

# I

## Conceptualizing the Marshall Plan

**W**ar-torn western Europe experienced an unexpectedly rapid recovery right after World War II. By the end of 1945, industrial production had already bounced back to 60% of prewar output, with France, Belgium, and the Netherlands reaching 90% levels the following spring. Economic revival in Great Britain and Norway pushed production to 110–115%. In France and Italy Gross Domestic Product (GDP) rose more than 50%. Then, in early 1947, what had seemed strong proved fragile and unsustainable. A fundamentally unhealthy system relapsed. In the estimation of one historian, economic conditions on the subcontinent turned “desperate” at midyear.

Nemesis, goddess of retributive justice, made her delayed appearance two years after mass killing stopped. For many, her arrival, principally in the modern guise of malfunctioning market mechanisms, now made peace almost as bad as the war that had cursed millions of people since 1939. Six years of World War II battered and staggered Europe economically. To its survivors, the conflict bequeathed acute devastation, dislocations, imbalances, and shortages. Besides war’s widespread human and material destruction, accompanied by scarcities of fuel, housing, and food, huge dollar shortages resulted from too few exports and too many imports from the United States, a “universal emporium” at the time. A massive balance of payments gap opened up, growing worse with time. A dearth of foreign exchange put grains, raw materials, and machinery from abroad, all crucial to peacetime recuperation, out of reach of the needy. The sole surplus seemed to be rubble.

Europe’s structural damage was exacerbated by both the fierce winter of 1946–47 and what soon followed, crop failures and the century’s worst harvest. Abruptly, its production of milk, meat, and grains fell 20% to 30%. In the frigid months of 1947, railroads could not deliver coal, then an indispensable source of heat and energy, while Germany’s coal mines in the Ruhr provided but a small fraction of their potential. Symptomatic of the privation and suffering afflicting Europe’s cities, Londoners tightened their belts on rationed bread and shivered without heat from 8 A.M. until 4 P.M. The French government sliced the daily bread ration of Parisians in half, to just 200 grams. Whatever their ordeal, they were still better off than Berliners living on a shoestring, homeless in bombed-out ruins. An exception to the



*Vienna food protest, May 14, 1947.*

general postwar upswing that stalled, Germany suffered greatly as GDP plummeted 70% between 1945 and 1947.

War's aftereffects sapped morale and bred despair as well. Underfed, unemployed, and unpaid workers meant that by late spring hope had slackened along with industrial and agricultural production. But there was still one other weakness in postwar Europe's economic system. Unlike millions of Europeans, Nemesis labored overtime. An inflationary fever spiked, depreciating incomes, currencies, and savings. In places like Germany and Austria, a sharp rise in prices, caused by an unlimited production of occupation currency by the Soviets, fostered hoarding, black markets, and labor unrest. George W. Ball, then an American lawyer working in Paris, remembered those days as "a nervous time, with the economies of the European countries declining alarmingly." One Englishman likened the crisis to "an economic Dunkirk," while a leading French economist thought that Europe in 1947 was "on the brink of the precipice."<sup>1</sup>

Rising prices and declining production fueled not only widespread poverty and pessimism but also its frequent companion, political extremism. The steady growth and mounting influence of indigenous Communist parties, especially in France, Italy, and Greece, mirrored popular disaffection with unregulated capitalism and visions of a better Europe. Indeed, a Communist-led insurgency, supported by neighboring Communist govern-

ments in the Balkans, had already convulsed Greece in a civil war. Another astute Englishman, the historian Arnold Toynbee, had been proven wrong. Given its hazardous economic, political, and psychological conditions, 1947 had replaced 1931 as the twentieth century's real *annus terribilis*. They were, moreover, the dire circumstances that provoked and prodded an unprecedented American action, George C. Marshall's countervision.

### **The (Inter)twin(ed) Goals**

That the European economy might, as a consequence of enormous maladies and pressures, suffer a wholesale collapse like the 1930s seemed probable at the time to concerned Americans. Hard times, economically, and ominous trends, politically, convinced official Washington by June 1947 that an American response was imperative. With its conceptual origins and initial nurture in the State Department, the resulting Marshall Plan, it should be underscored, emerged primarily from powerful impressions and unsettling forebodings rather than hard, irrefutable evidence of an imminent western European breakdown. Upon Secretary of State Marshall's insistence, there was to be no paralysis by analysis. Perfect proof was beyond reach, and the situation was too risky to await its demonstration anyway. Who could calculate how much misery was enough?

