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The Marshall Plan: Design, Accomplishments, and Relevance to the Present

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The Marshall Plan: Design, Accomplishments, and Relevance to the Present

Summary

Periodically, Members of Congress and others have recommended establishment of a 'Marshall Plan' for Central America, Eastern Europe, the former Soviet Union, and elsewhere. They do so largely because the original Marshall Plan, a program of U.S. assistance to Europe during the period 1948-1951, is considered by many to have been the most effective ever of U.S. foreign aid programs. An effort to prevent the economic deterioration of Europe, expansion of communism, and stagnation of world trade, the Plan sought to stimulate European production, promote adoption of policies leading to stable economies, and take measures to increase trade among European countries and between Europe and the rest of the world.

The Plan was a joint effort between the United States and Europe and among European nations working together. Prior to formulation of a program of assistance, the United States required that European nations agree on a financial proposal, including a plan of action committing Europe to take steps toward solution of its economic problems. The Truman Administration and the Congress worked together to formulate the European Recovery Program, which eventually provided roughly \$13.3 billion of assistance to 16 countries.

Two agencies implemented the program, the U.S. Economic Cooperation Administration (ECA) and the European-run Organization for European Economic Cooperation. The latter helped insure that participants fulfilled their joint obligations to adopt policies encouraging trade and increased production. The ECA provided dollar assistance to Europe to purchase commodities — food, fuel, and machinery — and leveraged funds for specific projects, especially those to develop and rehabilitate infrastructure. It also provided technical assistance to promote productivity, guaranties to encourage U.S. private investment, and approved the use of local currency matching funds.

At the completion of the Marshall Plan period, European agricultural and industrial production were markedly higher, the balance of trade and related "dollar gap" much improved, and significant steps had been taken toward trade liberalization and economic integration. The Plan had contributed to more positive morale in Europe and to political and economic stability which helped diminish the strength of domestic communist parties. The U.S. political and economic role in Europe was enhanced and U.S. trade with Europe boosted.

Although the Plan has its critics, many observers believe there are lessons to be learned from the effort that are applicable to present foreign aid programs. However, the extent of the Plan's replicability is subject to question. Central Europe and the former Soviet Union may most closely fit the mold of war-devastated Western Europe, but the vast differences in economic systems and environmental burden left by communist regimes, among other factors, show up the distinctions between 1947 Europe and the present. Undertaking an effort equivalent to the original would be an enormous task costing \$88 billion in current dollars.

Contents

The Marshall Plan and the Present	1
Formulation of the Marshall Plan	2
The Situation in Europe	2
How the Plan Was Formulated	3
The Role of Europe	3
Executive and Congressional Roles	4
Implementation of the Marshall Plan	5
Profile of the Marshall Plan	5
Administrative Agents	9
Economic Cooperation Administration	9
The Organization for European Economic Cooperation	10
Programs	10
Dollar Aid: Commodity Assistance and Project Financing	10
Counterpart Funds	11
Technical Assistance	12
Guaranties	13
How Programs Contributed to Aims	13
The Sum of its Parts: Evaluating the Marshall Plan	15
How the Marshall Plan Was Different	15
Accomplishments of the Marshall Plan	16
Did It Meet Its Objectives?	16
Other Benefits	18
Critiques of the Marshall Plan	20
Lessons of the Marshall Plan	22
Is It Replicable?	24
References	26

List of Tables

Table 1. Funds Made Available to ECA for European Economic Recovery	6
Table 2. European Recovery Program Recipients April 3, 1948 to June 30, 1952	8
Table 3. Expenditures under the ERP by Type	13

The Marshall Plan: Design, Accomplishments, and Relevance to the Present

The Marshall Plan and the Present

Between 1948 and 1951, the United States undertook what many consider to be one of its more successful foreign policy initiatives and most effective foreign aid programs. The Marshall Plan and the European Recovery Program (ERP) that it generated involved an ambitious effort to stimulate economic growth in a despondent and near-bankrupt post-World War II Europe, prevent the spread of communism beyond the “iron curtain,” and encourage development of a healthy and stable world economy. It was designed to accomplish these goals through achievement of three objectives:

- the expansion of European agricultural and industrial production;
- the restoration of sound currencies, budgets, and finances in individual European countries; and
- the stimulation of international trade among European countries and between Europe and the rest of the world.

It is a measure of the positive impression enduring from the Economic Recovery Program that, in response to a critical situation faced by some regions of the world, there are periodic calls for a new Marshall Plan. This was the case in 1984 when the Kissinger Commission proposed an \$8 billion infusion of funds to the Caribbean and Central America. In 1987, a range of Senators and Representatives, from both parties, proposed a mini-Marshall Plan for the Philippines. In the early 1990s, Members of Congress recommended “Marshall Plans” for Eastern Europe and the former Soviet Union. And, more recently, international statesmen have suggested Marshall Plans for the Middle East and South Africa.¹

Generally, these references to the memory of the Marshall Plan are summons to replicate its success or its scale, rather than every detail of the original Plan.

¹ For example: Richard N. Gardner, “Time for a New Marshall Plan,” *New York Times*, June 3, 1967. Robert A. Pastor and Richard Feinberg, “U.S. Latin American Policy: A Marshall Plan for the Caribbean?” *Vital Issues*, Vol. 33, No. 1, 1984. Alan Cranston, “Let’s Have a Marshall Plan for Philippines,” *Los Angeles Times*, September 13, 1987. Irwin M. Stelzer, “A Marshall Plan for Eastern Europe?” *Commentary*, January 1990. “‘Global Marshall Plan’ Urged for Environment,” *Washington Post*, May 3, 1990. “Mandela Urges Marshall Plan for South Africa,” Reuters, May 22, 1996. “Kohl Proposes a New Marshall Plan for the Middle East,” *Deutsche Presse Agentur*, January 25, 1996.

Sometimes parallels are drawn between the crisis to be resolved by such assistance and that faced by Europe in 1947 when the Plan was first proposed. The replicability of the Marshall Plan in these diverse situations or in the future is subject to question. To understand the potential relevance to the present of an event that took place fifty years ago it is necessary to understand what the Plan sought to achieve, how it was implemented, and its resulting success or failure. This report looks at each of these factors and then attempts to derive some lessons for the future.

Formulation of the Marshall Plan

The Marshall Plan was proposed in a speech by Secretary of State George Marshall at Harvard University in June 1947, in response to the critical political, social, and economic conditions in which Europe found itself at that time. Recognizing the necessity of congressional participation in development of a significant assistance package, General Marshall's speech did not present a detailed and concrete program. He merely suggested that the United States would be willing to help draft a program and would provide assistance "so far as it may be practical for us to do so."² In addition, Marshall required that it be a joint effort, "initiated" and agreed to by European nations. The formulation of the Marshall Plan, therefore, was, from the beginning, a work of collaboration between the Administration and Congress, and between the U.S. Government and European governments. The crisis that generated the Plan and the legislative and diplomatic outcome of Marshall's proposal are discussed below.

The Situation in Europe

European conditions in 1947, as described by Secretary of State Marshall and other U.S. officials at the time, were dire. Although industrial production had, in many cases, returned to pre-war levels (the exceptions were Belgium, France, West Germany, Italy and the Netherlands), the economic situation overall appeared to be deteriorating. The recovery to date had been financed by drawing down on domestic stocks and foreign assets. Capital was increasingly unavailable for investment. Agricultural supplies remained below 1938 levels and food imports were consuming a growing share of the limited foreign exchange. European nations were building up a growing dollar deficit. As a result, prospects for any future growth were low. Trade between European nations was stagnant.

Having already endured years of food shortages, unemployment, and other hardships associated with the war and recovery, the European public was now faced with further suffering. To many observers, the declining economic conditions were generating a pessimism regarding Europe's future that fed class divisions and political instability. Communist parties, already large in major countries such as Italy and France, threatened to come to power.

² Address at Harvard University, June 5, 1947, p. 284 in Joseph M. Jones, *The Fifteen Weeks*. The Jones book is an excellent description of events leading up to this speech.

