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PSYCHOLOGICAL STRATEGY BOARD

Washington

EVALUATION OF THE PSYCHOLOGICAL IMPACT
OF UNITED STATES FOREIGN ECONOMIC POLICIES
AND PROGRAMS IN FRANCE

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PSYCHOLOGICAL STRATEGY BOARD
WASHINGTON, D. C.

EVALUATION OF THE PSYCHOLOGICAL IMPACT OF UNITED STATES
FOREIGN ECONOMIC POLICIES AND PROGRAMS
IN FRANCE

NOTE BY THE ACTING DIRECTOR

This paper was noted with interest by the Board at its Seventeenth Meeting on January 15, 1953, and, subject to further staff work, accepted as a reference document to be transmitted to the member agencies and to the Director of Mutual Security. This text represents the results of such additional staff work.

PSB D-37 is an experimental paper which the Psychological Strategy Board may wish to keep up to date and to reissue from time to time. Comments on this evaluation and suggestions of substantive material deserving consideration for future revisions will be gratefully acknowledged by this office,

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Acting Director

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PSYCHOLOGICAL STRATEGY BOARD
WASHINGTON, D. C.

Memorandum of January 14, 1953

MEMORANDUM

TO: The Honorable David K. E. Bruce, Under Secretary of State

SUBJECT: Draft "Evaluation of the Psychological Impact of United States Foreign Economic Policies and Programs in France." (PSB D-37)

I attach a draft of PSB D-37, bearing the above-quoted title, for consideration and appropriate action by the Board at its meeting on January 15, 1953.

This paper was developed by the PSB staff as an outgrowth of the parallel project [REDACTED] 25X1B
You will recall that, following Board authorization of the U.K. evaluation on August 14, 1952, some thought was given to broadening that project to embrace Western Europe. Although that alternative was not adopted, I have had in mind the importance of U.S. economic policies and programs in this wider area, and I have therefore directed that this paper on France be developed in the staff. [REDACTED] it was written 25X1B
in frequent consultation with the Department of State and has benefitted by the Department's comments.

I present this document to the Board for its consideration and request permission to distribute it to interested agencies for their information.

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[REDACTED]

Director

Enclosure:

PSB D-37, dated January 14, 1953

(Identical memos. sent to: The Hon. William C. Foster, Deputy Secretary of Defense and General Walter B. Smith, Director of CIA)

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EVALUATION OF THE PSYCHOLOGICAL IMPACT OF UNITED STATES FOREIGN
ECONOMIC POLICIES AND PROGRAMS IN FRANCE

I. Statement of the Problem.

To evaluate the psychological impact of the United States foreign economic policies and programs in France against the background of the attitudes assumed by France since World War II towards its international responsibilities.

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II. Summary.

1. The United States is for the French the symbol of the modern economic world. This world disturbs them, as manifestations of anti-Americanism indicate, but they must adjust to it and know that they must.

2. The example of the United States in economic affairs has a greater psychological effect in France than bargain or persuasion, both in raising the ability of the French to make the best use of their means and in bringing about a realistic adjustment of France's commitments to its politico-economic capabilities.

3. In the rearmament field the shift of emphasis from economic to military aid achieved little psychological gain, since their will to rearm was already aroused by imperatives of power of which the French were aware.

4. For the purpose of fostering economic progress, United States example holds more psychological promise than American insistence on specific reforms which encounter deeply-ingrained economic behavior patterns and some apathy in economic affairs.

5. Although this particular psychological impact was not deliberately sought for, U.S. aid, by strengthening France, enabled it to accept a limited German competition and cooperation in the Coal and Steel Community.

6. United States example in the field of trade liberalization might well be the most effective means of encouraging the French to expose themselves to the incentives of world competition, and thus to adjust France's economy to the requirements of the modern world and to the needs of the present struggle.

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III. Approach to the Problem.

1. Power in international life is control over the will of foreign nations. Warfare aims at curbing the will of a nation's opponents, at substituting one national will for another. In contrast, the main objective of our exercise of power through foreign economic policies and programs in the framework of the Western Alliance is directed towards influencing the will and the ability of our partners to realize common interests and responsibilities in a form and to an extent consonant with U.S. interests.

2. In this instance the psychological impact of economic policies is the extent to which policies succeed in increasing that will and in improving the psychological conditions of that ability. Our actions, attitudes, and programs elicit reactions of like or dislike, create an atmosphere favorable or unfavorable to our aims, determine changes in the behavior of our partners which serve or not the goals jointly agreed upon. An evaluation of the psychological impact of economic policies includes a judgment of these effects and of the methods used to call them forth, such as bargain, reason, or example.

3. In the case of France, the consensus of qualified observers is that the French assume today as a nation responsibilities beyond the means which their individual behavior - both political and economic - permits them to realize. Assuming that this disparity is the main problem of France, the present study describes the psychological factors responsible for the gap between intentions and capabilities and evaluates the role of U.S. economic policies in extenuating these factors.

4. The approach selected here aims at stimulating thought and not at formulating an over-all judgment on either France or our policies. The purpose is to outline pitfalls in French-American relations and not to draw a balanced picture either of French morale or of the total impact of our policies. Some positive aspects of the French situation

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are deliberately neglected since they do not play a part in the formation of the basic gap which is the concern of this paper, and since the paper describes only the psychological and not the physical, economic, or strategic impact of our policies. Within these limited terms of reference, an emphasis on the negative is probably unavoidable.

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IV. Introduction. Manifestations of Anti-Americanism.

1. Even minor quarrels among partners are embittered by a feeling of betrayal, and the stronger the friendship the more violent the pent-up emotions released by the quarrel. America and France share a love for freedom, a cultural inheritance, and a long history of friendship and mutual support. For many generations the partnership between France and America has been successful as a whole. Since the American Revolution crises have arisen at times, but they have never lastingly impaired the relation. At times some attitudes of one partner have been bitterly resented by the other. The GI's of the first World War already spent too much money for the thrifty taste of the French. Duhamel's diatribe against the "futurist" aspect of American civilization preceded by many years the indictment of "coca-colonization" by Mauriac, and this did not prevent French writers from borrowing the techniques of Steinbeck and Hemingway.

2. Today the French peasant may issue complaints, as all peasants would, when his land is condemned for the construction of air bases. The French tenant may resent the competition of American officials and soldiers, the French liberal may accept gullibly the Communist version of the Rosenberg trial, and the French politician may make capital out of his protest that "he is not subservient to America". Although some of the U.S. actions and some of the French protests elicited by them create delicate problems of international relations, none of these problems appears insoluble on its own merits. It is equally dangerous to exaggerate the importance of these manifestations as it would be to neglect them. As long as there is no absolute evidence that they reveal a pattern of deep antagonism against America, it is preferable not to assume the existence of this antagonism.

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3. The danger is that of creating a threat which does not exist, and, at the very least, ~~that~~^{of} of accepting alluring theories of little practical use. Since the manifestations of anti-Americanism occur at a time when France continues to receive a large subsidy from the United States, it is current to explain French irritation as a manifestation of the resentment of poor recipients toward rich donors. Gratitude is a heavy burden to bear, and good deeds are hard to forgive. But such an explanation does not lead to any practical course of action and, moreover, it distorts the true objective of our aid, which is not to elicit gratitude but positive results required by our own national interest.

