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The Marshall Plan seen from the United States, 1947 and 1987

It is universally agreed that the U.S. performance after World War I had not been distinguished. The failure of President Wilson to fashion the Versailles treaty along the lines of the Fourteen Points, the American rejection of the treaty and of the League of Nations, the country's insistance on collecting war debts from its allies, and the collapse of the world economy into deep and prolonged depression in the 1930s, with a breakdown of the world trade and payments mechanism, persuaded most Americans that a more farsighted approach was needed after World War II. Lend-lease eliminated the need for crushing war debts; reparations in kind out of capital equipment excess to a German peacetime economy substituted for reparations in money that had posed an obsurate transfer problem. The League of Nations was replaced by the United Nations with separate functions assigned to various agencies: Relief and Rehabilitation to UNRRA, reconstruction and development to the IBRD, trade practices and the maintenance of low tariffs to the International Trade Organization (ITO) which, however, aborted and gave way to the General Agreement on Tariffs and Trade (GATT).

A financial agency was created to supervise exchance rates on the one hand, and to fund short-term imbalances on the other (the IMF). The war ended before this panoply of agencies could be put into place, so that the United States increased the capital of the Export-Import Bank by $3 billions, one billion of which was set aside for a loan to the Soviet Union, never made. Military relief for liberated areas was undertaken by Allied armies at Allied government expense, and relief for enemy civilians went on another budget, called in the United States, Government and Relief in Occupied Areas, or GAROIA, intended to be minimal but sufficient, initially, to prevent such disease and unrest as might endanger the occupation forces.

In the debate in the United States over the Bretton woods institutions, John Williams argued that rather than restore all currencies to equilibrium in a single program, it was preferable to attack them one at a time, starting with the »key currencies«, an expression he used in 1932 in the Preparatory Commission of the World Economic Conference of 1933, and which was derivative from Benjamin Strong's expression of »key countries«, used as early as 1922 a propos of the Genoa Monetary Conference. Strong was governor of the Federal Reserve Bank of New York up to the time of his death in 1928, and Williams was the Bank's economist (Clarke, 1967, pp. 40-41; Chandler, 1958, p. 278; Clarke, 1973, p. 15). Instead of choosing between the Bretton Woods and the key-currency approach, the Uni-

a paper given at a seminar on Danish Reconstruction Policy and the Marshall Plan June 29, 1987.

ted States did both. The key currency was sterling and the approach consisted of the British loan, entered into in July 1946. It passed the Senate by only one vote, too small to do the work, especially after the removal of U.S. price controls in June of that year, but too big to win easy favor. The approach failed as indicated by the fact that the British quickly ran out of dollars. Convertibility of sterling, called for by the terms of the loan a year later, lasted only six weeks.

The scale of postwar reconstruction needs was underestimated in other respects. UNRRA assistance was renewed in a second tranche, voted by the Council in 1945, and then terminated, although followed for certain countries by post-UNRRA relief. When the Bretton Woods organizations opened for business in the spring of 1946, they were immediately raided for emergency advances to Holland and France because of the exigent needs of those countries for dollars, and despite the fact that the advances did not conform to the purposes for which the institutions had been established. With the failure of the British loan and the emergency use of the Bank and Fund for relief, it seemed clear that the comprehensive plan for post war reconstruction of the world economy was not working.

Britain was the weak spot. In the negotiations for the second tranche of UNRRA, she insisted as a condition of agreement that Italy and Austria be taken off military relief, where the British share was 50 percent, and switched to UNRRA where Britain paid only 12 percent (and the United States 72% for the first tranche, 78% for the second after Canada bowed out to make its aid available exclusively for Britain). In December 1946, the United Kingdom appealed to the United States for a financial merging of the two zones of occupation in Germany, reducing the British contribution greatly because the Ruhr was more costly to feed than the agricultural American zone. Next, in March 1947, the British announced that they could no longer provide assistance to Greece, which needed it desperately to counter Communist-inspired revolt. Turkey seemed to be threatened by the Soviet Union. In March 1947 President Truman announced a plan for military and economic relief for Greece and Turkey.