The potential impact on the United States was severalfold. For one, an end to European growth would block the prospect of any trade with the continent. One of the symptoms of Europe's malaise, in fact, was the massive dollar deficit that signalled its inability to pay for its imports from the United States.³ Perhaps the chief concern of the United States, however, was the growing threat of communism. Although the Cold War was still in its infancy, Soviet entrenchment in Eastern Europe was well under way. Already, early in 1947, the economic strain affecting Britain had driven it to announce its withdrawal of commitments in Greece and Turkey, forcing the United States to assume greater obligations to defend their security. The Truman Doctrine, enunciated in March 1947, stated that it was U.S. policy to provide support to nations threatened by communism. In brief, the specter of an economic collapse of Europe and a communist takeover of its political institutions threatened to uproot everything the United States claimed to strive for since its entry into World War II: a free Europe in an open world economic system. U.S. leaders felt compelled to respond.

How the Plan Was Formulated

Three main hurdles had to be overcome on the way to developing a useful response to Europe's problems. For one, as Secretary of State Marshall's invitation indicated, European nations, acting jointly, had to come to some agreement on a plan. Second, the Administration and Congress had to reach their own concordance on a legislative program. And, finally, the resulting plan had to be one that, in the words of the Secretary of State, would "provide a cure rather than a mere palliative."⁴

The Role of Europe. Most European nations responded favorably to the initial Marshall proposal. Insisting on a role in designing the program, 16 nations attended a conference in Paris (July 12, 1947) at which they established the Committee of European Economic Cooperation (CEEC). The Committee was directed to gather information on European requirements and existing resources to meet those needs. Its final report (September 1947) called for a four-year program to encourage production, create internal financial stability, develop economic cooperation among participating countries, and solve the deficit problem then existing with the American dollar zone. Although Europe's net balance of payments deficit with the dollar zone for the 1948-1951 period was originally estimated at roughly \$29 billion, the report requested \$19 billion in U.S. assistance (an additional \$3 billion was expected to come from the World Bank and other sources).

Cautious not to appear to isolate the Soviet Union at this stage in the still-developing Cold War, Marshall's invitation did not specifically exclude any

³ The "dollar gap" was considered important because the United States was the dominant economy at this time, and it was assumed that U.S. goods would remain attractive enough to outcompete other nations' products for years to come. The dollar gap would be likely to grow. Until European countries were able to build up reserves, they would tend to divert their exports to and their imports away from the dollar area. This would force cuts in food imports and capital goods, further destabilizing Europe and slowing growth. The Marshall Plan sought to close the "dollar gap".

⁴ June 5, 1947 Address in Jones, *Fifteen Weeks*, p. 283.

European nation. Britain and France made sure to include the Soviets in an early three-power discussion of the proposal. Nevertheless, the Soviet Union and, under pressure, its satellites, refused to participate in a common recovery program on the grounds that the necessity to reveal national economic plans would infringe on national sovereignty and that the U.S. interest was only to increase its exports.

CEEC formulation of its proposal was not without U.S. input. Its draft proposal had reflected the wide differences existing between individual nations in their approach to trade liberalization, the role of Germany, and state controls over national economies. As a result of these differences, the United States was afraid that the CEEC proposal would be little more than a shopping list of needs without any coherent program to generate long-term growth. To avoid such a situation, the State Department conditioned its acceptance of the European program on six factors: that participants make specific commitments to fulfill production programs; take immediate steps to create internal monetary and financial stability; express greater determination to reduce trade barriers; consider alternative sources of dollar credits, such as the World Bank; give formal recognition to their common objectives and assume common responsibility for attaining them; and establish an international organization to act as coordinating agency to implement the program. The final report of the CEEC contained these obligations.

Executive and Congressional Roles. After the European countries had taken the required initiative and presented a formal plan, both the Administration and Congress responded. Formulation of that response had already begun soon after the Marshall speech. As a Democratic President facing a Republican Congress that was highly skeptical of the need for further foreign assistance, Truman took a two-pronged approach that greatly facilitated development of a program: he opened his foreign policy initiative to perhaps the most thorough examination prior to launching of any program and, secondly, provided a perhaps equally rare process of close consultation between the executive and Congress.⁵

From the first, the Truman Administration made Congress a player in the development of the new foreign aid program, consulting with it every step of the way. A meeting on June 22, 1947, between key congressional leaders and the President led to creation of the Harriman, Krug, and Nourse Committees. Secretary of Commerce Averell Harriman's Committee, composed of consultants from private industry, labor, economists, etc., looked at Europe's needs. Secretary of Interior Julius A. Krug's Committee examined those U.S. physical resources available to support such a program. The group led by Chairman of the Council of Economic Advisers Edwin G. Nourse studied the effect an enlarged export burden would have on U.S. domestic production and prices. The House of Representatives itself formed

⁵ The Chairman of the Senate Foreign Relations Committee called the version of the legislation which went to the floor of the Congress, "the final product of eight months of more intensive study by more devoted minds than I have ever known to concentrate upon any one objective in all my twenty years in Congress." Arthur H. Vandenberg, quoted in Harry Bayard Price, *The Marshall Plan and its Meaning*, p. 64. See also Quentin L. Quade. "The Truman Administration and the Separation of Powers: the Case of the Marshall Plan." *The Review of Politics*. January 1965. p. 58-77.

the Select Committee on Foreign Aid, led by Representative Christian A. Herter, to take a broad look at these issues.⁶

Before the Administration proposal could be submitted for consideration, the situation in some countries deteriorated so seriously that the President called for a special interim aid package to hold them over through the winter with food and fuel until the more elaborate system anticipated by the Marshall Plan could be authorized. Congress approved interim aid to France, Italy, and Austria amounting to \$522 million in an authorization signed by the President on December 17, 1947. West Germany, also in need, was still being assisted through the Government and Relief in Occupied Areas (GARIOA) program.

State Department proposals for a European Recovery Program were formally presented by Truman in a message to Congress on December 19, 1947. He called for a 4 1/4-year program of aid to 16 West European countries in the form of both grants and loans. Although the program anticipated total aid amounting to about \$17 billion, the Administration bill as introduced in early 1948 (H.R. 4840), provided an authorization of \$6.8 billion for the first 15 months. The House Foreign Affairs and Senate Foreign Relations Committees amended the bill extensively. As S. 2202, it passed the Senate by a 69-17 vote on March 13, 1948, and the House on March 31, 1948, by a vote of 329 to 74.⁷ The bill authorized \$5.3 billion over a one-year period. On April 3, 1948, the Economic Cooperation Act (title I of the Foreign Assistance Act of 1948, P.L. 80-472) became law. The Appropriations Committee conference allocated \$4 billion to the European Recovery Program in its first year.

By restricting the authorization to one year, Congress gave itself ample opportunity to oversee the Plan's implementation and consider additional funding. Three more times during the life of the Plan, Congress would be required to authorize and appropriate funds. In each year, Congress held hearings, debated, and further amended the legislation. As part of the first authorization, it created a joint congressional "watchdog" committee to review the program and report to Congress.

Implementation of the Marshall Plan

Profile of the Marshall Plan

In its legislative form as the European Recovery Program (ERP), the Marshall Plan was originally expected to last four and one quarter years from April 1, 1948,

⁶ See House. Select Committee on Foreign Aid. *Final Report on Foreign Aid*. 80th Congress, 2d session. Washington, U.S. Govt. Print. Off., May 1, 1948. 883 p.

⁷ Many argue that the decisive support for the ERP came as a result of the Czechoslovak coup on February 25, 1948, which brought the Communists to power there. This convinced many of those who saw the Plan as a "give-away" program that Soviet expansionism was a serious threat. Other major factors which swayed public and congressional opinion were the information dissemination activities of the public citizens' Committee for the Marshall Plan, and support for the Plan from influential one-time "isolationist" Senator Vandenberg, Republican Chairman of the Senate Foreign Relations Committee.

until June 30, 1952. However, the duration of the “official” Marshall Plan as well as amounts expended under it are matters of some disagreement. In the view of some, the program ran until its projected end-date of June 30, 1952. Others date the termination of the Plan some six months earlier when the Plan’s administrative agent, the Economic Cooperation Agency, was terminated and its recovery programs were meshed with those of the newly established Mutual Security Agency (a process that began during the second half of 1951).