4. Although the question of French friendship or antagonism towards America should be raised at this point, it is only incidental to a much broader question, which is whether our policies - in the present case our economic policies - have contributed psychologically or not, and to what extent, to the achievement of these positive results which we have in mind sometimes concretely, sometimes less clearly, and which are our international goals. An attitude of friendliness on the part of the French may sometimes help the achievement of our goals, but some antagonism does not necessarily need to offend us, for one can lean only on what resists.

5. The French attitude in this common concern - the cold war - is determined primarily by psychological characteristics often very different from those of Americans. The self-assumed responsibility of the French and their capabilities in the cold war are determined primarily by these characteristics. It is in the light of these relations of cause and effect that we can more clearly see what our policy goals towards France are, or tend to be, and that we can evaluate the measure to which our economic policies psychologically help France in adapting its conduct to the challenge which faces us both.

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V. French Psychology and the Cold War.

1. American policies rest on a pragmatic approach and economic measures are the chosen instrument of these policies. The French mind rebels at pragmatism and subordinates economic considerations to political ones.

2. Thought is for the Americans a guide to action, and the proof is preeminently to be tested by the practical consequences of the belief. The Frenchman disassociates his thoughts from the facts. French "realism" is more reverence for logic than care for reality. Masters at handling ideas, able to grasp situations, and capable of producing very admirable plans, the French do not act consistently with their concepts nor are they diligent in carrying out their plans. The anti-clerical bourgeois used to send his wife to church and to let his daughter be educated in a convent; the landowner may vote communist without batting an eye; worker and employer may drink together and still be class enemies; engineers hate to "freeze plans" and to start production, since their main joy is to reach on the drafting board the perfect theoretical solution or, as they say, the "elegant" solution.

3. The French taste for "intellectual liberation", a schism between theory and practice - results in some of France's greatest spiritual achievements and also in some of its most conspicuous material failures. It explains France's skepticism and its suspicions of leadership and collective action. Proud of his concepts and capable of admiration for those of his neighbor, the Frenchman knows by bitter experience that these concepts rarely stand the test of practical application. Frenchmen of all classes are intellectual rather than active individualists. For them freedom to criticize is the touchstone of liberty.

4. Intellectual games are more enjoyable in the realm of "quality" than in the arena of quantitative measurements. The French in general are more at ease when they deal with political principles and dogma than with economic affairs. Whenever faced by economic issues they are wont

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to transfer the debate to the political plane and thus avoid the dire necessity of making practical decisions. In sharp contrast to American attitudes, the French adopt as their basic credo that of the primacy of political affairs.

5. In economic affairs the individual Frenchman is limited in his ambition, little conversant with the national interest, but, barring flight of imagination, a careful manager of his patrimony. The Frenchman is a strong believer in private property and watches his narrow interests carefully. It is often said that "the heart of the Frenchman is on the left, but his pocketbook is on the right".

6. In large economic affairs American pragmatism succeeds when the intellectual realism of the French fails, because it relies on trial and error rather than logic. But when experimentation is not available for a successful prosecution of a pragmatic approach, we become more idealistic - for better or for worse - than the skeptical French. Skepticism is alien to us, and in the absence of that quality there is little restraining influence on the development of our concepts. Frenchmen are impatient of any "moralistic" and "legalistic" aspects of our policies. Their legal tradition is different from that of the common law, and their ethics do not derive from a Puritan experience. We still hold that success is closely linked with goodness, whereas the French consider such an attitude as a form of hypocrisy. They separate sharply mundane interests and spiritual goals, and are shocked when other people do not make the distinction. They are prompt to accuse us of sanctimoniousness and "preaching". They are wont to imagine dark stratagems behind attitudes which they cannot explain.^{1/}

^{1/} As a Frenchman said, "When you approach us with economic proposals we think always that you have political ulterior motives, and when you approach us with political proposals we think that you must have some economic goal in mind". While we expect the French to behave as Americans, the Frenchmen expect Americans to behave simultaneously as Americans and as Frenchmen.

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7. The intellectual individualism of the French precludes definite class attitudes among the French population, or national French attitudes universally endorsed. There exists, however, average national attitudes toward the problems of power, of the cold war, and of economic progress which derive from the traits of French character previously analyzed.

A. The French Concept of Power and the Cold War.

8. The French concept of power is deeply rooted in history; drawn mainly from past experience, it is comprehensive but somewhat rigid. Frenchmen of all classes instinctively evaluate the power of nations primarily in terms of historical development, strategic position, military strength, and cultural and spiritual influence. The role of economic resources comes last, and for that reason the claims of France to be still a great power is not a pretense, but the undisputed conviction of a large number of Frenchmen. The French rationalize this paradox with great ease. They emphasize their spiritual achievements and consider them as more important than their material losses. They rely implicitly on what they consider the debt owed them by the free world for having been early in the front line against totalitarianism. They are extremely conscious of the value of their strategic position in the present world, and of an American preference for French rather than German leadership in Europe. Nationalism is, if anything, increasing in today's France. The feeling of being a "poor relation" of the United States is less acute in France than in the United Kingdom. Persuaded that the U.S. is as dependent on France as France is dependent on the U.S., France feels strong enough to be a "coordinate" rather than a "subordinate" member in the western complex of nations.

9. This historical concept of power clarifies France's attitude towards the cold war. The main threat remains that which past experience has revealed. The memories of many German invasions are still the

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determining factor. There is a general tendency to rationalize the Russian threat in terms of preoccupation with Germany. The French point out the possibility of a dread renewal of the Rapallo Agreement and of the Russian-German alliance of 1939. They feel that a close understanding with Germany might entangle them in a German struggle with Russia over the lost East German provinces, or, conversely, that Russia might start a war to prevent German rearmament. Since the Versailles Peace Conference, the French have continuously warned the other Allies against the danger of Germany's revival, and they are loath to recognize their part in past revivals of German aggressiveness.

10. If Germany is for the French the main threat to their power, the French Union and the protectorates remain the main psychological buttress of their world position. The French Empire is at present a drain on French resources, but nationalism grows when French power ebbs and attachment to the overseas dependencies is not in proportion to the yield but in proportion to the cost. The French acquired their Empire more or less against the wishes of the majority, by the efforts of a few strong-willed military men like Gallieni and Lyautey, whose motivation, conscious or not, was to secure a reservoir of manpower to bolster France in a European war. The present concept of the Empire derives from this narrow military preoccupation, but it transcends it. It is not so much the potential benefit of overseas territories, but the liability itself which becomes an integral part of the French concept of power, of a patrimony of prestige which France cannot renounce without losing its self-respect.

11. These preoccupations with Germany and with the Empire determine the French position towards the external threat of communism. France fights the Viet Minh not only to contain communism but to maintain the integrity of the French Union. France rearms in Europe not only to deter a Soviet aggression but to keep a power edge over Germany. However, the versatility of French attitudes toward communism should not mislead us.