Reconstruction efforts in the winter of 1946-47 were particularly hampered by the weather. In the depth of winter, freezing disrupted transport, especially of the movement of coal from mines to factories and cities, and frost was followed by flooding which destroyed a large portion of winter-wheat acreage and delayed planting of spring wheat. These conditions were followed by drought in the summer of 1947. Under shortage conditions, food stooks tend to be used inordinately in late spring, before the new harvest, and in the spring of 1947 this seem to be leading to breakdown of the normal functioning of markets. Monetary disorder contributed to the difficulties. Farmers withheld food from the cities. In such a country as Germany, city-dwellers would pack personal possessions into rucksacks and venture into the countryside to trade them for meager supplies of potatoes and eggs.

This incipient breakdown of the exchange economy impressed especially William L. Clayton, the Undersecretary of State for Economic Affairs, who heard it discussed in April 1947 at the opening meeting of the United Nations Economic Commission for Europe. Secretary of State George C. Marshall's frustrations were political. At the Council of Foreign Ministers that met in Moscow for seven weeks from early March to late April, he, along with Foreign Ministers Ernest Bevin of the United Kingdom and Georges Bidault of France, had been unable to persuade Premier Stalin and Foreign Minister Molotov to move forward in arrangements for governing Germany. At Potsdam it had been agreed that the four zones of occupation of Germany would be treated as a single economic unit, and that the first charge on exports from any one zone would be the cost of imports into Germany as a whole. This meant that the Soviet Union could not take agricultural products, raw materials and industrial output out of its zone of occupation as reparations while the United Kingdom and the United States had to feed their zones of occupation, and provide their industry with materials. In the 1920s, United States bond buyers and banks had loaned Germany the money that went to pay reparations and were left holding the bag in the default and Standstill Agreements of 1931. Insistance on treating Germany as a single economic unity and on the first. charge principle at Potsdam, after the unavoidable settlement of reparations out of capital equipment on a zonal basis, was based on the unsuccessful resolve to avoid a repetition of the 1920s experience.

Facing breakdown on both the economic and the political front, Secretary Marshall called for a new program to replace the piecemeal, ad hoc and emergency measures with a comprehensive and consistent approach. The speech of June 5 was a synthesis of economic analysis from Undersecretary Clayton, and a call for political initiative on the part of Europe from the pen of the chairman of the Policy Planning Staff, George Kennan. The request to the Europeans that they prepare a program with friendly assistance from the United States was, of course, not a blank check. When the first approximation produced a call for $30 billions over four years, Messers Clayton and Lewis Douglas, the U.S. ambassador to the United Kingdom, had no hesitation in urging that it be out to something nearer $16 billion.

There was considerable ambiguity as to exactly what the Department of State and indeed the United States government meant in Secretary Marshall's speech, and much of that ambiguity remains to this day. Was the fact that the invitation was open to the Soviet Union a genuine invitation? Some historians who believe the invitation was extended to the Soviet Union knowing it would be rejected misread the character of Secretary Marshall, I believe. He was incapable of craftiness or duplicity. Was the call for a program an invitation to Europe to prepare a four year plan along the lines of Soviet imperative or French indicative planning, or rather for concerted efforts to return to competitive free market economies, as Messrs. Clayton and Douglas of the United States had in mind? Did the United States mean by »cooperation« simply vetting and approval of the various national programs by the other participants, or something far more ambitious? In the preamble to the Economic Recovery Act of 1948 that legislated the program, the Congress extended the timid purposes set out by the Departement of State, virtually to call for the formation of a political union in Europe, a sentiment echoed later in a speech on October 31, 1949, by the U.S. Economic Cooperation Administrator, Paul Hoffman. Perhaps it would be safe to say that the country had no clear definitive long-range purpose in mind in enacting the program. It wanted a completion of economic reconstruction to avoid irreversible economic and political breakdown, and to build a strong Europe as a third force between the Soviet Union and the United States. Beyond the relatively short term, however, various individuals in the United States and Europe (like Jean Monnet) might have their own agenda, but the United States as a whole did not look that far ahead.