The Marshall Plan originated, in other words, as a qualitative judgment in search of quantitative proof. Subsequently, historians and economists on both sides of the Atlantic, armed with masses of data, as well as counterfactual and econometric analyses, have taken up the question, not of contemporary perceptions, but of whether the Marshall Plan was economically necessary after all. Their quest for understanding has been an exemplary scholarly inquiry, divorced from the cynicism and denigration implied in Benjamin Disraeli's "lies, damn lies, and statistics." The historical guild sitting in judgment has yet to render its final verdict.<sup>2</sup>

Unlike today's historians and economists, Secretary of State George C. Marshall's principal advisers were of one mind about the absolute necessity of doing something. Various first-hand accounts, perhaps the most influential being those of William D. Clayton, Under Secretary of State for Economic Affairs, raised alarm and frightened policymakers. In response, the Marshall Plan's broad outlines were roughly sketched during the fifteen weeks between February 21 and June 5, 1947, the date of Marshall's famous Harvard Address. Under Secretary of State Dean Acheson's "Delta Council" speech, pulling together ideas from many sources, first identified food and fuel as the precarious determinants of Europe's economic well-being. In also emphasizing ample reserves of foreign exchange as critical to the resumption of a flourishing export-import trade, Acheson echoed many in his department who regarded its shortage as the "decisive limiting factor"



*Recently returned from visits to Paris and Berlin and the Moscow Conference of Foreign Ministers, where he endured forty-five days of meetings, Marshall spoke to a national radio audience on April 28, 1947, regarding the conference's failures on Germany and its relation to Europe's economy. He blamed Soviet intransigence for the conference's failure to make progress on German issues. He observed: "The recovery of Europe has been far slower than had been expected. Disintegrating forces are becoming evident. The patient is sinking while the doctors deliberate. So I believe that action cannot await compromise through exhaustion."*



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retarding Europe's economic recovery. At the outset of the Marshall Plan, grains, coal, oil, cotton, and dollar exchange all achieved urgency as bottlenecks to be targeted and widened.

Later, in his Harvard Commencement Speech to which George F. Kennan, head of the State Department's Policy Planning Staff, and Clayton contributed substantially, Secretary Marshall highlighted the vital links between agriculture and industry, between farms and cities, in Europe's return to economic health. One of Marshall's pressing priorities, rivaled only by, or perhaps even exceeded by, his concern for Europe's psychological state ("confidence in the economic future"), was the reestablishment of balanced economies on the continent. The dual objectives of elevated morale and balanced economies guided Marshall Planners in their work, too.

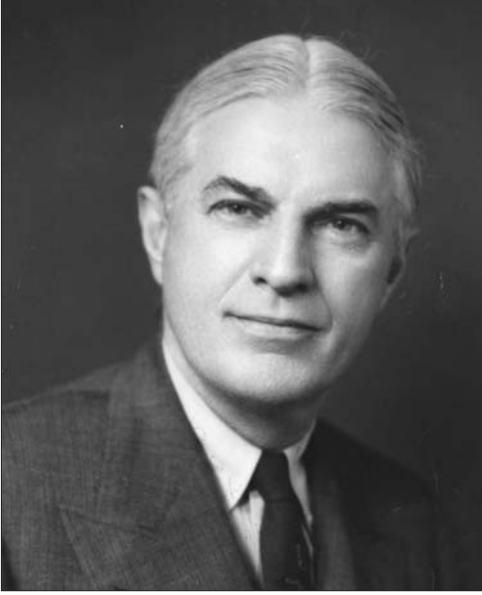
At the bedrock of George Marshall's thinking about aid to Europe were two articles of faith: a devout belief in "economic health" as prerequisite to "political stability" and a conviction that western Europe could achieve neither without both initiative and cooperation. Marshall rejected as unworkable a unilateral American solution to the perceived crisis in Europe. He foresaw no lasting improvements through a strictly bilateral approach either. Only within a regional, multinational framework—and in close partnership rather than through charity—could permanent recovery emerge. Recipients had to be centrally involved in planning for their own assistance. Though written by someone else, the opening sentence of the so-called "Harriman Report" captured the crux of his creed: "Only Europeans can save Europe." A realist, Marshall knew that trying to deliver Europe from itself was folly as well as harmful to his country's true interests. America's self-assigned role was to be what Paul G. Hoffman, Marshall Plan head as Administrator of the Economic Cooperation Administration (ECA), later described in words befitting a carmaker: "a catalytic agent and never the main driving force."<sup>3</sup> An agriculturalist might very well regard the nearly \$13,000,000,000 that the United States spent on the Marshall Plan as "seed money." Marshall, an amateur gardener, would have agreed.