Estimates of amounts expended under the Marshall Plan range from \$10.3 billion to \$13.6 billion.⁸ Variations here can be explained by the different measures of program longevity and the inclusion of funding from related programs which occurred simultaneously with the ERP. Table I contains one estimate of funds made available for the ERP (to June 1951) and lists the sources of those funds.

Table II lists recipient nations and gives an estimate, based on Agency for International Development figures, of amounts received in both current and constant 1997 dollars. According to these estimates, the top recipients of Marshall Plan aid were the United Kingdom (roughly 25% of individual country totals), France (21%), West Germany (11%), Italy (12%), and the Netherlands (8%).

Table 1. Funds Made Available to ECA for European Economic Recovery
(In millions of dollars)

Funds Available	April 3, 1948 to June 30, 1949	July 1, 1949 to June 30, 1950	July 1, 1950 to June 30, 1951	Total
Direct appropriations ^a	5,074.0	3,628.4	2,200.0	10,902.4
Borrowing authority (loans) ^b	972.3	150.0	62.5	1,184.8
Borrowing authority (investment guaranty program) ^c	150.0	50.0	—	200.0
Funds carried over from interim aid	14.5	6.7	—	21.2
Transfers from other agencies ^d	9.8	225.1	217.0	451.9
Funds made available (gross)	6,220.6	4,060.2	2,479.5	12,760.3
Less transfers to other agencies ^e	—	—	225.4	225.4
Funds made available (net)	6,220.6	4,060.2	2,254.1	12,534.9

Source: Compiled from figures made available by the budget division of ECA and from figures published in the Thirteenth Report of ECA, pp. 39 and 152; and Thirteenth Semiannual Report of the

⁸ Imanuel Wexler in *The Marshall Plan Revisited*, p. 249, offers a figure at the lower end. At the higher end is Susan Hartmann, *The Marshall Plan*, p. 58.

Export-Import Bank of Washington. For the Period July-December 1951, App. I, pp. 65-66. From William Adams Brown, Jr., and Redvers Opie. *American Foreign Assistance*. Washington, The Brookings Institution, 1953. p. 247.

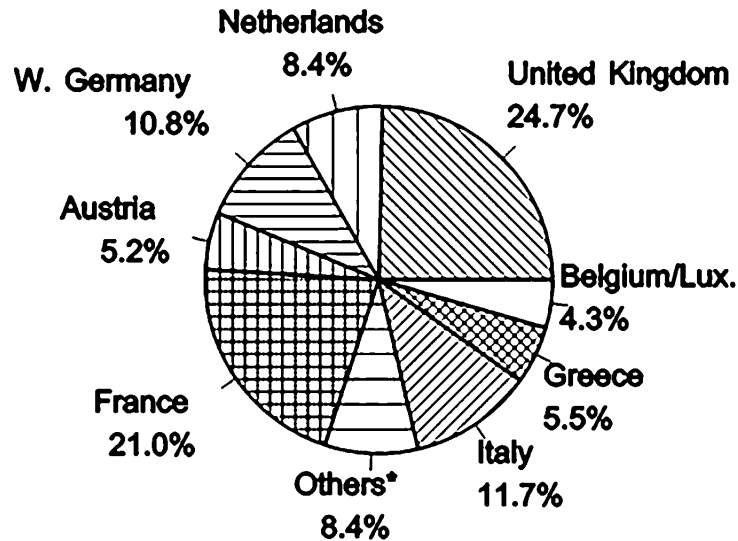
- ^a The Foreign Aid Appropriation Act of 1949 appropriated \$4 billion for 15 months but authorized expenditure within 12 months. The Foreign Aid Appropriation Act of 1950 contained a supplemental appropriation of \$1,074 million for the quarter April 2 to June 30, 1949, and an appropriation of \$3,628.4 million for fiscal 1950. The General Appropriation Act of 1951 appropriated \$2,250 million for the European Recovery Program for the fiscal year 1951, but the General Appropriation Act of 1951, Sec. 1214, reduced the funds appropriated for the ECA by \$50 million, making the appropriation for fiscal 1951, \$2,200 million.
- ^b The Economic Cooperation Act of 1948 authorized the ECA to issue notes for purchase by the Secretary of the Treasury not exceeding \$1 billion for the purpose of allocating funds to the Export-Import Bank for the extension of loans, but of this amount, \$27.7 million was reserved for investment guaranties. The Foreign Aid Appropriation Act of 1950 increased the amount of notes authorized to be issued for this purpose by \$150 million. The General Appropriation Act of 1951 authorized the Administrator to issue notes up to \$62.5 million for loans to Spain, bringing the authorized borrowing power for loans to \$1,184.8 million.
- ^c The Economic Cooperation Act of 1948 was amended in April 1949 to provide additional borrowing authority of \$122.7 million for guaranties. The Economic Cooperation Act of 1950 increased this authority by \$50 million, making the total \$200 million for investment guaranties.
- ^d Transfers from other agencies included: from Greek-Turkish Aid funds, \$9.8 million; from GARIOA funds (Germany), \$187.2 million; from MDAP funds, \$254.9 million. The Foreign Aid Appropriation Act of 1950 and the General Appropriation Act of 1951 authorized the President to transfer the functions and funds of GARIOA to other agencies and departments. Twelve million dollars was transferred to ECA from GARIOA under Section 5(a) of the Economic Cooperation Act of 1950 and the remainder under the President's authority. The Mutual Defense Assistance Act of 1949 appropriated funds to the President who was authorized to exercise his powers through any agency or officer of the United States. Transfers to ECA were made by Executive Order.
- ^e Transfers to other agencies included: \$50 million to the Yugoslav relief program, \$75.4 million to the Far Eastern program, and \$100 million to India. The transfer to Yugoslavia was directed by the Yugoslav Emergency Relief Assistance Act of December 29, 1950. The transfer to the Far Eastern program was made by presidential order (presidential letters of March 23, April 13, May 29, and June 14, 1951). The transfer to India was made by presidential order (presidential letter of June 15, 1951).

Table 2. European Recovery Program Recipients April 3, 1948 to June 30, 1952
(millions of dollars)

	Current Dollars	Constant 1997 Dollars
Austria	677.8	4,486.9
Belgium/Luxembourg	559.3	3,702.5
Denmark	273.0	1,807.2
France	2,713.6	17,963.6
Greece	706.7	4,678.2
Iceland	29.3	194.0
Ireland	147.5	976.4
Italy	1,508.8	9,988.0
Netherlands	1,083.5	7,172.6
Norway	255.3	1,690.0
Portugal	51.2	338.9
Sweden	107.3	710.3
Turkey	225.1	1,490.1
United Kingdom	3,189.8	21,115.9
West Germany	1,390.6	9,205.5
Regional	407.0	2,694.3
TOTAL	\$13,325.8	\$88,214.5

Source: Agency for International Development, November 16, 1971.

Percentage of Country Allocations



*Denmark, Iceland, Ireland, Norway, Portugal, Sweden, Turkey

Administrative Agents

The European Recovery Program assumed the need for two implementing organizations, one American and one European. These were expected to continue the dialogue on European economic problems, coordinate aid allocations, insure that aid was appropriately directed, and negotiate adoption of effective policy reforms.