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The Parti Communiste Français makes common cause with Moscow, but many adherents begin to vacillate when the PCF asks for a pledge of non-resistance to the Red Army. Some intellectual neutralists hope to ward off the conflict by incantations, but they exert little influence on public opinion. Others still dream of a third force able to strike a balance between the United States and Russia, but few are convinced. At the end of the political spectrum, deGaulle sometimes accuses the United States of appeasing Russia. These opinions illustrate the French freedom with intellectual concepts. They are not guides for action.

12. "The French view", according to Mr. Pleven,^{1/} "the view of people who live on the Continent of Europe, is that when a big country has big armaments you need at least a shield, whatever you may think about the likelihood of an attack. Our duty is to build that shield." The necessity of "precautions" is recognized, but also that of not giving offense to Russia. The French Government does not feel that France can achieve its political goals outside of the Western alliance. But the French understanding and feelings of the immediate Russian danger are many degrees below our own, and there is considerable anxiety lest "some American miscalculation" might bring to them the Russian attack which we try to deter. A more acute realization of the Soviet threat might paralyze the French in their exposed position. The French have to live dangerously, but it is not certain that greater consciousness of the danger would scare them into action. It might throw them into despair. The fact that we have not impressed the French with a stronger sense of urgency in the cold war might not be a completely negative factor.

1/ U.S. News and World Report, November 23, 1952

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B. The French Relation to Power and the Problem of French Communism.

13. In their own relation to power the French show the same skepticism as in international affairs. The Anglo-Saxon concept of the State as a commonwealth is alien to them. They cannot conceive pragmatic compromises between freedom and authority. "Their two-fold revolt against ancien regime absolutism, that of the Church and that of the Throne, has left them without an intellectual concept of an authority which could be liberal, or of a freedom which could be constructive." ^{1/} As a result, the French have continued to live after the Revolution in opposition to the State. Opposition finds its justification in a multiplicity of doctrines and theories supported by as many powerless political parties. The political struggles center always on ideologies, and ideologies can be skillfully manipulated by vested interests. As Robert de Jouvenel wrote: in France "politics are the hobby of men, they are not the condition of their lives". Principles, political discussions, motions and resolutions are more real things than laws and practical issues. Politics are part of the free-for-all of intellectualism; the struggle of opposed doctrines is not incompatible with a certain amount of political stability, but it contributes to economic decadence.

14. In spite of Cabinet changes, French politics are showing as great continuity under the Republics as in the past. Today as yesterday they have their center of gravity in the Radical-Socialist Party, and Radical-Socialist policies remain those of the Capetian Kings: opposition to the central European power in external affairs, efforts to curb large combinations of economic or spiritual power in internal affairs. In evaluating the psychological impact of our economic policies, it is necessary to give credit to the French political forces and attitudes no less than

^{1/} A. Siegfried: L'Ame des Peuples, pp. 64 and 65.

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to the economic improvement resulting from U.S. economic aid for a decline in the internal communist threat.

15. The communists, who after the second World War had monopolized the prestige of the Resistance, were expelled from the Government before Marshall aid was extended to France. When the communist threat reached its climax, counterforces arose under the leadership of deGaulle and the communist strike call of December 1947 was thwarted by the energetic action of the Interior Minister Jules Moch. Although communist propaganda is cleverly twisted to adjust to the taste of the French for intellectual freedom, to their patriotism, and to their attachment to private property, such acrobatics make it difficult to tell whether Frenchmen really embrace the party line or vote communist out of social protest. The natural French disassociation of theory and practice subjects communist imperatives to a severe test. Each revival of a direct internal threat will call forth a coalition of counterforces, which, barring the presence of the Red Army on the Rhine, is likely to prevent a communist coup d'état.

16. Communism remains, however, the party of the working class, and retains its capabilities for sabotage and subversion. These capabilities will be the greatest in case of a war in Europe. At the very least communism absorbs in France energies which should be mobilized for the national interest instead of being mobilized against it, even if ineffectively so, as they are at present. The influence of the PCF might be further undermined by an improvement in the distribution of ^{the products of} labor, but the French attitude toward the State and the French economic behavior are still raising serious obstacles against such an improvement.

C. France's Economic Stagnation and Gap Between Commitments and Capabilities

17. The most significant effects of a French lack of community feeling and of the French type of internal power relations are social inequalities and demoralization. Peguy already noted at the beginning

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of the century that the ambition of every Frenchman was to cheat the tax collector. The hatred of the "agents du fisc" dates back to the Monarchy and increased during the German occupation. It appeared patriotic then not to pay taxes. Taxes represent now a high proportion of the national income, but the tax burden continues to bear unevenly on the various classes. Taxes continue to be evaded, not necessarily by the rich, but by those groups who are possessed of political power: the peasants, the shopkeepers, and some professional men. An attitude which might be called "apartheid from the State" explains the conspicuous failure of physical control on prices, rents, and food rationing, as well as the eagerness of every citizen to forsake the common good and to secure advantages from the common patrimony. Behind the conflicts of ideologies the French State is the prey of all classes of society.

18. Lacking a serious interest in economic issues, the French have permitted the economic structure/ ^{of the nation} to develop as a means of protecting vested interests, often not large interests, but the most paralyzing for the economy since they are small, numerous, and unprogressive. Faced with the necessity of reforms under the impact of the modern world, the French State is constitutionally incapable of carrying out these reforms. No combination of parties seems to be able to form a government strong enough to face the unpopularity of major changes. Nor can the trade unions obtain peacefully desirable improvements in the workers' lot since their trend is to secure changes through political action rather than through the painstaking effort of collective bargaining.

19. The economic shortcomings of the French should not hide their virtues: their thrift, their willingness to work hard, their ingenuity. In fact these shortcomings are the result of an embarras de richesse, of a maturity acquired too soon, and of a lack of incentives. France during the nineteenth century was not fully dependent on foreign supplies as the United Kingdom was, nor did it have an internal frontier to develop

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as the U.S. had. Economic pressures from the outside could always be resisted by protectionist measures. Internal competition could always be limited by arrangements among neighbors. Lacking large foreign requirements for foreign supplies, the French neglected foreign outlets, lacking foreign competition, and feeling little need to compete, they did not develop a specific sense of national economic interest as the British did. They bogged down in a form of economic conservatism which they confused with capitalism. France's economic growth was frustrated after the industrial revolution by the individualistic qualities of ancien regime craftsmen. The comparative success of France in avoiding the worst effects of the great depression confirmed the illusion of self-sufficiency, and the confidence in protective measures. Petain's Revol-
ution Nationale, with its corporative philosophy, put the final touch to a restrictive economic system more kindred to the medieval guilds of small productive units than to the international combines or cartels to which it is often compared.

20. Up to the first World War France was a major power economically as well as politically. France's industry was not lagging conspicuously behind that of its rivals. French savings and French military power were the buttress of its strength. But since then the world developed on an American rather than a French scale. During the World Wars France spent its substance and its credit while the new countries were expanding and getting richer. Today France is not poor, but its expansion is limited by an attachment to superannuated methods, a fear of the future, and, above all, the lack of incentives. France's riches cannot be fully used for production. Private savings are hoarded rather than invested. France's pattern of production and distribution is perhaps a bar to deflation but it tends certainly to favor and exaggerate any inflationary trend, whether of foreign or domestic origin. Since private initiative lags behind times, the State must have recourse to public investments,

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but in the situation of France, public investments are a primary cause of inflation, and thus increase the social inequities, the fear of the future, and the demoralization. France is not without economic virtue, but the virtues are dormant.