Three months after "The Speech," sixteen European nations—encouraged by Ernest Bevin, British Foreign Minister, and his French counterpart, Georges Bidault—organized themselves as the Committee on European Economic Cooperation (CEECE), assembling in Paris under the leadership of Oxford don Oliver Franks. At first estimating their basic needs at \$29,000,000,000 in order to return to self-sufficiency in four years, their reply to Marshall's request for a blueprint was completed, after a false start, by late September. Paring down their dollar requirements in stages by \$12,000,000,000 while blending the vague with the explicit, their comprehensive report singled out for special attention bottlenecks in wheat, coal, steel, industrial equipment, and agricultural machinery, among other needed subsidies. It also provided what would be, for some, the eventual measures of a successful joint program.

In 1947, western European industrial production varied hugely among countries and industries. With wartime neutrals like Sweden and Switzerland in much better shape than former belligerents, the aggregate was just 70% of its prewar level. If by 1952 Europe surpassed 1938 levels of industrial and agricultural production by 30% and 15%, respectively, then none dare call a future Marshall Plan a failure. In addition, the Committee for European Economic Cooperation agreed to a host of reforms: expansion of foreign trade, elimination of trade barriers, reduction of inflation, and shrinkage of the dollar gap. In order to attain their targeted production figures, along with internal financial stability, Europeans promised in writing unprecedented collective action. Maximum self-help and maximum mutual aid would be the keys to a healthier continent. For the Englishman Franks, the Marshall Plan's "most remarkable feature" as it took shape was the absence of any bullying by the United States. At a time when America was "dominant" and Europe "dependent," Washington "did not assert its dominance. What it did was to urge the Europeans together." Great Power swagger was absent, along with *diktats*. Secretary Marshall and his close advisers had struck the proper note which Josef Stalin never played. From the foundation of mutual respect, the rest of the collaborative enterprise arose.<sup>4</sup>

On April 3, 1948, President Harry S. Truman signed into law the Foreign Assistance Act, which launched the Marshall Plan by creating the Economic Cooperation Administration. An independent government agency, the ECA would be run by an administrator, Paul Hoffman, responsible only to the President himself. It would function in an unusual triangular arrangement, with a headquarters in Washington, one in Paris under the supervision of W. Averell Harriman, and country missions in sixteen (ultimately, seventeen) European capitals. Duties were apportioned, with Hoffman attending to Congress and the American public while Harriman dealt with recipient nations. For the first fifteen months of its operation Congress provided \$5,300,000,000. All subsequent appropriations would be determined annually after a yearly review, and in gradually scaled-back amounts. A section of the Act merely rephrased the goals spelled out earlier in the CEEC's report, with Congress largely mandating what the Europeans had recommended. With his signature, President Truman broke fundamentally and irreversibly with America's isolationist past. A sense of national emergency had redefined traditional foreign policy.

While altruism comprised one motive, the commitment of the Marshall Planners to reconstruct western Europe using a European template was also impelled by minor and major anxieties. The minor worry was over the long-range domestic impact of the possible loss of America's traditional trading partners and their big market. After all, in 1947 the United States exported to Europe twice as much as it imported, providing an \$8,000,000,000 surplus and stimulus. Winning the peace was crucial, but sliding back into the economic stagnation of the 1930s was intolerable. "Our export market," the



Above left: *William D. Clayton, Under Secretary of State for Economic Affairs, 1946–47.* Above right: *George F. Kennan, Soviet expert and head of the State Department's Policy Planning Staff, 1947–49.*

Below: *Secretary of State George C. Marshall walks to the Harvard University postgraduation Alumni Ceremony to receive an honorary degree and to deliver a short speech, June 5, 1947.*



State Department's Ernest Gross reminded his colleagues, is in "an exposed and unsatisfactory position."<sup>5</sup>