Economic Cooperation Administration. Due to the complex nature of the recovery program, the magnitude of the task, and the high degree of administrative flexibility desired with regard to matters concerning procurement and personnel, Congress established a new agency — the Economic Cooperation Administration (ECA) — to implement the ERP. As a separate agency, it could be exempted from many government regulations that would impede flexibility. Another reason for its separate institutional status was a strong distrust by the Republican Congress for a State Department headed by a Democrat Administration. However, because many in Congress were also concerned that the traditional foreign policy authority of the Secretary of State not be impinged, it required that full consultation and a close working relationship exist between the ECA Administrator and the Secretary of State. Paul G. Hoffman was appointed as Administrator by President Truman.⁹ A

⁹ The original Administration proposal would have given State almost total control over the ECA. U.S. Senate. Committee on Foreign Relations. *European Recovery Program*. Senate (continued...)

Republican and a businessman (President of the Studebaker Corporation), both requirements posed by the congressional leadership, Hoffman is considered by historians to have been a particularly talented administrator and promoter of the ERP.

A 600-man regional office located in Paris played a major role in coordinating the programs of individual countries and in obtaining European views on implementation. It was the most immediate liaison with the organization representing the participating countries. Averell Harriman headed the regional office as the U.S. Special Representative Abroad. Missions were also established in each country to keep close contact with local government officials and to observe the flow of funds. Both the regional office and country missions had to judge the effectiveness of the recovery effort without infringing on national sovereignty sensitivities.

As required by the ERP legislation, the United States established bilateral agreements with each country. These were fairly uniform — they required certain commitments to meet objectives of the ERP such as steps to stabilize the currency and increase production as well as obligations to provide the economic information upon which to evaluate country needs and results of the program.

The Organization for European Economic Cooperation. A European body, the Organization for European Economic Cooperation (OEEC), was established by agreement of the participating countries in order to maintain the “joint” nature by which the program was founded and reinforce the sense of mutual responsibility for success of the program. Earlier, the participating countries had jointly pledged themselves to certain obligations (see above). The OEEC was to be the instrument which would guide members to fulfill their multilateral undertaking.

To advance this purpose, the OEEC developed analyses of economic conditions and needs, and, through formulation of a Plan of Action, influenced the direction of investment projects and encouraged joint adoption of policy reforms such as those leading to elimination of intra-European trade barriers.

At the ECA’s request, it also recommended and coordinated the division of aid among the 16 countries. Each year the participating countries would submit a yearly program to the OEEC which would then make recommendations to the ECA. The determination of assistance allocations was not an easy matter, especially since funding declined each year. As a result, there was much bickering among countries, but a formula was eventually reached to divide the aid.

Programs

The framers of the European Recovery Program envisioned a number of tools with which to accomplish its ends. These are discussed below.

Dollar Aid: Commodity Assistance and Project Financing. Grants made up more than 90% of the program. The ECA provided outright grants which were

⁹ (...continued)

Report 935 on S. 2202, February 27, 1948.

used to pay the cost and freight of essential commodities and services, mostly from the United States. Conditional grants were also provided requiring the participating country to set aside currency so that other participating countries could buy their export goods. This was done in order to stimulate intra-European trade.

The ECA also provided loans. ECA loans bore an interest rate of 2.5% starting in 1952, and matured up to 35 years from December 31, 1948, with principal repayments starting no later than 1956. The ECA supervised the use of the dollar credits. European importers made purchases through normal channels and paid American sellers with checks drawn on American credit institutions.

The first year ERP bill provided that \$1 billion of the total authorized should be available only in the form of loans or guaranties. In 1949, the Congress reduced the amount available only for loans to \$150 million. The Administrator had decided that loans in excess of these amounts should not be made because of the inadvisability of participating countries assuming further dollar obligations which would only increase the dollar gap the Plan was attempting to close. As of June 30, 1949, \$972.3 million of U.S. aid had been in the form of loans, while \$4.948 billion was in the form of grants. Estimates for July 1949 — June 1950 were \$150 million in loans and \$3.594 billion for grants.

The content of the dollar aid purchases changed over time as European needs changed. From a program supplying immediate food-related goods — food, feed, fertilizer and fuel — it eventually provided mostly raw materials and production equipment. Between early 1948 and 1949, food-related assistance declined from roughly 50% of the total to only 27%. The proportion of raw material and machinery rose from 20% to roughly 50% in this same time period.

Project financing became important during the later stages of the ERP. ECA dollar assistance was used with local capital in specific projects requiring importation of equipment from abroad. The advantage here was leveraging of local funds. By June 30, 1951, the ECA had approved 139 projects financed by a combination of U.S. and domestic capital. Their aggregate cost was \$2.25 billion of which only \$565 million was directly provided by Marshall Plan assistance funds.¹⁰ Of these projects, at least 27 were in the area of power production and 32 were for the modernization and expansion of steel and iron production. Many others were devoted to rehabilitation of transport infrastructure.¹¹

Counterpart Funds. Each country was required to match the U.S. grant contribution: a dollar's worth of its own currency for each dollar of grant aid given by the United States. The participating country's currency was placed in a counterpart fund that could be used for infrastructure projects (roads, power plants, housing projects, airports, etc.) of benefit to that country. Each of these counterpart fund projects, however, had to be approved by the ECA Administrator. In the case of Great Britain, counterpart funds were deemed inflationary and simply returned to the national treasury to help balance the budget.

¹⁰ Opie and Brown, *American Foreign Assistance*, p. 237.

¹¹ *Department of State Bulletin*. January 14, 1952.

By end of December 1951, roughly \$8.6 billion of counterpart funds had been made available. Of the approximately \$7.6 billion approved for use, \$2 billion were used for debt reduction as in Great Britain; and roughly \$4.8 billion were earmarked for investment, of which 39% was in utilities, transportation and communication facilities (electric power projects, railroads, etc.), 14% in agriculture, 16% in manufacturing, 10% in coal mining and other extractive industries, and 12% in low cost housing facilities. Three countries accounted for 80% of counterpart funds used for production purposes — France (half), West Germany, and Italy/Trieste.¹²

Five percent of the counterpart funds could be used to pay the administrative expenses of the ECA in Europe as well as for purchase of scarce raw materials needed by the United States or to develop sources of supply for such materials. Up to August 1951, more than \$160 million was committed for these purposes, mostly in the dependent territories of Europe. For example, enterprises were set up for development of nickel in New Caledonia, chromite in Turkey, and bauxite in Jamaica.¹³

Technical Assistance. Technical assistance was also provided under the ERP. A special fund was created to finance expenses of U.S. experts in Europe and visits by European delegations to the United States. Funds could be used only on projects contributing directly to increased production and stability. The ECA targeted problems of industrial productivity, marketing, agricultural productivity, manpower utilization, public administration, tourism, transportation and communications. In most cases, countries receiving such aid had to deposit counterpart funds equivalent to the dollar expenses involved in each project. Through 1949, \$5 million had been set aside for technical assistance under which 350 experts had been sent from the United States to provide services, and 481 persons from Europe had come to the United States for training. By the end of 1951, with more than \$30 million expended, over 6,000 Europeans representing management, technicians and labor had come to the United States for periods of study of U.S. production methods.¹⁴

Although it is estimated that less than one-half of one percent of all Marshall Plan aid was spent on technical assistance, the effect of such assistance was significant. Technical assistance was a major component of the “productivity campaign” launched by the ECA. Production was not merely a function of possessing up-to-date machinery, but of management and labor styles of work. As one Senate Appropriations staffer noted, “Productivity in French industry is better than in several other Marshall-plan countries but it still requires four times as many man-hours to produce a Renault automobile as it does for a Chevrolet, and the

¹² As much as \$1 billion in counterpart funds was never released by the ECA. Imanuel Wexler, *The Marshall Plan Revisited*, p. 87. Senate. Committee on Foreign Relations. *United States Foreign Aid Programs in Europe*. 1951. p. 12. Opie and Brown, p. 237.

¹³ About half of the funds were used for purchases and the other half for development projects. Another \$25 million in U.S. dollars was provided by the ECA for development purposes. See U.S. Senate. Comm. on Appropriations. Special Subcommittee on Foreign Economic Cooperation. *Strategic Materials Program of the ECA*. 1952. p. 20.