21. Starting with a common inheritance, America and France have grown apart. America is now for France the symbol of the future, a future which they fear and resent but to which they know that they must adjust. To the extent that manifestations of antagonism against America conform to a pattern, they express uneasiness toward the modern economic world - sometimes positively and sometimes negatively. The difficulty of meeting the challenge of this world in economic terms is particularly galling to the French, who want to remain a great power at a time at which political standing is predicated almost exclusively on economic potential. Superficial manifestations of France's irritation should not be of great concern to us. We do not require subservience nor love, but the cooperation of partners, and the French need from time to time a verbal test of their "coordinate" rather than "subordinate" position in the Western alliance. To a certain extent manifestations of French petulance are a proof of improving morale. But the serious situation which quarrels between France and America reveal is the persistence of a gap between French capabilities, limited by an anachronistic economic behavior and French commitments assumed under nationalistic and protectionist imperatives of power, and for this reason much in excess of French capabilities. While this situation was assumed to be a temporary one at the time at which the Marshall Plan was put in effect, it appears now to have permanent characteristics and is likely to remain for a long period of time a matter of concern for America.

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VI. Psychological Impact of U.S. Assistance.

1. The objective of U.S. assistance is to bridge the gap between France's commitments and France's capabilities. Through loans or grants, France receives the civilian and military commodities which it needs and which it could not acquire on its limited resources. But no amount of subsidy can replace the efforts and be substituted for the will of the recipient. The conditions attached to the American subsidy and the methods used for its administration are intended to drive the beneficiaries to greater production and greater productivity, as well as to foster a stronger will to survive as a nation. To what extent did our aid policy change the French economic behavior and support the French intent to rearm?

A. U.S. Aid and French Recovery.

2. A view is held in some French left-wing non-Communist circles that U.S. assistance extended since the Liberation did not strengthen but rather weakened France. If dollars had not been made available, France, according to that theory, would have been forced into the reforms and the social changes which are still overdue. As a result France would have now a healthier political and social climate. Perhaps a French government able to apply rigid controls, to captivate the imagination of its people, to cut back overseas commitments, and to renounce military power, might have dispensed with U.S. assistance. But the proponents of this theory held a false view of France's morale and capabilities after the Liberation. More misery would not have made war-weary Frenchmen more productive. The socialistic remedies applied in England - a much more disciplined country - did not make England independent of U.S. assistance. The abandonment of France's overseas commitments and French disarmament were not in the interest of France. After an early refusal to accept UNRRA aid, no responsible French government raised any doubt about the

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need for an American subsidy.

3. Other non-communist objections against the Marshall Plan come from specific interests. The farmers complain that industry is favored at their expense, labor claims that management gets all the profits, and the smaller industrialists pretend that too large a portion of assistance goes to large steel companies or nationalized enterprises. Little conscious of the over-all national interest, the French are bound to make such complaints, which are addressed more to the French government primarily responsible for the internal allocation of assistance, than to U.S. authorities. These complaints do not impair the psychological impact of economic assistance. The French public is too little economic minded to pay much attention to the contrast, noted by some French writers, between the American advocacy of a free market economy and the high degree of bureaucratic planning involved in the ERP. On the other hand there is no strong French interest hurt by the various provisions of the Marshall Plan aiming at the protection of the American economy, such as the 50 percent portion of bulk commodities to be carried in U.S. ships. The restrictions on East-West trade imposed by the Kem and Battle Amendments do not elicit significantly unfavorable reaction outside of communist circles, and officials did not make an issue of these policies nor of the form in which they were presented by the U.S. As a whole, ERP was most favorably received by the French public.

4. In fact the direct psychological impact of assistance is deliberately limited by U.S. law. The individual Frenchman pays for U.S. commodities and services in his own money, in his own "local currency", and, in the case of ERP grants, the government uses this local currency (counterpart) in agreement with the United States. As a result only those few Frenchmen who understand the intricacies of the aid machinery can recognize the extent of their national obligation. The individual Frenchman does not have the immediate experience of owing anything to the

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United States. This is as it should be, since we do not expect gratitude but an uplift of morale resulting from economic improvement. Such improvement, due in part to the amount of the aid, in part to the careful programming of the aid, and in part to the efforts of the French themselves, has increased the nation's self-reliance. It has contributed to a decline of communist influence and it has made rearmament possible.

5. But besides the effect of the aid itself, an impact is expected from auxiliary policies, the objective of which is to influence French economic behavior. United States economic assistance is extended under the condition that financial stability will be maintained and investment conducted on a sound economic basis. The success of these conditions, as applied by our representatives, illustrates the scope and the limit of our psychological influence.

6. In 1947 open monetary inflation was the major French problem. The United States subsidies were in themselves anti-inflationary since they increased the French commodity supply. But this was insufficient to meet the pent-up demand for consumption and for the ambitious investment program known as the Monnet plan. Since investment was necessary to raise French production, and since physical controls on consumption are ineffective in France, financial controls had to be resorted to. Current expenditures of the government had to be cut, and bank credit had to be placed under more stringent controls than in the past. The counterpart provision of the Marshall Plan afforded to the United States government a means of conquering widespread resistance to the most urgent reforms. Our representatives agreed that the counterpart would be transferred to the investment funds only if anti-inflationary measures, even unpopular ones, were taken. As a consequence a ceiling on the Bank of France advances to the State, and "quantitative" credit controls were established. Although our representatives urged the government for more fundamental reforms, such as that of the nationalized enterprises and

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that of the tax system, they met with little success in these fields.

7. None of the measures which our representatives proposed were "news" to the French Treasury officials. These officials had lacked previously a sufficient backing on the part of their government to surmount the opposition of the interests dependent on budgetary liberalities and the free extension of bank credit. The mild pressure placed on the French government supplied this backing with little risk of increasing U.S. unpopularity since the French public lacked interest in these complicated matters. But the counterpart leverage was not sufficient to put into effect reforms which the French government did not want, nor was it possible, in order to do so, to discontinue the dollar assistance.

8. The limits of our influence on French economic behavior were not generally recognized. The importance of the counterpart leverage was exaggerated, and the many specialists who had a say in French affairs tried to use it for a variety of ends. By applying counterpart funds to "real" things and productive projects instead of manipulating them for financial objectives, some experts hoped to hasten the process of French development, and to promote reforms in the social structure. Agricultural specialists had in view the financing of an extension service, and labor specialists wanted to build workers' homes. Other economists claimed that we had too easily accepted the Monnet Plan, that the industrial development envisaged therein duplicated in some cases facilities already existing in France or abroad and could be operated in the future only at the price of internal and external restrictive practices. They thought that counterpart negotiations should involve an over-all review and "coordination" of investment plans. There was some merit in all these claims, but it was not possible to listen to all of them without dispersing our efforts, minimizing the impact of our aid, and incurring the reproach of "meddling" into French affairs.