The major unappetizing prospect that justified preemptive action was that serious market dislocations in western Europe might facilitate Soviet ambitions and Communist electoral victories. With his Marxist blinders in place, Josef Stalin was anticipating capitalism's imminent collapse. To nudge history along, and to promote the illusion of independent western European Communist parties, he decreed for a time that the faithful involve themselves in "popular fronts," as well as policies of moderation and reformism. The dread and specter of an ideological foe energized lifeless exchange rates, dry export figures, and bloodless trade deficits. American fears, probably justified, overrode the possibility that Communist governments in France and Italy might—in practice—be travesties of Leninism and Stalinism, given their respective cultures and customs. Apprehension had been growing ever since the end of the war. In October 1945 in France's elections for the National Assembly, the French Communist Party (PCF) received 26% of the vote and the highest percentage of seats. The following November Communists increased their electoral strength, getting 29% of the vote and electing numerous mayors and other local officials throughout the country. In 1946 and 1947 they were France's largest political party. In May 1947, the French government had five Communist ministers in its ruling coalition cabinet. The head of the Communist Party served as Deputy Premier, and the Minister of Defense was also a Communist. On the eve of Marshall's Harvard Speech, the 618-member Parliament included 182 Communists.

In Italy, Communists obtained a troubling 19% of the vote in the June 1946 general election for the Constituent Assembly. In the fall's municipal elections a disturbing swelling in Red popularity occurred, with more Communist gains in regional elections in Sicily the following spring. By 1947, the Italian Communist Party (PCI) was widely regarded as larger and more powerful than its French counterpart. Besides being the most formidable in all of western Europe, it seemed to be the boldest. In May 1947, Palmiro Togliatti, popular leader of Italy's Communist movement who had spent the war in Moscow, announced openly that "direct action" by his followers was a possibility. What also distressed the State Department were Communist-dominated unions that fomented chaos in both countries in 1947. They flexed their power in food riots and a series of strikes and work stoppages—by railroad workers, dock workers, and garbage men.<sup>6</sup> At the end of the *annus terribilis*, George Kennan of the Policy Planning Staff interpreted a Marshall Plan yet to be passed by Congress as an "effective tool in the strategy of containment."<sup>7</sup>

American historian Melvyn P. Leffler believes that one of the two primary motives behind the Marshall Plan was fear that the "Communist left would triumph, perhaps even through free elections" and that the "appeal of Communist parties" had to be "undermined" in western Europe. Prior to his



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*President Truman signs the Foreign Assistance Act, authorizing the Marshall Plan, April 3, 1948. The audience includes (left to right), Under Secretary of State Robert A. Lovett, Senator Arthur Vandenberg, Treasury Secretary John Snyder, Representative Charles Eaton, Senator Tom Connally, Secretary of the Interior Julius A. Krug, Representative Joseph Martin, Secretary of Agriculture Clinton Anderson, Representative Sol Bloom, Attorney General Tom Clark, and Postmaster General Jesse M. Donaldson. Marshall was in Bogotá, Colombia, attending the Ninth International Conference of American States.*

trip to Cambridge, Secretary Marshall warned Italy's Prime Minister, rather fittingly on May Day, that additional American aid hinged on the exclusion of the radical left from the ruling coalition. Shortly thereafter, Marshall's Ambassador in Paris told the French Premier: "no Communists in gov. or else." Before the month of May was over, Marshall did authorize more emergency assistance to Italy because Communists were in fact barred from the cabinet. At the end of that extraordinary year, Robert A. Lovett, Marshall's right-hand man, confided to his diary that Marshall Plan assistance would be contingent on Communist-free governments.<sup>8</sup>

As Averell Harriman prepared to assume his duties at the ECA's Office of the Special Representative (OSR) in Paris, he too conceived of the Marshall Plan as a strategic weapon in the emerging Cold War. "Stalin was convinced he could move into Western Europe," recalled America's wartime ambassador to the Soviet Union. He elaborated on this point in the same interview:

Stalin was “undoubtedly told by leaders in the Communist parties in Italy and France that their organizations were very strong” and that “with some help they would be able to take over Italy and France.” Though certainly arguable, in Harriman’s judgment “they would have done so if it hadn’t been for the Marshall Plan.” Writing in 1978, the journalist Theodore H. White, who lived in Paris from 1948 until 1952, painted the European scene with a broader brush than even Harriman had. “The Marshall Plan was,” he declared, “the most successful anti-Communist concept in the past fifty years.”<sup>9</sup>

