconstruction and development of Japan into a viable economy and a valuable ally -- not at all. I was addressing myself to the specific objective of gaining for Japan "most favored nation treatment." Big industries, especially the industries which are our weak industries and had to have help in order to survive in the first place, put out a great deal of propaganda for protection through tariffs. Our political side of the Department, being aware of that as much as anyone, was somewhat apprehensive of the possible end effects of extending "most favored nation treatment" to Japan. Fifteen-twenty years ago, you know, the attitude toward Japanese competition was somewhat different than it is now. I think it was looked upon as a little more noxious -- pauper labor and very low quality produce. Now, we realize that the Japanese are highly efficient, their

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wages are going up, they are becoming a strong economic power, they can compete with us in many things, and they have become one of our strongest trading partners.

There's bound to be a little difference of opinion on trade matters, tariff matters, foreign exchange matters, between, let us say, the State Department which ostensibly has the primary responsibility for international relations, and the Commerce Department which is closest to the American business community, and the Treasury Department which is closest to our financial community. It's just that different agencies have slightly different perspectives, and sometimes a particular question will take on a different significance to one agency than another. Now, if I am going to one of these meetings with a man from Treasury in my delegation, and a man from Commerce, a man from Agriculture; in a position paper, we've got to have agreement. Sometimes it takes a good deal of give and take to reach a consensus.

MCKINZIE: Could I ask you to talk about another responsibility you had at a very early stage. That was the handling of a motion picture problem that came to the Department of State? Could you explain how that came to you, and how you handled it?

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GAY: Well, this had been handled by a senior Foreign Service officer for quite a few years. He retired. It was given first to another officer in the Bureau of Economic Affairs -- a friend -- who had it for a year or two and had become launched into the negotiations of the [Sol] Bloom-[James F.] Byrnes agreement with France. It was also at the time when there was a lot of wrangling between the U.S. and the British about film quotas. It was a "hot" period, in other words. I don't remember why this other officer was put into something else; it was not because of any trouble or problem; it was just the normal course of events. I was one of the most natural ones to fall into this. I was asked to take it on for a few months and it turned out to be over a year.

As I say, it was a very hot period, because it was the period not only when we had these two problems -- uncompleted negotiations with the French, and this very politically difficult problem

with England on film quotas -- it was a period when it was hard to bring dollars back here. As you know, the motion picture industry is a great exporter, sending films all over the world. They wanted to get those dollars back home. This responsibility was tacked on to my regular work, but it

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turned out to take a lot of time. The motion picture people were in touch with me almost daily -- sometimes two, three times a day. I would say that the motion picture industry showed the greatest initiative and imagination in coming up with devices, schemes and gimmicks to get dollars back here, of any industry that I observed. I would say at least once a week they had some suggestion to make. Well, this is a technical problem, you know.

It was a very difficult period to the American businessman; particularly difficult to the motion picture industry because they did have so much international business. They would try out an idea on me to see whether it came within our guidelines, and I might say about nine times out of ten I found something very wrong with it, and they tried something else.

The problem was almost insuperable until the overall problem was relieved. In other words, those problems couldn't be solved on an industry-by-industry basis. They were very reasonable, very friendly, very cooperative -- I think we gave them good service, but it took a hell of a lot of time.

MCKINZIE: I imagine it did. Was there large discussion about establishing some kind of quota on the export of film?

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GAY: Yes. As I recall, we did have some quota arrangements. I remember J. Arthur Rank came over one time for discussions on this. It was a colorful industry. It enters colorful people and people of some importance. I indicated, I think in another connection, the extreme interest that California Senators and Congressmen had in this problem, and they were down to see us a number of times -- all of them on an extremely friendly and cooperative basis, but just exploring what possibly could be done to relieve the situation. They were trying to take good care of their constituents, and we were too, actually, but it was very difficult.

MCKINZIE: For the most part your work in the Department of State during the Truman period was with the Far East and the Middle East. Was there any sense of second class citizenship at the time? I think there's no question historically that it was a Europe-oriented period. Was there a feeling of taking a back seat? Do you remember any discussions that you might have had with your colleagues about the subject?

GAY: I think the existence of the fact is historical. In a sense the United States is an offshoot of Europe.

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We were a colony; so it's not surprising that we had much in common ideologically and sociologically, all facets of human relations.

No, I never felt like a second-class citizen whatsoever. I think that quantitatively there's more time given to the European problems. Of course, we've been in war over there twice in the last seventy-five years; that's one reason for it. I don't think we've caught up yet in the Far East. Vietnam has been pretty messy and long drawn out.