A recent interpretation of postwar U.S. foreign policy ascribes its successes, including the Marshall Plan, to a public-inspited group of men in government, largely from the Eastern establishment, educated at select schools like Groton and St. Pauls, and universities like Harvard, Yale and Princeton. The Authors focus on Dean Acheson, Charles Bohlen, Averill Harriman, George Kennan, Robert Lovett and John McCloy, whom they call »The Wise Men«, giving the book the subtitle: »Six Friends and the World They Made«. (Isaacson and Thomas, 1986). The interpretation strikes me as less than generous to the southern tradition of internationalism represented by Secretary Marshall himself and Undersecretary Clayton, to say nothing of the capacity for statesmanship of senator Arthur Vandenberg of Michigan who moved from an isolationist background to accept a mandate for United States world responsibility.

As is perhaps inevitable, a number of historians are beginning to find alternative interpretations to the foregoing orthodox account, and sometimes ulterior motives. On the left, the Marshall Plan is regarded as a calculated attempt of American capitalism to defeat socialism in Europe, both to protect American investments there and to procent the contagion from spreeding across the Atlantic (Kolko and Kolko, 1972). A leading mainstream historian now doubts that the political stability of France and Italy was sufficiently at risk in 1947 to have warranted a major and expensive effort on the part of the United States (Maier, 1981). One participant in the State Departement's planning of the European Recovery Program and the ECA's administration of it, since persuaded of the power of restrictive monetary policies, has lately wondered whether the Marshall Plan assistance was really needed, or whether European recovery could not have been achieved by proper monetary policies and market forces, including borrowing on commercial terms in the New York capital market (Cleveland, 1984). In this, he is echoing a minority view expressed at the time of the enactment of the legislation by economists such as Gottfried Haberler, Roy Harrod, Friederich Lutz, Frank Graham, by the journalist-economist Henry Hazlitt, and the isolationist Senator from Minnesota, Joseph Ball, who, as a group, more or less thought that European recovery could have been achieved and its balance of payments cured by balancing budgets, restricting the money supply, and depreciating the several currencies. And an economic historian has gone over the economic conditions in Europe at the end of the war and concluded that 1947 was not the disaster that people thought at the time. In his interpretation the financial crisis represented by the acute dollar shortage was the fault of the European countries themselves undertaking overly ambitious investment programs (Milward, 1984, chap. 1).

On this last point, it is true that the success of the Marshall Plan in its first year was exaggerated by the transition from a bad harvest in 1947 to be a normal one i 1948. It was further helped in Germany by the monetary reform of June 1948 that brought a real stimulus to output but also some production and stocks out of the closet into the open. But I wonder whether you Danish economists think that your monetary conversion of July 1945 by itself went far to achieve recovery. It is doubtless true, as Metzler said, that occupied countries such as Denmark and Belgium were forced to undertake monetary conversion early to mop up the accumulations of the German forces and collaborationist profiteers before they could be dissipated (Metzler, 1946 (1979). The West German economy got a bigger stimulus from monetary reform by having it late when output had made a start under the conditions of suppressed inflation.

The Maier counterfactual seems to be that if there had been no Marshall aid the French and Italian governments would not have been captured irreversibly by Communist parties, and presumably Milward believes that absent Marshall assistance, European governments would have cut back on investment and their economies would have recovered and corrected their balances of payments at a more leisurely pace. This of course is jobbing backwards, and makes inadequate allowance for perceptions at the time. Moreover, the policy issue is not what would have happened if there had been no Marshall Plan but whether a prudent U.S. government ad a substantial stake in the rapid recovery of the world economy, what the betting odds were in favor of breakdown, and the extent to which those odds could be altered in the direction of recovery by a program of European cooperation bought with and assisted by a substantial infusion of aid.

