COUNTERPART FUNDS
EUROPE'S CONTRIBUTION
TO THE MARSHALL PLAN

ECONOMIC COOPERATION ADMINISTRATION
WASHINGTON 25, D. C.
Because of numerous requests for a non-technical explanation of the European Recovery Program "Counterpart Funds," and pursuant to the instructions of members of the Public Advisory Board of the Economic Cooperation Administration, these questions and answers have been prepared.
THE COUNTERPART FUNDS

The establishment of local currency counterpart funds in the participating countries is one of the methods of securing the best economic use of Marshall Plan resources. Here is the way counterpart funds come into being:

The basis for such funds is the dollar grants the United States makes to countries participating in the Marshall Plan. Each such country which receives assistance in the form of grants from the Economic Cooperation Administration has agreed to deposit its own local currency in a special account in an amount commensurate with the dollar cost of the grant aid. These special deposits, called "counterpart funds," are earmarked for important recovery tasks. Counterpart funds have been set up by Austria, Belgium, Denmark, France, German Federal Republic, Greece, Iceland, Ireland, Italy, Luxembourg, The Netherlands, Norway, Portugal, the Free Territory of Trieste, Turkey and the United Kingdom. Switzerland has received no aid. Sweden has received no dollar grants. Consequently, neither has established such a counterpart fund.

The governments reimburse themselves for the money they deposit in the counterpart funds by "selling" the ECA dollar credits to those of their citizens who require dollars with which to import goods from dollar countries. The importer, either a government agency or a private business firm, applies for use of ECA dollars to make a particular purchase that will contribute to the recovery of the country. If the importer's application is approved, he buys the dollar credits with the currency of his country, e.g. francs, lire or pounds. In this way it can be said that the counterpart funds are in effect built by payments from the consumers of Marshall Plan goods.

Counterpart funds are owned by the governments of the participating countries, but they can be spent only for purposes agreed to by the ECA. These purposes vary from country to country. In some countries it has been found necessary to use counterpart funds to cancel part of the inflated money supply through retirement of the obligations of the state toward the central bank in an effort to fight
inflation. In other countries the funds have been used to finance the expansion of productive facilities, e.g., the building or repairing of power plants, railroads, factories, mines, harbors, and on projects for increasing agricultural productivity. In addition to speeding the recovery of Western Europe, the counterpart funds also serve to bring home to the people of Europe the tangible extent of the help coming to them from the United States.

Take the French farmer who sees a new road being built to enable him to bring his produce to market. He recognizes such work as helpful to France because it is helpful to him. And when an Italian farmer is able to plant a wheat crop on hitherto un tillable marshland that has been drained, he realizes the value of such work. Both projects—road building and land improvement—are examples of the use to which the counterpart funds are being put. Every effort is made to explain to the people that the project is a result of the cooperative recovery effort of Western Europe aided by the United States. Thus, the counterpart funds are an important means of illustrating the Marshall Plan and America’s part in it.

**QUESTIONS and ANSWERS**

**Q.** So much for the general explanation. But how does counterpart affect the individual European? As an illustration, suppose a French farmer wants to buy an American tractor and has the francs to pay for it. Why doesn’t he, or his dealer, buy it direct?

**A.** Because the American manufacturer will not accept francs; he can’t use them. American producers will sell only for dollars. Neither the farmer nor the dealer has the American dollars with which to pay the American manufacturer for the needed tractor. His government, too, is short of dollars. This lack of dollars is one of the main symptoms of Western Europe’s economic ills.
Q. What is the first step to be taken by the farmer in buying the American tractor?

A. He first applies to his government for authorization to import a tractor. Before his government's approval is given, the farmer's need for the tractor and its potential contribution to the over-all recovery program are carefully considered.

Q. What happens after the farmer's request is approved?

A. He orders the tractor through his dealer and pays the dealer for it in francs. The dealer deposits those francs with his government through his bank. The government then permits the purchase of the tractor with ECA dollars. Its cost in the United States, plus cost of transportation to France, is a part of the dollar aid made available to the French government by the ECA. The farmer gets the tractor, the French government gets the francs, and the American exporter gets the ECA dollars.

Q. The Economic Cooperation Administration acts, in a way, as a banker?

A. Yes, the ECA provides dollar credits to the Western European nations for recovery purposes. As purchases are made against those credits, the Economic Cooperation Administration pays out the dollars to the American producers; and the Marshall Plan country concerned makes an equivalent deposit in its own currency in its counterpart fund.
Q. Do the same rules apply to all requests for ECA-financed goods and services?

A. Yes. Take a British textile mill in need of machinery. Or, the Italian government, itself, in need of postoffice equipment. The textile mill, of course, pays for the machinery; in the same manner the Italian budget pays for the postoffice equipment. In each case, an amount equivalent to the dollars paid out by ECA for the goods is deposited in the counterpart fund of the participating country.