9. In the short period of time imparted it was not possible to do

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more than to accept the French plans and to support the most reasonable French policies. We could not expect to discover and succeed in promoting revolutionary remedies for all French failures. In fact a tendency to seek final solutions for the French problems in a variety of fields led us to keep on the job a large body of experts often unfamiliar with French conditions and French personalities. These experts tried to attack the problem of French recovery from many angles with little coordination among their dispersed efforts. As a result the United States government failed to speak with one voice in Paris, and the French officials, at first bewildered, learned quickly how to take advantage of our confusion.

10. Our present productivity campaign is a more subtle method of influencing French behavior. It rests on an accurate estimate of France's main economic weaknesses, the backwardness of its industrial methods in many fields, the lack of teamwork between labor and management, the immobility of capital and labor, and the absence of competitive spirit. The ECA productivity campaign was launched in 1951 when it appeared that rearmament goals and social improvements required something more than plain assistance to be carried out simultaneously. The aim of the campaign is two-fold. It is in the first place to bolster production and reduce costs through a reform of industrial methods, and, in the second place, to enlist the workers' interest in the fight against communism by letting them share in the benefits of productivity.

11. There is unfortunately no group of government officials ready to endorse the campaign. Many French businessmen are hostile to the adoption of productivity methods and feel that their present processes, at least in the short run, allows them a degree of independence from interference and a profit margin which American businessmen no longer have. Labor remains disillusioned by several attempts to imitate U.S. productivity methods in the past. It remains attached to time-honored

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ways of doing things, it fears too fast a work cadence, overwork, technical unemployment, and suspects that in the present social context a fair sharing of the fruits of productivity cannot be expected.

12. Trade Organizations and Labor Unions ought to sponsor productivity methods and to bargain for the sharing of benefits within Labor-Management Councils. But Trade Organizations are generally the most refractory to change of all French organizations, and non-communist Labor Unions are either weak or little prepared to bargain for specific economic goals. French labor is more anxious to obtain the recognition of broad political principles regarding the sharing of benefits than to take practical steps to increase productivity.

13. The great interest shown in France for the productivity idea, the number of newspaper articles and monographs written on the subject, and the debates which it raised, contrast with the sporadic improvements realized. Many workers and entrepreneurs come back from the United States with great enthusiasm for the work and labor-relation methods which they saw. Many intelligent comments are made, and some industrialists go ahead on their own, improving with striking success methods of production, working conditions, wages, and labor relations. Increased emphasis is now given to U.S. and French information activities promoting the U.S. example especially in the technical field - a desirable departure from the previous information policy which appeared directed more at the U.S. public and Congress than at the French. But these efforts of the French and of the U.S. have remained isolated, and up to now the productivity campaign, while appealing to the "realism" in the French mind, has made only limited inroads in accepted French economic attitudes, for education cannot replace incentive.

B. Transition to the Mutual Security Program.

14. It was apparent to French observers during the purely economic phases of the Marshall Plan that Europe could not remain a power vacuum,

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and that steps would become necessary sooner or later to build up again French armaments. It was obvious that even before the Marshall Plan came to its termination in 1952, and although France could hardly expect full dollar viability and a level of production sufficient to fill its civilian needs by that time, an additional burden would have to be added to the already heavy burden of investments necessary for recovery. While the Marshall Plan was concerned solely with increasing economic production and deliberately abstained from supporting military production, France and four other countries signed the Brussels Treaty of March 17, 1948.

15. The United States also was concerned at an early date with the necessity of European defense. The North Atlantic Treaty was signed on April 4, 1949, and a Mutual Defense Assistance Program (MDAP) was launched before the Korean aggression. This aggression, however, started the European defense effort in earnest. With 1954 as a target date, a new MDAP program including "end items" and economic assistance for additional military production (AMP) came into effect during the fall of 1950 and new policies tended progressively to reconcile the objectives of recovery and those of rearmament. In February 1951 the remainder of the 1951 ERP program was lumped together with the AMP allocation. Although the cost of rearmament was at that time underestimated, there was no doubt that production and productivity needed to be considerably stepped up in order to achieve at the same time both civilian and military goals. Moreover, it was obvious that these goals could not be separated since safeguarding economic and social gains was necessary to advance basic defense objectives. In addition, there was the problem for the United States of intensifying the development and the production of raw materials. These sudden complications of the problem of assistance were bound to have psychological repercussions.

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16. As far as France is concerned, the U.S. scramble for strategic materials had a limited impact, and the problems involved in the development and sharing of materials did not greatly influence French opinion, which is only dimly interested in these economic matters. The psychological effect of the rearmament program itself is more difficult to assess. The test of a military effort is the battle, and statistics, the only substitute in time of peace, are unsatisfactory to measure even the physical results of such an effort. However two criteria may be used: (a) does a given military program lead to an increment in the will to fight; (b) does it improve the psychological factors which condition the orderly build-up of a defense force?

17. The psychological conditions of a rearmament effort are entirely different if the program is conducted in time of war, in the face of an immediate and present danger, or if it is undertaken in time of peace as a long-range measure of precaution against a potential danger. In one case it is possible to make every factor of production serve the program regardless of the impact on the living standards, and in the other case the program can be popular only if the additional burden does not reduce the economic and social gains previously achieved. In the fulfillment of the Mutual Security Program, there was an effort to resort to both types of approach at once, to give alternative priorities to military requirements and civilian objectives. As time passed, the sense of urgency was reduced, and concern for continued economic well-being increased in most participating countries. In certain countries like the United Kingdom, the change in emphasis appears in full clarity. The French scene is more confused, but one thing is obvious. The high hopes that a sense of common danger would simplify the problem of rearmament and military assistance, as it generally does in wartime, were dispelled.

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18. A first hope was that the military assistance would heighten the French will to make sacrifices, that a supply of "end-items" - military commodities - would bring home to the French the urgency of the situation, that the words "military aid" had a certain magic of their own, that they would orient French efforts towards rearmament. This was over-estimating the power of words and the power of commodities. The fact that military commodities are supplied instead of general imports to a country which suffers from a balance of payments deficit does not determine the apportionment of its efforts between general economic purposes and armaments. The will to rearm - as differentiated from rearmament itself - especially in the case of the French, is determined by imperatives of power, and can hardly be improved by economic or verbal devices. In fact the French will to rearm was high in 1950, but narrowly circumscribed by the French outlook toward the cold war and French economic capabilities. The inspiration and motivation for the French rearmament came not from the fact or form of assistance, but from example - the example of the U.S. and the impending example of Germany. It was felt that if France did not deliver the military contribution expected for the defense of Europe, the United States would, reluctantly perhaps, turn to Germany. France, according to the French view, had a great power's responsibility and could not stay behind the other great powers at that time of crisis. The French mind is capable of explaining away the sense of economic dependence upon the United States, but the evidence of an increasing military lag would have revealed the loss of France's international position, and this the French mind could not accept. The risk was not that France would at that time propose too low a contribution, but, on the contrary, that they would propose too high a contribution. The U.S. goal should not have been to boost the French will but to keep the French plans at a reasonable level of performance. The United States, in its own eagerness for European rearmament, may have considered too

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blantly the Jules Moch proposal in 1950-51 to equip some 29 French divisions, a proposal which was obviously beyond French capabilities. Psychologically, it would have been more desirable at that stage to dampen French enthusiasm than to encourage it.