But I think that as far as State Department officials -- the substantive officers -- by and large were concerned, they realized that the world is a unity. While we were at one time concentrating on something that was of particular concern to Latin America, another time Europe, another time the Far East, I don't think that there was a feeling of permanent priority or permanent purpose in one direction or another. I, personally, feel that Japan is as important a friend and ally, if you will, as any country in the world. And I suspect most anybody that I'd raise that with in the Department would come around to an agreement with this.

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England is not the country it was fifty years ago; perhaps we are not either. If anything, during the period that I was involved in this, it seems to me that the Far East has come up in importance -- relative importance. Partly it's because of the tremendous population in that part of the world which nobody can overlook. Probably also it is because it is the part of the world that confronts us with, quantitatively, the biggest problem of what to do about poverty. Two-thirds of the world is in dire poverty, and much of it is in that part of the world; so it's inevitable that our attention would be drawn. We spent many months when Dean Rusk was Assistant Secretary for the Far East (I worked very closely with him) in laying the groundwork for our Far Eastern aid programs. I always felt that he and I were in almost complete agreement. He gave a great deal of attention to what we used to call the "grass roots" approach, and to avoid giving the notion that we could by some magic raise the standard of living of the world overnight. We were very sensitive on this matter, and I talked to Dean Rusk a great deal about this. Raising the standard of living of several hundred million people is no simple

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operation; it takes a long time. He fully understood this and we were very careful in those days (I think perhaps more than has been the case some many times later on) to avoid doing anything which would create expectations which we couldn't live up to. I do recall that on at least two or three occasions I opposed something which in principle I favored simply because I didn't think the United States had whatever it needed to carry out the commitment which was involved. I was afraid it would create expectations which could not be fulfilled; therefore, I thought we had better keep our hands off. I don't remember the specifics. There are cases where we didn't keep our hands off, and I think we all know what results in such cases.

It's very easy to create expectations -- to get what amounts, in the thinking of the other government, to a commitment, which we didn't really mean to be a commitment. A high official likes to be on good terms, a good friend, a good fellow, with his counterpart. A big general likes to have that kind of a relationship with his counterpart. Around the cocktail parties, in various countries, "wants" come into the conversation,

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and it's very easy for something to be said under circumstances like that which can be misunderstood. The first thing, you know, they can be turned -- in the minds of somebody -- to a commitment.

MCKINZIE: You have made a point that is not often made. That is that in the postwar period the resources of the United States were not unlimited.

GAY: I've often wondered what would have happened to India if we could have put in as much aid per capita as we have in Israel. Of course, most of that aid to Israel has been from private sources. But on a per capita basis it has been very high. To put that much aid into India it would have taken an unimaginable quantity of resources, which we just didn't have.

MCKINZIE: By about 1949-50 when the first aid programs were going into the Middle East and Far East, there was an argument in another part of the State Department about how much of it should be government and how much of it should be through private enterprise. Then it got into the question of guarantees for private investment. Were you involved in any of those discussions?

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GAY: That problem has always existed. It has taken on more emphasis and greater relative importance in some periods than in others. It has just become more difficult to get congressional support for public assistance, and it is natural for the people who are pushing aid to look for some other source, and to hope that it may be found in private channels. But I think always that there has been, as far as policy is concerned, the desire on the part of United States to encourage private investment, and to consider it a very major element in the development process. In fact, the development of the United States, as you know, owed a great deal to foreign investment; the British financed, to a very large degree, our railroad system. Our treaties of friendship, commerce and navigation, in which my branch was interested, in part were aimed at smoothing the way for private investment in one way or another. Now, in more recent years the AID part of the department, particularly in view of the difficulties of getting as large appropriations as they felt were necessary, has sought to find ways to encourage private investment through guarantees, insurance and so forth. AID has made a great effort at least to

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use that as a substitute for public support. This is not a new thing; this was, in a sense, the core of the concept of treaties of friendship, commerce and navigation which go way back.

MCKINZIE: It was very difficult to get businessmen to invest, because the returns domestically were so very good during those years.

GAY: Yes. Well in those conference meetings of both ECAFE and the Colombo plan, investment has often been a major item on the agenda. I've long noted, and many other people have, that many governments and people in the "have not" countries appear to have the notion that foreign investment is just there knocking at the door ready to come in the minute they allow it. But they don't want to open the door without being awfully sure that there's no reversion to anything in the nature of old imperialistic controls and relationships. It has taken a long time to

get that kind of thinking -- and it hasn't been done yet completely by any means -- out of the minds of officials in many countries. The recollections of their period of subservience to a colonial power are still very vivid. In response to questions that come from the

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conference floor or speeches, I have often pointed out that American investors actually, by and large, prefer to invest at home, because there's where they understand the laws; they are close at hand, and they can see what's going on. The further they are away, and the more different the nature of the government and the country concerned, the less appealing to potential investors are investments. I point out that the second choice for many Americans would be Canada, because Canada is right next door and the Canadian way of life is much like ours. And again, they can easily keep track of what's going on. Investors are very reluctant to get off into the far corners where the standards of Government -- all kinds of traditions and standards -- are different from ours. They feel that there is a much greater risk element, and that if these countries really want foreign capital to come in, it is up to them to create an environment -- in other words, to open the doors with an environment that appeals to very skeptical and cautious investors. I think that has tended to get across pretty well over the years. There are, I'm sure, plenty of officials who hold the old line, but not so much as they used to.