Q. Can any citizen of the Marshall Plan country buy goods or equipment under ECA financing?

A. Dollars are definitely limited. There is a demand for the financing of goods of all kinds. Only the most urgent needs can be met.

Q. What do the European governments do with their counterpart funds? First of all, where are these funds kept?

A. The counterpart funds are kept in special accounts which the grant-receiving governments set up. When they receive a dollar grant from the ECA they pay an equivalent amount in their own currency into the special accounts. They then reimburse themselves for their outlay by “selling” the ECA dollar credits in the way described above.

Q. In other words, the counterpart fund is a matching or “twin” fund?

A. Yes.
Q. Does the Marshall Plan country have the use of all of its counterpart fund?

A. No. The counterpart fund is divided into two parts. Ninety-five per cent is utilized within the Marshall Plan country for recovery purposes and the remaining five per cent is allocated to the United States for use in meeting ECA administrative expenses payable in local currencies in the Marshall Plan country and in purchasing or developing the production of scarce materials needed by the United States. Funds not required by the ECA are transferred to the United States Treasury for use by other United States Government agencies.

Q. What use do the Marshall Plan countries make of these counterpart funds?

A. The Economic Cooperation Act says that the funds shall be used “for purposes of internal monetary and financial stabilization, for the stimulation of productive activity and the exploration for and development of new sources of wealth.”

Q. Specifically how are the funds used?

A. For example, French counterpart funds have been used for a variety of purposes. A series of dams are being built on the Rhine, the Rhone, and the Dordogne, as well as along the small, rapid rivers of the Pyrenees and the Alps, to provide electric energy for French industry and homes. One of these, the Genissiat dam in the Rhone valley, will be the largest in Western Europe. To complete it, more than two billion francs have been made available from the French counterpart fund. In other words,
the French recovery program is providing the French farmer with electricity for his farm, in addition to making it possible for him to buy the American tractor.

Q. Does the ECA have any voice in the use of 95 per cent of the fund in the participating country?

A. Yes, the ECA must pass upon the release of counterpart funds for purposes specifically designed to promote European economic recovery.

Q. What are other examples of the use of counterpart funds?

A. In Greece, counterpart funds have been used to increase agricultural production; to irrigate and drain land, repair railroad trackage, build roads. The Corinth Canal, blown up by the Germans, was opened to commerce. Counterpart funds helped to finance reconstruction of the ports of Piraeus, Salonika and Volos. In Italy, counterpart funds have been used for reforestation, land reclamation, road building, dock construction, workers' housing; and to improve communication facilities. The funds have been put to similar uses in other countries. In fact, every Marshall Plan country possessing a counterpart fund is making constructive, long-range use of this money in developing peacetime economy, as intended by the United States Congress. Plans for the use of counterpart funds are first made by the Marshall Plan country itself in consultation with the ECA's special mission in that country. The recommendations of the missions are reviewed by the Office of the United States Special Representative in Europe (the ECA's overseas headquarters) and by the ECA in Washington.
The latter indicates its agreement but only after consultation on questions of policy with the United States National Advisory Council on International Monetary and Financial problems and the ECA Public Advisory Board.

Q. Are counterpart funds also used to counteract inflation?

A. Yes. They have been so used in several countries where inflation has been a danger. Norway is a good example. One of the major obstacles to recovery in that country has been the strong inflationary pressures created during the war. The Nazis forced the Oslo government to make available large amounts of money to finance expenditures of the German occupation forces. In order to achieve a more reasonable balance between the money supply, thus increased, and the flow of goods, ECA and the Norwegian government agreed, for the time being, to take the money in the counterpart fund, out of circulation.

Q. Does the United States itself get any of the counterpart funds?

A. As previously stated five per cent of each counterpart fund is earmarked for the use of the United States Government in the country concerned.

Q. In summing up, how would you describe the advantages accruing to the United States from the establishment of counterpart funds?

A. It is our purpose to get Western Europe on its feet as quickly as possible and at the lowest cost to the American taxpayer. The counterpart funds are a
potent aid in accomplishing this purpose. Through the counterpart funds the Europeans match every dollar of American grants with a dollar-equivalent of their own currency that can be applied to the joint recovery undertaking. In that sense the American dollar does double duty. It is to our interest that Europeans get tangible evidence of the help that we are giving. Many of the things we ship them—wheat, oil, machinery, for example—are instrumental in spurring European production, but are not always visible to the visitor, whereas public works projects undertaken with counterpart funds are visible evidences of the cooperative recovery program made possible by the Marshall Plan. Lastly, the counterpart funds are used to pay the administrative cost of running the program overseas, and to procure some of the critical materials we need to stockpile for America's defense.