19. There were other reasons besides military and American domestic reasons for shifting the emphasis from economic to military aid in 1951. Besides the hope of creating a sense of urgency abroad, there was also the recognition that economic assistance, if not in its concept, at least in fact, smacks more of charity than a contribution to a joint military effort, and that such a military contribution would have a more favorable psychological effect than straight economic aid. True in the case of a participant country which actually does not need economic aid, this concept is at variance with the facts of psychology in a country like France which remains in an unfavorable balance of payments position. It leads to a false situation where military assistance becomes a means of granting balance of payment assistance. Since in France inflation was still rampant, military assistance became also a means of creating local currency in non-inflationary ways. The pretense of a partnership which disguises charity is unhealthy: the guarantees which surrounded the extension of straight economic aid were abandoned under the false impression that military aid produced a quid pro quo automatically: namely an increment of the defense effort.

20. This situation is illustrated by the counterpart provisions of the old Economic Cooperation Act which, as indicated previously, were meant to prevent the ERP from becoming a charity program and gave to the United States some leverage over French behavior. Confusion on the nature of military assistance as distinct from economic assistance led to the belief in Congress that we would increase the French military effort by using the counterpart for military purposes. In fact this new provision deprives the United States Government of its leverage

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without corresponding gains. The provision is now satisfied whenever the French spend the counterpart for military production, whereas under the old system U.S. officials could alternatively withhold or release the counterpart after scrutinizing the purpose of its use. This of course does not change the psychological impact of the aid on the French public, since recipients of commodities coming from the U.S. still pay the French government for these commodities, but it damages the morale of French officials who expect under the cover of military aid a free supply of local currency, and are encouraged to reach further for the balance of payment assistance which they need.

21. It was thought also that a system of offshore purchases permitting the United States government to acquire military commodities abroad at the lowest cost would be favorably received by the suppliers and by all participants. True, it would be possible within narrow limits to place military procurement on an international economic basis. But in peacetime the preoccupation of each country is to retain its mobilization base at home, and vested interests are powerful enough to hamper the placing of orders abroad. Under these conditions, the scope of off-shore procurement is limited, ^{French government officials} lack incentives to publicize the impact of this type of procurement on the supplying communities, and are encouraged to consider it as little more than a means of obtaining some added balance of payments support.

22. In 1950 it was of course impossible to foresee that the Soviet pressure in Europe would not suddenly increase, and plans had to be made mainly in consideration of an immediate emergency. But regardless of real Russian intentions and capabilities, it has become slowly the conviction of the European countries, including France, that this pressure was relenting. Under these conditions the European rearmament program continues to develop in a situation in which emphasis must be placed on detailed longer-range planning. Unfortunately, the military program,

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originally conceived in an atmosphere of urgency, does not at the present time fulfill this requirement, and the inherent contradiction produced psychological consequences detrimental to the accomplishment of our common goals.

23. In order to plan, the French need some forewarning of the amount of assistance which they can expect. In fact they are never in a position to plan for more than six months in advance. Not only aid appropriations must be approved by Congress on a yearly basis, but the non-coincidence of the U.S. and French fiscal years, and delays in the delivery of military commodities interfere or appear to interfere with French military plans. Delays in the firm allotment of economic aid and in the delivery of civilian commodities do not affect governments since this type of transactions is undertaken by individual importers. But when military aid is given in kind, a lack of coordination between the schedule of delivery and the plans of the recipient may provide endless ground for complaint. The advantage resulting from good cooperation on the spot between French and American Army officers familiar with each other's training, and sometimes personally acquainted, has prevented a further disintegration of the joint planning.

24. As a result of our anxiety to obtain commitments from the French, we try to negotiate as early as we can each year the total amount of their defense expenditure corresponding to the total amount of assistance we can give them. This has two unfortunate results. In the first place the French military effort becomes subordinated to U.S. assistance. The French feel that they are rearming not so much in their own interest as in order to get a larger share of our subsidy. In the second place, United States representatives do not know at the time of the negotiations what final amounts Congress will authorize. The French consider the upper limit of our figures as a firm commitment, and are disappointed when Congress decides to cut the aid. French opinion, which cannot be familiar

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with the intricacies of military aid negotiations, is sensitive to the kind of incidents resulting from cuts, apparent or real, in the level of aid, and the French government is prompt to take advantage of these incidents in order to justify a stretching out of its commitments.

25. At the same time the calculations undertaken to apportion the burden of rearmament among the NATO countries add to French preoccupation with comparisons - in which they can rate their own contribution favorably. Their military budget may be smaller than the U.S. budget even in terms of national income, but applying the principle of progressive taxation they can argue that their share is in fact greater than ours since their national income is smaller. Moreover, comparing the pay of their soldiers to that of American soldiers, the French cannot escape the conclusion that their real contribution to defense is much larger than their monetary contribution. At the same time the picture is distorted in the French mind by the ignorance in which they are left regarding the amounts of military aid supplied by the U.S. Then economic calculations give reason to the French to argue themselves into a position of self-satisfaction with their present effort, at the time at which they are finding fault with our methods of aid allotment. The combination of both circumstances detracts from the psychological impetus present at the beginning of the French rearmament program.

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VIII U.S. Economic Policies and the Position of France as a World Power.

1. The gap between France's commitments and France's capabilities is still wide and may be increasing. Especially in the psychological field, our deliberate policies to raise French means to the level of its self-assumed goals were not overly successful. The conclusion reached heretofore is that bargain or persuasion succeed rarely unless we find in the French scene proponents of the reforms or the changes which we desire or unless we are capable of setting up an example of conduct which our position in the free world makes irresistible.

2. If we cannot help to raise French capabilities in the present political and economic conditions of France, we might reexamine the nature of these capabilities in relation with the commitments which confront them. The reason why French commitments are excessively costly and may appear unattainable may be that they are undertaken under the peculiar imperatives of the French concept of power and not under the real imperatives of the present situation. France makes its security goals more onerous than necessary when, taking the "necessary precautions" against a Soviet aggressor in Europe, it wants also to keep a power edge over a reviving Germany, when pursuing an exhausting struggle in Indo-China against communism, it fails to enlist the full support of native nationalities in "overseas France", when trying to revive economically, to curb internal communism and to rearm, it is loath to change its inveterate political and economic habits. To guide France toward a more realistic evaluation of its aims is a delicate problem for U.S. diplomacy. It is hardly consistent with rigid concepts of nonintervention in other people's affairs, but in the present circumstances it may be unavoidable. Since no American strategy has been formulated to that effect, we can only describe the psychological background in which it would develop and try to discern the trends upon which American policies

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already appear to embark in relation to France's position in Europe and overseas, carrying with them the same methods of bargain, persuasion or example already witnessed.