¹⁴ *Department of State Bulletin*. January 14, 1952. p. 45.

products themselves are hardly comparable.”¹⁵ To attempt to bring European production up to par, the ECA funded studies of business styles, conducted management seminars, arranged visits of businessmen and labor representatives to the United States to explain American methods of production, and set up national productivity centers in almost every participating country.¹⁶

Guaranties. Guaranties were provided for convertibility into dollars of profits on American investments. The purpose of the guaranties was to encourage American businessmen to invest in the modernization and development of European industry by insuring that returns could be obtained in dollars. The original Act covered only the approved amount of dollars invested, but subsequent authorizations broadened the definition of investment and increased the amount of the potential guaranty by adding to actual investment earnings or profits up to 175% of dollar investment. The risk covered was extended as well to include compensation for loss of investment due to expropriation. Although \$300 million was authorized by Congress (subsequently amended to \$200 million), investment guaranties covering 38 industrial investments amounted to only \$31.4 million by June 1952.¹⁷

Table 3. Expenditures under the ERP by Type
(Approximate Figures in Billions of Dollars)

Grants	
General Procurement	\$11.11
Project Financing	\$ 0.56
Technical Assistance	\$ 0.03
Total	\$11.70
Loans	\$1.14
Guaranties	\$0.03
Counterpart Funds	\$8.60

How Programs Contributed to Aims

The individual components of the European Recovery Program contributed directly to some of the immediate aims of the Plan. Dollar assistance kept the dollar gap to a minimum. The ECA made sure that both dollar and counterpart assistance were funneled toward activities that would do the most to increase production and lead to general recovery. The emphasis in financial and technical assistance on productivity helped to maximize the efficient use of dollar and counterpart funds to increase production and boost trade. The importance to future European growth of this

¹⁵ U.S. Senate. Committee on Appropriations. *Conditions in Europe in the Spring of 1951*. p. 3.

¹⁶ House of Representatives, Committee on Appropriations. *Foreign Aid Appropriation Bill for 1950*. 1949. p. 735-739. Opie and Brown, p. 239-242.

¹⁷ Opie and Brown, p. 242. Wexler, p. 89.

infusion of directed assistance should not be underestimated. During the recovery period, Europe maintained an investment level of 20% of GNP, one third higher than the pre-war rate. Since national savings were practically zero in 1948, the high rate of investment is largely attributable to U.S. assistance.

But the aims of the Marshall Plan were not achieved by financial and technical assistance programs alone. The importance of these American-sponsored programs is that they helped to create the framework in which the overall OEEC European program of action functioned. American aid was leveraged to encourage Europeans to come together and act, individually and collectively, in a purposeful fashion on behalf of the three themes of increased production, expanded trade, and economic stability through policy reform.

The first requirement of the Plan was that European nations commit themselves to these objectives. On an individual basis, each nation then utilized its counterpart funds and American dollar assistance to fulfill these objectives. They also, with the analytical assistance of both fellow European nations under the OEEC and the American representatives of the ECA, closely examined their economic systems. Through this process, the ECA and OEEC sought to identify and remove obstacles to growth, to avoid unsound national investment plans, and to promote adoption of appropriate currency levels. Thanks to American assistance, many note, European nations were able to undertake recommended and necessary reforms at lesser political cost in terms of imposing economic hardship on their publics than would have been the case without aid.

However, contending with deeply felt sensitivities regarding European sovereignty, U.S. influence on European economic and social decisionmaking as a direct result of Plan assistance was restricted. Where it controlled counterpart funds for use in capital projects, influence was considerable. Where counterpart funds were simply used to retire debt to assist financial stability, there was little such influence. Some analysts contend the United States had minimal control over European domestic policy since its assistance was small relative to the total resources of European countries. But while it could do little to get Europe to relinquish control over exchange rates, on less sensitive, smaller issues the United States, many argue, was able to affect change.¹⁸ On few occasions did the ECA threaten sanctions if participating countries did not comply with agreements. Italy was threatened with loss of aid for not acting to adopt recommended programs and, in April 1950, aid was actually withheld from Greece to force appropriate domestic action.

As a collective of European nations, the OEEC generated peer pressure that encouraged individual nations to fulfill their Plan obligations. The OEEC provided a forum for discussion and eventual negotiation of agreements conducive to intra-European trade. For Europeans, its existence made the Plan seem less an American program. In line with the American desire to foster European integration, the OEEC helped to create the "European idea." As West German Vice-Chancellor Blucher noted, "The OEEC had at least one great element. European men came together,

¹⁸ Alan S. Milward, *The Reconstruction of Western Europe*, 1984, p. 113-125.

knew each other, and were ready for cooperation.”¹⁹ The ECA provided financial assistance to efforts to encourage European integration (see below), and, more important, it provided the OEEC with some financial leverage of its own. By asking the OEEC to take on a share of responsibility for allocating American aid among participating countries, the ECA elevated the organization to a higher status than might have been the case otherwise and thereby facilitated achievement of Plan aims.

The Sum of its Parts: Evaluating the Marshall Plan

How the Marshall Plan Was Different

Assistance to Europe was not new with the Marshall Plan. In fact, during the two and one half-year period from July 1945 to December 1947, roughly \$11 billion had been provided to Europe, compared with the estimated \$13 billion in three and one half years of the Marshall Plan. One of the factors that distinguishes the Marshall Plan from its predecessors is that the Marshall Plan was a PLAN. Because the earlier, more ad hoc and relief-oriented assistance had made little dent on European recovery, a different, coherent approach was put forward. The new approach called for a concerted program with a definite purpose. The purpose was European recovery, defined as increased agricultural and industrial production; restoration of sound currencies, budgets, and finances; and stimulation of international trade among participating countries and between them and the rest of the world. The Plan, as illustrated in the preceding section, insured that each technical and financial assistance component contributed as directly as possible to these long-range objectives.

Other aspects of its “plan-like” character were distinctive. It had definite time and monetary limits. It was made clear at the start that the U.S. contribution would diminish each year. In addition to broad objectives, it also supported, by reference to the CEEC program in the legislation and, more specifically, in congressional report language, the ambitious quantitative targets assumed by the participating countries.²⁰

The Marshall Plan was also a “joint” effort. By bringing in European nations as active participants in the program, the United States assured that the commitment to alter economic policies, a necessity if growth was to be stimulated, would be translated into action and that the objective of integration would be further encouraged. The Marshall Plan promoted recognition of the economic interdependence of Europe. By making the Congress a firm partner in the formulation of the program, the Administration assured continued congressional support for the commitment of large sums over a period of years.

Further, the Marshall Plan was a first recognition by U.S. leaders of the link between economic growth and political stability. Unlike previous post-war aid,

¹⁹ Quoted in Harry Bayard Price, *The Marshall Plan and its Meaning*, p. 294.

²⁰ H.Rept. 1585 on S. 2202 and S.Rept. 935 on S. 2202.

which was two-thirds repayable loans and one-third relief supplies, Marshall Plan aid was almost entirely in the form of grants aimed at productive, developmental purposes. The reason for this large infusion of grants in peacetime was that U.S. national security had been redefined as containment of communism. Governments whose citizens were unemployed and unfed were unstable and open to communist advancement. Only long-term economic growth could provide stability and, as an added benefit, save the United States from having to continue an endless process of stop-gap relief-based assistance.

The unique nature of the Plan is perhaps best emphasized by what replaced it. The Cold War, reinforced by the Korean War, signalled the end of the Marshall Plan by altering the priority of U.S. aid from that of economic stability to military security. In September 1950, the ECA informed the European participants that henceforth a growing proportion of aid would be allocated for European rearmament purposes. Although originally scheduled to end on June 30, 1952, the Plan began to wind down in December 1950 when aid to Britain was suspended. In the following months, Ireland, Sweden, and Portugal graduated from the program. The use of counterpart funds for production purposes was phased out. To attack inflation, which resulted from the shortage of materials due to the Korean War, the ECA had begun to release counterpart funds. In the fourth quarter of 1950, \$1.3 billion was released, two-thirds of which were used in retiring public debt.