The countries that gained particularly from freer trade and convertibility in Europe were Belgium and Denmark. It is remarkable that the Belgians were urging convertibility of trading surpluses in Europe into dollars as a specific form of aid as early as July and August 1947 (Department of State, 1947 (1972), pp. 341-2) For Denmark, cooperation meant more than convertibility of net export earnings within Europe. Part of the Danish problem was the low prices that Britain insisted on paying for its bulk purchases under long-term contracts on the argument, hardly relevant in a world of commodity shortages, that bulk purchases provided British suppliers with assured outlets. So low wear these prices in September 1947 that Denmark halted deliveries to Britain and did not resume until prices were raised in 1948 (Jones, 1970, p. 190). Bulk buying at prices fixed for considerable periods of time give stability when they anticipate the average price over the period, and renewals take place at prices not too far from past and future averages. It can happen, however, that contracts expire and need to be renewed near the top (or bottom) of a cyclical market swing. In such cases, it is likely that the new price is likely to be high (low) reletive to the average in the coming period, and leave the buyer (seller) unhappy throughout the contract. In the event, the victory of the conservative Party in Britain in 1951 put an end to the British bulk-buying experiment and removed a bone of contention that European cooperation had been unable to ameliorate.

There are several aspects of the Marshall Plan of which an American economist cannot feel proud:

1) the pretense that we could estimate balance-of-payments deficits for 17 countries, for 4½ years into the future, while specifying production, consumption and trade, country-by-country, in 26 commodities and commodity groups;

2) the view of the problem as one of providing commodities in specified amounts to meet an exogenously determined set of deficits with the deficit determining the aid rather than vice-versa;

3) shipping flour instead of grain as food aid to appease the milling interests in the United States and to retain the hulls as feed for American animals rather than having that go til Europe too;

4) the Congressional cave-in to shipping interests which were accorded the right to carry 50 percent of all Marshall Plan aid in American bottoms, as a first approximation, and second, to carry 50 percent of all assistance country-by-country, thus diverting to the U.S. industry the carriage that Norway, Britain and other countries with shipping might have carried for other recipients without;

5) the counterpart fund provisions, first retaining 5 percent of the funds sold by recipient governments in their markets for use by the United States, making the plan to that extent not aid but a *sale* of U.S. commodities against local currency; and secondly attempting to use counterpart funds as a handle for the United States to have a hand in local monetary and fiscal policy. The device may have been helpful in a few cases where finance ministers wanted to adopt »sound« policies and needed help against freer-spending other members of their cabinets. It was on the whole, excessively intrusive.

6) One can view today with some irony the productivity teams that business and labor sent to european countries to help them lower costs. Today the shoe is on the other foot and Japanese and European manufacturing personnel have productivity lessons to impart to the United States.

In the end, moreover, the Truman administration with Marshall as secretary of state was successful in getting the program enacted less because of the sense of the American people of responsibility for world economic stability than because of the Cold War. The Soviet occupation of Prague in March 1948 and the tragic death of Jan Masaryk assured the passage of the Economic Cooperation Act of 1948. It is not self-evident that the legislation would have been passed without crippling amendment and deep cuts in its absence.

Having said so much by way of criticism of my profession and my country, I hope I may be pardoned for concluding that on the whole the United States in 1947 measured up to the responsibility thrust upon it. It is perhaps too much to say with the late Robert Marjolin, French executive secretary of the OEEC that the Marshall Plan was.

»*the most dazzling (éclatant) political and economic success of the western world since 1914* and represented an extraordinary manifestation of human intelligence and its capacity for creativity« (Marjolin, 1976, p. 177 - my translation, his italics). It was nonetheless, I think, an exercise in which the participants, 40 years later, may justifiably take som pride.

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