A. France and European Integration

3. France fears both German militarism and German competition.

In fact France needs both: one to make Europe defensible and the other to bestir itself out of its economic complacency. To resolve this contradiction is the main problem of European integration.

4. The goal of European integration was written in the preamble of the Economic Cooperation Act. It inspired the founding of the Organization for European Economic Cooperation. Under American prodding, the OEEC played some part in various attempts to foster European cooperation and unity of purpose through apportioning ERP aid, providing a forum for discussing financial stability, devising methods for intra-European payments, and prompting participating countries to lift quantitative trade restrictions. None of these measures removed the structural disequilibrium which is the result and the justification of protectionism. In fact the uneven recovery of the European countries, the very fast progress of Germany after the currency reform of 1948, and the amendment of the occupation statutes, weakened the trade liberalization effort. France removed 75% of its quota restrictions, but at the same time re-established or adjusted customs duties suspended during the pre-war period or no longer protective by reason of the depreciation of the currency. Later the French government, faced by deficits in its balance of payments, reestablished some of the quotas previously lifted.

5. The next step toward European unification was the establishment of supranational organizations aiming at "functional integration": the Coal and Steel Community of the Schuman plan and the pending European Defense Community. The Schuman plan mobilizes the fear of German

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military power against the fear of German economic power. Although the idea is French - an element of its success - it could not have seen the light if U.S. assistance had not provided the capital needed for the modernization and development of France's coal and steel facilities, thus permitting France to face with more equanimity Germany's competition.

6. The idea would not have survived without U.S. support. England did not want to join and was reluctant to see the project succeed independently. Steps had to be taken to prevent the Coal and Steel Community from being a continuation of the old steel cartel with its restrictive trade features. It was necessary to obtain from the partners of the Schuman Plan countries in the General Agreement on Tariffs and Trade the permission to remove tariffs among the six participants. All these steps involved complex negotiations in which the U.S. had to play a part in order to maintain the original momentum of the idea, and in order to prevent deviations. Recognition of the Community by the U.S. led to its acceptance by the Europeans. Sometimes the action of the United States can be the most effective when it supports discreetly and firmly specific policies proposed by the people directly interested.

7. But the establishment of supranational institutions to deal with international problems doesn't solve these problems automatically. In this particular instance the Franco-German conflict, which should have lost a great deal of its meaning as a result of the ratification of the coal and steel agreements, remains the central factor of European disunity, as recently shown by the dispute over the Saar. The Schuman plan was a first step toward economic union, itself a first step toward political union. The pitfall is that even the limited problems of functional integration raise political issues. The Community will either be paralyzed by these issues or will have to take the leadership toward radical changes in the structure of European sovereignties. An attempt is being made now in the latter direction. Subcommittees of the Schuman

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Plan Assembly have prepared a draft of a European constitution. This appears to be the most effective step already taken for solving political issues inherent in the Schuman Plan, for achieving the military goals of Europe and for overcoming France's and West Germany's hesitation to ratify the European Army Treaty.

§. Economic unity is the basis of the military build-up in Europe. The NATO countries started their military drive mainly on a national basis. Rearmament followed somewhat the pattern of economic integration, from unilateral efforts to an attempt at coordination. France considers Germany as a potential threat, but the military goals of NATO cannot be accomplished without a German contribution. The European Defense Community is a compromise patterned after the Schuman Plan but too hastily brought together under U.S. prompting to resolve psychological and political conflicts deeper than those raised by economic integration. It satisfies neither some of the French military experts nor the French political parties. The French Assembly will request amendments to guarantee French freedom to withdraw from the European Army those troops which might be needed for the defence of French overseas territories. Although steps taken towards European unity are more significant than is generally felt in the U.S., EDC's full success is predicated on a reduced pressure of Empire needs and on a grass roots effort to secure further cooperation between France and Germany.

B. "Overseas France"

9. The psychological content of the problems of the French overseas dependencies is exceptionally high. France's will to preserve its colonies transcends economic considerations, and vested interests would not succeed in preserving colonial and monopolistic ties if the dependencies were not the psychological buttress of French power. The attitude of France's subjects is dominated by spiritual aspirations: a will for

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independence which is not motivated by economic interest. The attitude of the United States is not based only on political judgments but also on the sentimental memories of its own emancipation. Many of these attitudes are ambivalent. If official France shows bad grace in giving independence to its subjects, it is France itself which taught them and still teaches them nationalism in its schools. Moslem and Viet Nameese leaders know that their economic well-being and even their survival may be dependent upon France's maintaining law and order. The U.S. is divided between its strategic interests in Europe, North Africa, and Indochina which rest on cooperation with France, and its fear that too much support to France's colonialism might arouse Moslem and Asiatic resentment. The American attitude is not understood by the French who still believe that colonial questions can be settled by the "mailed fist" and suspect us sub rosa of aspirations to an economic conquest of their dependencies. No economic policy bearing on the dependent areas can ignore these psychological factors.

10. Broadly speaking, our economic policies with regard to "overseas France" have adjusted themselves to French psychological attitudes. Since the beginning of the Marshall Plan we extended assistance to French overseas departments, territories, and protectorates, especially North Africa, only through the French Government itself. Public and private U.S. investments in the French dependencies were submitted to the French Government for approval. The Marshall Plan subsidy was calculated in such fashion that the French could cover the trade deficit of their colonies and carry out their investment programs overseas, even if these programs involved the export of French capital. The Marshall Plan consolidated, therefore, the fabric of the French Empire. Our economic policies were psychologically correct. An attempt to bolster the economies of Tunisia and Morocco independently from France would have raised

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an outcry of "economic imperialism" on the part of the French and possibly also on the part of the Moslems.

11. On the other hand, the Associated States of Indochina receive a separate allocation of U.S. economic assistance administered by a U.S. technical mission. The way in which the decision was made does not reveal any long-range plan on the part of the United States: funds were available for the general area of China, and the French needed them enough not to suspect ulterior motives which in fact did not exist. France receives military aid items for its forces in the Associated States in Indochina, and would welcome increased U.S. military support in its campaign against the Vietminh.

12. In spite of its respect of French sensitivity in colonial matters and of its observance of the letter of diplomatic instruments, America cannot avoid ambivalence in its policies towards "Overseas France". Obviously it must welcome the "valiant and continued struggle undertaken by France and the Associated States in Indochina" and the military support of its bases in North Africa, since these French policies are "in the fullest harmony with the aims and the ideals of the Atlantic Community". But America - rightly or wrongly - discerns an increasing nationalist trend among French subjects. It wonders whether an unstable equilibrium between French and native nationalism can be maintained and how long the U.S. national interest will continue to be served by French colonial policies. America's economic reasoning follows a parallel path. Not only the French-led holding action in Indochina saves American lives but it is also less costly in terms of dollars than would be a direct American intervention against the Viet Minh. Furthermore, we hate to envisage the cost of supporting tactically our own African bases. On the other hand, the waste involved in the present French colonial policies indirectly increases U.S. aid expenditures. France is compelled or chooses not only to fight its subjects in open

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revolt, but also to spend money, material, and manpower in order to keep its other subjects under an archaic form of dominion. Furthermore, the maintenance of a colonial monopoly is in direct contradiction with U.S. economic policies and not to the advantage of the natives, nor of France, nor of ourselves. Some neglect of the native economy, a commercial monopoly enforced by differential tariff and exchange arrangements, hampers France's economic development as well as that of its dependencies and leads to patent abuses, for instance in the Vietnam's system of monetary exchange and transfers - a source of significant deficits for the French Treasury. Influenced by the desire of not giving offense to the French on the one hand and that of dealing with the realities of the situation on the other, American policies and the attitudes of American officials and of American public opinion towards overseas France could not be always consistent nor clear-cut.