Under the Mutual Security Act of 1951 and subsequent legislation, although in lesser quantities and in increasing proportions devoted to defense, aid continued to be provided to many European countries. In the 1952-53 appropriations, for example, France received \$525 million in grants, half of which was for defense support and the other as budget support. The joint nature of the Marshall Plan disappeared as national sovereignty came to the fore again. Unlike the Marshall Plan, France insisted on using counterpart funds as it wished, commingling them with other funds and only later attributing appropriate amounts to certain projects to satisfy American concerns.

Accomplishments of the Marshall Plan

For many analysts and policymakers, the effect of the Marshall Plan policies and programs on the economic and political situation in Europe was broad and pervasive. While, in some cases, a direct connection can be drawn between American assistance and a positive outcome, for the most part, the Plan may be viewed best as a stimulus which set off a chain of events leading to the accomplishments noted below.

Did It Meet Its Objectives? The Marshall Plan agencies, the ECA and OEEC, established a number of quantitative standards as their objectives, reflecting some of the broader purposes noted earlier.

Production. The overall production objective of the European Recovery Program was an increase in aggregate production above prewar (1938) levels of 30% in industry and 15% in agriculture. By the end of 1951, industrial production for all countries was 41% above the 1938 level, exceeding the goal of the program. However, aggregate agriculture production was only 9% above prewar levels and,

given a 25 million rise in population during these years, Europe was not able to feed itself by 1951.

Viewed in terms of the increase from 1947, the achievement is more impressive. Industrial production by the end of 1951 was 64% higher than only four years earlier. Participating countries increased aggregate agricultural production by nearly 24% in the four crop-years after 1947-48. Total GNP rose by roughly 25% during the four years of the Plan.

The 1948 Senate report on the ERP authorization had noted a set of production goals that the Europeans had set for themselves, goals that they noted, “seem optimistic to many American experts.”²¹ The participating countries, for example, had wanted to increase steel production to 55 million tons yearly, 20% above pre-war production. By 1951, they had achieved 60 million. It was proposed that oil refining capacity be increased by 2 1/2 times that in 1938. In the end, they managed a four-fold increase. The goal for coal production was 584 million tons, an increase of 30 million over pre-war production. By 1951, production was still slightly below that of 1938, but 27% higher than in 1947.

Balance of Trade and the Dollar Gap. In 1948, participating countries could pay for only half of their imports by exporting. An objective of the ERP was to get European countries to the point where they could pay for 83% of their imports in this manner. Although they paid for 70% by exporting in 1938, the larger ratio was sought under ERP because earnings from overseas investment had declined.

Even though trade rose substantially, especially among participants, the volume of imports from the rest of the world rose substantially as well, and prices for these imports rose faster than did prices of exports. As a result, Europe continued to be strained. One obstacle to expansion of exports was simply trying to break into the United States and South American markets where U.S. producers were entrenched. OEEC exports to North America rose from 14% of imports in 1947 to nearly 50% in 1952.²²

Related to the overall balance of trade was the deficit vis a vis the dollar area, especially the United States. In 1947, the total gold and dollar deficit was over \$8 billion. By 1949, it had dropped to \$4.5 billion, by 1952 to half that figure, and by the first half of 1953 had reached an approximate current balance with the dollar area.²³

Trade Liberalization. In 1949, the OEEC Council asked members to take steps to eliminate quantitative import restrictions. By the end of 1949, 50%, and by February 1951, 75% of quota restrictions on imports were eliminated. By 1955, 90% of restrictions were gone. In 1951, the OEEC set up rules of conduct in trade under

²¹ U.S. Senate. Committee on Foreign Relations. *Economic Recovery Program*. Senate Report 935 on S. 2202. February 27, 1948.

²² *OECD Observer*, June 1967, p.10.

²³ *OECD Observer*, June 1967, p. 10-11.

the Code of Liberalization of Trade and Invisible Transactions. At the end of 1951, trade volume within Europe was almost double that of 1947.

Other Benefits. Some benefits of the Marshall Plan are not easily quantifiable, and some were not direct aims of the program.

Psychological Boost. Many believe that the role of the Plan in raising morale in Europe was as great a contribution to the prevention of communism and stimulation of growth as any financial assistance. As George Kennan noted, “The psychological success at the outset was so amazing that we felt that the psychological effect was four-fifths accomplished before the first supplies arrived.”²⁴

Economic Integration. The United States had a view of itself as a model for the development of Europe, with individual countries equated with American states. As such, U.S. leaders saw a healthy Europe as one in which trade restraints and other barriers to interaction, such as the inconvertibility of currencies, would be eliminated. The ERP required coordinated planning for recovery and the establishment of the OEEC for this purpose. In 1949, the ERP Authorization Act was amended to make it the explicit policy of the United States to encourage the unification of Europe.²⁵ Efforts in support of European integration, integral to the original Plan, were strengthened at this time.

To encourage intra-European trade, the ECA in its first year went so far as to provide dollars to participating countries to finance their purchase of vitally needed goods available in other participating countries (even if these were available in the United States). In a step toward encouraging European independence from the dollar standard, it also established an intra-European payments plan whereby dollar grants were made to countries which exported more to Europe as a group than they imported on condition that these creditor countries finance their export balance in their own currencies.

The European Payments Union (EPU), an outgrowth of the payments plan, was established in 1950 by member countries to act as a central clearance and credit system for settlement of all payments transactions among members and associated monetary areas (such as the sterling area). At ECA request, the 1951 congressional authorization withheld funds specifically to encourage the pursuit of this program since successful conclusion of the EPU depended on an American financial contribution. In the end, the United States provided \$350 million to help set up the EPU and another \$100 million to assist it through initial difficulties. Many believe that these and other steps initiated under the ERP led to the launching of the Coal and Steel Community in 1952 and eventually to the European Union of today.

Stability and Containment of Communism. Perhaps the greatest inducement to the United States in setting up the Marshall Plan had been the belief that economic hardship in Europe would lead to political instability and inevitably

²⁴ In Charles Mee, Jr. *The Marshall Plan: The Launching of the Pax Americana*. p. 246.

²⁵ This term was left undefined. An amendment calling for both political federation as well as economic unification was stricken in conference.

to communist governments throughout the continent. In essence, the ERP allowed economic growth and prosperity to occur in Europe with fewer political and social costs. Plan assistance allowed recipients to carry a larger import surplus with less strain on the financial system than would be the case otherwise. It made possible larger investments without corresponding reductions in living standards, and could be anti-inflationary by mopping up purchasing power through the sale of imported assistance goods without increasing the supply of money. The production aspects of the Plan also helped relieve hunger among the general population. Human food consumption per capita reached the pre-war level by 1951. In West Germany, economically devastated and besieged by millions of refugees from the East, one house of every five built since 1948 had received Marshall Plan aid.²⁶

Perhaps as a result of these benefits, communism in Europe was prevented from coming to power via the ballot box. It is estimated that Communist strength in Western Europe declined by almost one-third between 1946 and 1951. In the 1951 elections, the combined pro-Western vote was 84% of the electorate.²⁷

U.S. Domestic Procurement. Champions of the Marshall Plan hold that its authorizing legislation was free of most of the potential restrictions sought by private interests of the sort to later appear in foreign aid programs. Nevertheless, restrictions were enacted which did benefit the United States and U.S. business in particular.

Procurement of surplus goods was encouraged under the Plan legislation, while procurement of goods in short supply in the United States was discouraged. It was required that surplus agriculture commodities be supplied by the United States and procurement of these was to be encouraged by the ECA Administrator. The ERP required that 25% of total wheat had to be in the form of flour, and half of all goods had to be carried on American ships.

In the end, an estimated 83% of European purchases using ECA dollars were spent in the United States. Types of commodities purchased from the United States included foodstuffs (grain, dairy products), cotton, fuel, industrial and raw materials (iron and steel, aluminum, copper, lumber), and industrial and agricultural machinery. Sugar and non-ferrous metals made up the bulk of purchases from outside the United States.