MCKINZIE: Perhaps a good way to conclude this conversation

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would be for you to comment on your view that the Truman administration assumed a leading role -- broke the ground -- for lasting postwar policies.

GAY: Yes. I mentioned quite a while back in this discussion the very significant role of the United States in bringing Japan back into the family of nations, from an economic standpoint. I think that Mr. Truman, while he wasn't directly involved in the action-sense at the time, provided the environment -- intellectual environment -- and the general direction of policy which made this so logical and made it easy to do this. I think his posture at the Potsdam meeting, and his desire to avoid punitive settlements, indicate that he deserves considerable credit for having created the type of environment in which others in the Government who were in an operating role could produce certain things. We could do them with the feeling that, if it came to a showdown, we had the backing of the top side of the Government behind us. And it is in that sense that I feel that Mr. Truman deserves tremendous credit.

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MCKINZIE: How would you assess the economic decisions that were made in the Truman administration?

GAY: I think Mr. Truman was sympathetic toward a highly cooperative relationship between the United States and our Allies, and with the rest of the world. He supported the concept of economic aid -- trying to bring up the economic levels of the "have not" countries, recognizing that this was to our benefit and to the world's benefit, as well as to the benefit of these countries themselves. He opposed punitive measures vis-a-vis Japan.

Mr. Truman has been identified in some ways with the lend-lease program. This is a U.S. program which is massively misunderstood by many of the American public. The real purpose of the lend-lease program, which, I think, like the Marshall plan, was a work of genius -- something the United States in the long historical approach can be very proud of -- was to avoid after World War II the kind of problems that surfaced so quickly after World War I. These included the great frustration over reparations, for example; the reconstruction of the wartorn areas; the economic nationalism that ran full speed for a while in many countries; the great pressure everywhere

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for each one to protect himself, which led to increases in tariffs in many countries and was accompanied, in many cases, by financial warfare (in particular, foreign exchange warfare).

Partially, this was because of the floundering in regard to reparations. The general and perhaps natural attitude after World War I was that if we, for example, financed large military operations of the British or other Allies that they ought to pay us back when they could. The difficulty of mass transfer of economic resources was very little understood by most of the people. There were some sophisticated economists, of course, who were aware of that kind of problem, but it is always a difficult problem. The transfer of resources outward to an ally during the war is very simple, because it's made up largely of guns, and bombs, and tanks and so forth. But the return transfer is indeed staggering and it's difficult. It means that if a payment is to be made, the indebted countries have to have a payable balance of trade for many, many years, and this causes problems in the importing countries -- problems of competition and antagonism on the part of their own producers, and sometimes the effects are worse than not being paid at

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all. In any event, the problems and frustrations surrounding the reparations experience after World War I, I think, formed the intellectual justification for our lend-lease program which was designed to forestall that kind of thing after World War II. I think, by and large, it has done that. It was designed to help get help to our Allies, and also to avoid difficult problems of readjustment after the war. I understand Mr. Truman was advised in certain quarters to end the lend-lease agreement almost immediately after the war was over.

MCKINZIE: I understand that you had a part in drafting the State Department position paper which was to go to President Truman concerning the subject of the termination of lend-lease.

GAY: Yes, we had a paper, which must have been a part of the package that was on his desk when he became President. In the haste and the excitement of the great change in his life that was forced upon him, he made the decision, which he, I understand from various quarters, soon recognized to have been a great mistake. I think this mistake stems from what I just said about one of the fundamental purposes of lend-lease -- mainly to facilitate

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postwar settlement -- postwar -- not just the transfer during the war, but the transfer back. In lend-lease there was recognition of the fact that it was to everybody's advantage to keep a healthy world economy even if some of those transfers didn't come back. In other words, it was a matter of setting up priorities as to what was the best thing for everybody, in the way of an adjustment

to the great maladjustment that the war always brings. Apparently, it was not brought to his attention that that was one of the major thrusts of the lend-lease program. He very soon realized that a mistake had been made on this score. But in any event, the existence of this lend-lease program would seem to have been a successful case of learning from history, and avoiding the extreme frustration which followed World War I.

MCKINZIE: Thank you very much, Professor Gay.

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