13. In this fluid situation the psychological impact of our economic policies on both the natives and the French is of a mixed nature. ERP did little for the masses of North, Western and Equatorial African peoples, but these peoples profit indirectly from some ERP-financed developments. Our quest for strategic materials was not accompanied by social improvements, but the economic consciousness of the natives is not sufficiently acute to foster resentment against a one-sided program. Our marginal effort to obtain redress of infringements on our treaty rights in Morocco is consistent with our desire to spread the doctrine and the fact of equality in economic opportunity. It did not stir much attention on the part of the Moors, although it should benefit them in the long term. The signature of trilateral aid agreements by the Associated States of Indochina as sovereign powers, may have served to firm up French policies of granting some self-dependence to these States, and it may have gained for America some gratitude on the part of the Vietnamese, not to mention the Cambodians and the Laos. Conversely, and

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while an effort to obtain a "quick impact at the village level", especially through health measures and the free distribution of Japanese goods in Indochina sometimes disturbed French officials and traders, there appears less reluctance today than a few years ago in French financial milieux to accept contributions from American private capital for the development of overseas areas.

14. If American attitudes in overseas France often irritate the French, it is again because the French are reluctant to recognize that time marches on. Our interest in these areas is consistent with our determination that French dependencies will remain part of the free world, and with our recognition of France's calling to carry out the free world policies in these areas. But without presuming too much on American knowledge of colonial problems, we doubt, with some appearance of reason, that France can carry out these policies effectively if it does not give serious thought to and reconsider in many cases the place it grants to its subjects in the fulfillment of these policies. Neither French policies nor our own can remain immobile. Our present aim is to avoid giving offense to either the Nationalists or the French. The trend of events may oblige us to take a more positive attitude, and we may have to figure out alternatives to help the French out of their present impasse. An examination of our past economic policies may give us some guidance to that effect. It is the inclination of both the French and that of the overseas Nationalists to seek political solutions to their mutual problems, but purely political solutions are doomed to failure in an atmosphere of passion. U.S. policies focussing the interest of the French and that of the natives on concrete economic issues, hold a promise of finding a plane where interests can be reconciled and passions appeased. Mindful of the risk of assuming excessive commitments ourselves, we may be able to encourage measures of economic association between the natives and the French, giving at the same time concrete satisfactions to the

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former and reducing the drain of overseas France on the economy of the latter.

C. U.S. Example

15. In Europe and overseas the main problem for France is to renounce an extreme nationalistic and protectionist attitude. Since the National State on the French scale, jealous to preserve all the features of its sovereignty, cannot cope with the modern world, one solution is to integrate France into a supra-national organization of Europe. But this does not solve the colonial problem, and as a matter of fact objections to France's renunciation of its sovereignty in Europe derive from the requirement of its concept of relation between metropole and dependencies. This means perhaps that the problem of France cannot be solved by a top-level approach and that grass roots changes of attitude are needed. The strength of national feelings cannot be reduced by force, or made to disappear by formal arrangements. It can be dealt with only by the slow mellowing of the feeling itself under the influence of deep and long-term economic and cultural trends.

16. The main hope of the proponents of the institutional approach rests on the example which the conduct of the U.S. can set for other nations when it participates in international institutions. To the extent that it permits other participants to scrutinize its finances, its military plans, or its trade policies, the U.S. promotes financial stability, stronger defense establishments, and trade liberalization. The idea therefore is that the U.S. example and not the appeal of supra-national institutions is the dynamic force of the free world. If this is the case, the U.S. should not subject itself lightly to cumbersome procedures and renounce the advantage of flexibility. When it knows where to lead its partners, it might be to its advantage to proceed unilaterally. France, as we have seen in the course of this discussion,

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is more responsive to U.S. example than to bargaining or reason: it is our example which provided the impetus for French rearmament and the modest improvement in France's stability and productivity. On the other hand, France shows a tendency to use international forums to obtain recognition of its prestige rather than to reconcile concrete economic issues, and it minimizes in that fashion the practical usefulness of these organizations.

17. France will remain unable to contribute its true share to the economic and political strength of the free world unless strong incentives compel it to change its grass roots economic behavior. These incentives can only be the competition of its neighbors, especially Germany. France will accept this competition if the United States demonstrates by its own example that the era of protectionism is closed. The decision to remove our trade restrictions, to simplify our customs procedures, and to repeal the "Buy American" laws would involve less risk and less cost than our past policies. If some of our industries are hurt, they can be compensated and their facilities converted at a cost below that of a continued indirect subsidization of our exports. European industries, especially French industries with their high costs, are not competitors which we should dread, and our trade liberalization may start with these commodities - especially French commodities - which compete the least with our own.

18. In the case of France the formula "trade not aid" should not be considered in its narrow economic terms. American trade liberalization will not solve the problem of the French dollar gap. It is the psychological impact of such a policy which is important. By eradicating a contradiction between our practices and our declared goals in the field of international trade, we will strengthen our moral position. We will weaken the French position which finds its best arguments in the maintenance of American protectionism. We will give greater force

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to the pressure of French consumers whose very direct interest is opposed to the traditional French policy. We will encourage also France's European trade partners to join their pressure to our own. France cannot remain the only protected country in Europe, and as soon as foreign competition begins to be felt, the French economic behavior will be altered. This competition will supply the incentives needed for changing uneconomic methods of production and distribution and for awakening the interest of French businessmen in foreign markets. Since their experience is limited, they will naturally turn towards their competitors for help and the economic integration of France and Germany will be sealed in a joint effort for the development of foreign outlets.

19. The French proposed recently a method for a progressive reduction of trade restrictions in the free world. When the technical merits of the proposals have been considered, it might afford us a new opportunity for backing French "realism" with American dynamism, conquer French resistance with a French idea, break the French "guild" system, and make France able to face the economic problems of the modern world. Unless we take advantage of such an approach there appears little chance for France to reach the level of economic progress which defense requires. France may be willing to surrender some features of its national sovereignty to international institutions as it did in the case of the Coal and Steel Community, but such surrender will continue to be hedged by exceptions, qualifications, and escape clauses. It is only the example of the leader of the free world which can show France how to abandon of its free will these tariffs and quotas which are the most powerful weapons of national sovereignty, but which in the world of today, where cooperation may be more necessary for survival than independence, defeat the very purpose of sovereignty itself.

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ROUTING AND RECORD SHEET

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FROM:

*PSB (U/A
PP/PP/PL)*

NO.

DATE

TO	ROOM NO.	DATE		OFFICER'S INITIALS	COMMENTS
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