Enhanced Role in Europe for the United States. U.S. prestige and power in Europe were already strong following World War II. In several respects, however, the U.S. role in Europe was greatly enhanced by virtue of the Marshall Plan program. U.S. private sector economic relations grew substantially during this period as a consequence of the program's encouragement of increased exports from Europe and Plan grants and loans for the purchase of U.S. goods. The book value of U.S. investment in Europe also rose significantly. Furthermore, while the Plan grew out of a recognition of the economic interdependence of the two continents, its implementation greatly increased awareness of that fact. The OEEC, which

²⁶ *State Department Bulletin*. January 14, 1952.

²⁷ Changes in electoral laws also contributed to this outcome. U.S. Senate. Committee on Foreign Relations. *United States Aid Programs in Europe*. 1951. p. 22-24.

eventually became the OECD (1961), with the United States as a full member, endured and provided a forum for discussion of economic problems of mutual concern. Finally, the act of U.S. support for Europe and the creation of a diplomatic relationship which centered on economic issues in the OEEC facilitated the evolution of a relationship centered on military and security issues. In the view of ECA Administrator Hoffman, the Marshall Plan made the Atlantic Pact [NATO] possible.²⁸

Critiques of the Marshall Plan

Not everyone agrees that the Marshall Plan was a success. Many of the current criticisms of foreign aid — that it is a give-away program, that it is a waste of money — were heard then as well. One such appraisal was that Marshall Plan assistance had little effect. It is, for example, difficult to demonstrate that Plan aid was directly responsible for the increase in production and other quantitative achievements noted above. Critics have argued that Plan assistance was never more than 5% of the GNP of recipient nations and therefore could have little effect.²⁹ Some analysts, pointing out the experimental nature of the Plan, agree that the method of aid allocation and the program of economic reforms promoted under the Plan were not derived with scientific precision. Some claim that the dollar gap was not a problem and that lack of economic growth was the result of bad economic policy, resolved when economic controls established during the Nazi era were eventually lifted.³⁰

Even at the time of the Marshall Plan, there were those who found the program lacking. If Marshall Plan aid was going to combat communism, they felt, it would have to provide benefits to the working class in Europe. Many believed that the increased production sought by the Plan would have little effect on those most inclined to support communism. In congressional hearings, Congressmen repeatedly sought assurances that the aid was benefiting the working class. Would loans to French factory owners, they asked, lead to higher salaries for employees?³¹ Journalist Theodore H. White was another who questioned this “trickle” [now called the “trickle down”] approach to recovery. “The trickle theory had, thus far,” White wrote in 1953, “resulted in a brilliant recovery of European production. But it had yielded no love for America and little diminution of Communist loyalty where it was entrenched in the misery of the continental workers.”³²

²⁸ U.S. House of Representatives. Committee on Appropriations. *Foreign Aid Appropriation Bill for 1950*. 1949. p. 33.

²⁹ For example, Kostrzewa, Nunnenkamp, and Schmieding, *A Marshall Plan for Middle and Eastern Europe?* (p. 7.) report a statistical analysis which shows only weak positive correlation between aid receipts in percent of GNP and the growth of exports and GNP during the ERP.

³⁰ Tyler Cowan, *The Marshall Plan: Myths and Realities*. p. 63-66.

³¹ U.S. Senate. Committee on Foreign Relations. *U.S. Foreign Aid Programs in Europe, 1951*. p. 220-226.

³² In Charles Mee, Jr. *The Marshall Plan: The Launching of the Pax Americana*. p. 258-59.

In addition, many did not want the United States to appear to be assisting colonial rule. Considerable concern was expressed that the aid provided to Europe would allow these countries to maintain their colonies in Africa and Asia. The switch in emphasis from economic development to military development which began in the third year of the Plan was also the subject of criticism, especially in view of the limited time frame originally allowed for the Plan. A staff member of the Senate Appropriations Committee's Special Subcommittee on Foreign Economic Cooperation believed that the original intent of the Plan could not be accomplished under these conditions.³³

The tactics employed to achieve Plan objectives were often questioned as well. "Much of our effort in France has been contradictory", reported the Committee staffer. "On the one hand we have been working toward the abolition of trade barriers between European countries and on the other we have been fostering, or rebuilding, uneconomic industries which cannot survive unhampered international competition."³⁴ Another issue is the proportion of funding which went to the public rather than private sector. One contemporary writer noted that public investments from the Italian counterpart fund obtained twice the amount of assistance as did the private sector in that country. Another analyst has argued that the ECA promoted government intervention in the economy.³⁵ In the 1950 authorization hearings, U.S. businessmen urged that assistance be provided directly to foreign business rather than through European governments. Only in this way, they said, could free enterprise be promoted in Europe.³⁶

From its inception, Members of Congress voiced fears that the ERP would have a negative effect on U.S. business. Some noted that the effort to close the trade gap by encouraging Europeans to export and limit their imports would diminish U.S. exports to the region. Amendments, most defeated, were offered to ERP legislation to insure that certain segments of the private sector would benefit from Plan aid. That strengthening Europe economically meant increased competition for U.S. business also was not lost on legislators. The ECA, for example, helped Europeans rebuild their merchant marine fleets and, by the end of 1949, had authorized over \$167 million in European steel mill projects, most using the more advanced continuous rolling mill process that had previously been little used in Europe. As the congressional "watchdog" committee staff noted, "The ECA program involves economic sacrifice either in direct expenditure of Federal funds or in readjustments of agriculture and industry to allow for foreign competition."³⁷ In the end, the United States seemed to be willing to make both sacrifices.

³³ U.S. Senate. Committee on Appropriations. *Conditions in Europe in the Spring of 1951*. p. 2.

³⁴ *Conditions in Europe in the Spring of 1951*. p. 3.

³⁵ U.S. Senate. Committee on Appropriations. *Conditions in Europe in the Spring of 1951*. p. 3-4. Tyler Cowan, *The Marshall Plan: Myths and Realities*. p. 66-68.

³⁶ Opie and Brown, p. 172.

³⁷ Joint Committee on Foreign Economic Cooperation, *Shipping Problems in the ECA Program, 1949*, p. 12; and *An Analysis of the ECA Program, 1950*, p. 4-5, 16-17.

Lessons of the Marshall Plan

The Marshall Plan was viewed by Congress, as well as others, as a “new and far-reaching experiment in foreign relations.”³⁸ Although in many ways unique to the requirements of its time, analysts have attempted, over the years, to draw from it various lessons which might possibly be applied to present or future foreign aid initiatives. These lessons represent what observers believe were the primary strengths of the Plan.³⁹

- Despite growing national isolationism, polls showing little support for the Plan, a Congress dominated by budget cutters, and an election looming whose outlook was unfavorable to the President, the Administration decided it was the right thing to do and led a campaign — with national commissions set up and cabinet members travelling the country — to sell the Plan to the American people.
- Congress was included at the beginning to formulate the program. Because he faced a Congress controlled by the opposition party, Truman made the Plan a cooperative creation, which helped garner support and prevented it from becoming bogged down with private interest earmarks. Congress maintained its active role by conducting detailed hearings and studies on ERP implementation.
- The beneficiaries were required to put together the proposal. Because the Plan targeted changes in the nature of the European economic system, the United States was sensitive to European national sovereignty. European cooperation was critical to establishing an active commitment from participants on a wide range of delicate issues.
- The Plan had specific and limited goals — increased production, trade, and stability — and all resources were dedicated to meeting those goals. Furthermore, sufficient resources were provided for this purpose.

³⁸ Conference report on Foreign Assistance Act of 1948. April 1, 1948. H.Rept. 1655 on S. 2202. Discussion of sec. 124.

³⁹ Some articles which discuss lessons and replicability are: Theodore Geiger, “The Lessons of the Marshall Plan for Development Aid Today,” *European Community*, March 1967. William Pfaff, “Perils of Policy,” *Harper’s Magazine*, May 1987. Philip Gold, “The Marshall Plan ‘Miracle’ Looks Grand and Exceptional,” *Insight*, June 8, 1987. Lincoln Gordon, “Lessons from the Marshall Plan: Successes and Limits,” p. 53-58 in Stanley Hoffman and Charles Maier, *The Marshall Plan: A Retrospective*. 1984. Lord Franks, “Lessons of the Marshall Plan Experience,” p. 18-26 in OECD, *From Marshall Plan to Global Interdependence*. 1978. Wojciech Kostrzewa, Peter Nunnenkamp, and Holger Schmeiding, *A Marshall Plan for Middle and Eastern Europe?*, Kiel Institute of World Economics. Working Paper No. 403, December 1989. James M. Silberman and Charles Weiss, Jr. *Restructuring for Productivity: The Technical Assistance Program of the Marshall Plan as a Precedent for the Former Soviet Union*, Global Technology Management, Inc., November 1992. Charles Weiss, Jr., *The Marshall Plan: Lessons for U.S. Assistance to Central and Eastern Europe and the Former Soviet Union*, Atlantic Council, December 1995.

- In the main, the Plan was not a humanitarian relief program. It was designed specifically to bring about the absolute economic recovery of Europe and avoid the repeated need for relief programs that had characterized U.S. assistance to Europe since the War.
- The countries to be assisted, for the most part, had the capacity to recover; they, in fact, were recovering, not developing from scratch. The human and natural resources necessary for economic growth were largely available; the chief thing missing was capital.
- Aid alone was insufficient to assist Europe economically. A report in October 1949 by the ECA and Department of Commerce found that the United States should purchase as much as \$2 billion annually in additional goods if Europe was to balance its trade by the close of the recovery program.
- Parochial congressional tendencies to put restrictions on the program on behalf of U.S. business were kept under control for the good of the program. American businessmen, for example, were not happy that the ECA insisted Europeans purchase what was available first in Europe using soft currency before turning to the United States.
- The Marshall Plan fully developed the use of counterpart funds that gave additional leverage to U.S. aid by requiring recipients to deposit local currency funds equal to the dollar assistance in an account for use on projects agreed to by both U.S. and recipient country representatives. This method continues to be used in present day Agency for International Development programs.⁴⁰
- Technical assistance, including exchanges, while inexpensive relative to capital block grants, may have a significant impact on economic growth. Under the Marshall Plan, technical assistance helped draw attention to the management and labor factors hindering productivity. It demonstrated American know-how and helped develop in Europe a positive feeling regarding America. Both technical assistance and exchanges compose a large portion of today's foreign assistance program.
- The foreign policy value of foreign assistance cannot be adequately measured in terms of short-term consequences. The Marshall Plan continues to have an impact: in NATO, the OECD, the European Community, the German Marshall Fund, in European bilateral aid donor programs, and in the stability and prosperity of modern Europe, all America's chief allies.⁴¹

⁴⁰ On a much smaller scale than the counterpart funds, the Plan leveraged private sector investment in recipient countries through the use of U.S. government guaranties. It also encouraged U.S. individual and charitable organization participation by continuing the earlier relief effort practice of subsidizing transport of private American donations.

⁴¹ One Plan activity actually remains in operation. Germany and Austria maintain revolving European Recovery Program Funds, originally repaid Plan money, which dispense loans to
(continued...)

Is It Replicable? Although many disparate elements of Marshall Plan assistance speak to the present, it is questionable whether the program in the main could be replicated in a meaningful way. The problems faced now by most other parts of the world are so vastly different and more complex than those encountered by Western Europe in the period 1948-1952 that the solution posed for one is not entirely applicable to the other.

Some aspects of the Marshall Plan are more replicable than others. The Plan was chiefly characterized by its offering of dollar assistance targeted at productivity, financial stability, and increased trade. This, however, is the aim today of only a portion of U.S. economic assistance to the developing countries, much of which goes for humanitarian relief or political security purposes. Surely developing and former communist countries would benefit by receiving large scale aid if it eliminated the necessity of going even deeper into debt to private or public sources. Such grant aid could make radical policy reforms politically easier to adopt. However, many developing countries may not possess the human, industrial, or democratic base to make effective use of such aid and may need long term development-oriented aid, not a short term infusion of capital. Some suggest that, in many cases, a rapid infusion of large scale assistance would lead only to corruption and abuse of aid funds.

Another key feature of the Plan was its joint nature. Both individually and collectively, European participants were collaborators with the United States in the Plan. It can be argued that the administrative systems of many developing countries remain inadequate to formulation and implementation of a significant program. Again long-term targeted interventions of technical assistance may be more appropriate at this stage.

There are, however, segments of the developing world that may be in a position to benefit from a Marshall Plan-type program. The advanced developing countries such as Thailand and Indonesia increasingly possess the appropriate industrial and human resources. In these cases, however, there is nothing in their current status to suggest they are at a crisis stage requiring extensive grant assistance rather than loans obtainable through the World Bank. In addition, for many such countries, private sector investment has supplanted the necessity for donor assistance.

More closely fitting the mold of an economically devastated post-war Western Europe are the nations of Central Europe and the former Soviet Union. Although it could be argued that they were never very well developed to start with, these countries possess many basic human and natural resources but are greatly lacking in investment capital and productive economic systems. To the extent that Marshall Plan grant aid was able to alleviate the political cost to European governments of difficult economic policy decisions, it is a useful model. But it should be remembered that a jump start infusion of grant assistance was not the only thing that characterized the Marshall Plan. The environmental burden left by its Communist

⁴¹ (...continued)

small business. "Germans in the East are still Getting Boost from Marshall Plan" in *Wall Street Journal*, January 25, 1995.

regimes, uncertain access to foreign markets, the strains of nationality questions, the unknown potential for regional development, and a host of other issues make clear how the situation in Central Europe and the former Soviet Union is distinct from the post-war situation which provoked the Marshall Plan.

In the final analysis, however, even if there exist countries whose needs are similar in nature to what the Marshall Plan provided, the position of the United States has changed since the late 1940s. The roughly \$13.3 billion dollars provided by the United States to 16 nations over a period of less than four years equals an estimated \$88 billion in today's currency. That sum surpasses the amount of economic, food, and military assistance the United States provided to over 146 countries and numerous international development organizations and banks in the four year period 1993-96 (\$62 billion). In 1948, when the United States appropriated \$4 billion for the first year of the Marshall Plan, outlays for the entire federal budget equalled slightly less than \$30 billion. For the United States to be willing to expend 13% of its budget (that would be \$203 billion in FY1996) on any one program, Congress and the President would have to agree that the activity was a major national priority.

Nevertheless, in pondering the difficulties of new Marshall Plans, it is perhaps worth considering the views of the ECA Administrator, Paul Hoffman, who noted twenty years after Secretary Marshall's historic speech, that even though the Plan was "one of the most truly generous impulses that has ever motivated any nation anywhere at any time," the United States "derived enormous benefits from the bread it figuratively cast upon the international waters." In Hoffman's view:

Today, the United States, its former partners in the Marshall Plan and — in fact — all other advanced industrialized countries...are being offered an even bigger bargain: the chance to form an effective partnership for world-wide economic and social progress with the earth's hundred and more low-income nations. The potential profits in terms of expanded prosperity and a more secure peace could dwarf those won through the European Recovery Program. Yet the danger that this bargain will be rejected out of apathy, indifference, and discouragement over the relatively slow progress toward self-sufficiency made by the developing countries thus far is perhaps even greater than was the case with the Marshall Plan. For the whole broadscale effort of development assistance to the world's poorer nations — an effort that is generally, but I think quite misleadingly, called "foreign aid" — has never received the full support it merits and is now showing signs of further slippage in both popular and governmental backing. Under these circumstances, the study of the Marshall Plan's brief but brilliantly successful history is much more than an academic exercise.⁴²

⁴² Paul G. Hoffman, "Peace Building — Its Price and its Profits". *Foreign Service Journal*, June 1967. p. 19.

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