Like DNA’s double-helical molecular structure, the strands of economics and politics are apparently discrete yet tightly linked. They were frequently treated by Marshall Planners as separate yet generally understood by them as inseparable. Perhaps no more profoundly than by the realist George Kennan before he left the State Department and by Lincoln Gordon, Director of the Program Division at OSR during 1949 and 1950, most grasped that he who pursues economics without reference to politics pursues essentially a construct of the mind. The Marshall Plan’s second-in-command in Paris, Milton Katz, understood the “heart” of American policy from 1947 until 1952 to be “the integration of economic, political and psychological factors.” The difficult “German Problem” constantly reminded Kennan, Gordon, and Katz that postwar European politics demanded regional economic integration for a lasting solution. In the end, they would fail to achieve some of their intertwined goals, but not because the concept of political economy escaped them.<sup>10</sup>

### Elaboration

Keeping with the original CEEC diagnosis of Europe’s condition and the follow-up prescription by its successor organization, the Organization for European Economic Cooperation or OEEC, the first fifteen months of the Marshall Plan involved mostly emergency commodity relief. The Four F’s—foodstuffs, feed, fuel, and fertilizers—comprised 60% of all aid. Such assistance also helped to close the dollar gap. Since few dollars, in effect, crossed the ocean, exchange and convertibility barriers were effectively bypassed. Afterwards, America’s reformist zeal took over and the emphasis switched to subsidies and expenditures that promoted economic development, enhanced productivity, battled inflation, expanded intra-European trade, built self-sustainable and balanced national economies, provided technical expertise, fought protectionism, and pushed regional economic integration through new mechanisms. All of these manifold objectives were pursued by means of an ultimate mix of 90% grant and 10% loan, and by regulating the uses to which counterpart funds in local currencies were put (see Chapter III).<sup>11</sup>

While the Marshall Plan was much more than an economic enterprise, in the late 1940s there existed, at least in theory, a variety of ways to get a con-

ceptual handle on Europe's predicament. Since national income accounting was, as David Reynolds has pointed out, "still in its infancy," a fairly crude method—heavily dependent on shaky projections—was adopted. To attain the overriding goals of expanding industrial and agricultural production beyond the levels of 1938, which the CEEC recommended, the OEEC later ratified, and Congress ultimately required, Marshall Planners settled on Europe's war-induced balance of payments gap that had opened wide in 1946 and 1947 as the appropriate problem to solve. They selected each recipient nation's trade deficit as the principal determinant for apportioning Marshall Plan aid: the greater the estimated shortage of dollars, the larger the ECA's allotments. To the chagrin of some nations, measures of national income played no part in their calculations. Western Europe's investment needs were simply disregarded or downplayed.<sup>12</sup>

As recovery progressed towards the 1938 figures—in effect back to the future—concerns about permanence, about sustaining and improving upon those gains, came to the fore. Lincoln Gordon thought that "the ECA job in the first two years was deceptively easy, since it was essentially a restoration of pre-war economic conditions." Fellow Marshall Planner Van Cleveland regarded the first phase of the Marshall Plan as briefer, lasting just nine months rather than until the end of 1949.<sup>13</sup> Whichever the case, a reorientation did occur in the ECA's point of view, towards what some have called an investment banking perspective. In order to establish preconditions for continuous growth, ideas changed about how to program assistance. In pursuit of ends more complicated than 1938 production levels—creating sound and convertible currencies, liberalizing European trade and stimulating intra-European trade, controlling inflation, and improving standards of living, for example—the balance of payments method and the goal of a continental balance of payments equilibrium were absorbed into a national accounts–national income approach. Keynesianism eventually reigned supreme in the ECA's decision-making process.

Head of economic planning in Washington was a transplanted professor of economics at the Massachusetts Institute of Technology, Richard Bissell. After graduation from Yale, Bissell studied for a year at the London School of Economics. During the 1930s, to the dismay of his staunch Republican father, a wealthy Hartford insurance executive, he sympathized with Franklin D. Roosevelt's New Deal, as did many future Marshall Planners. As a new convert to an old progressive faith in the beneficence of government intervention in the economy, Bissell actually taught the very first course on Keynesian economics at Yale, once the pulpit for William Graham Sumner's *laissez faire* doctrines. In the United States, World War II validated Keynesian doctrines to the extent that by 1948 most government economists considered themselves disciples. Not surprisingly, Bissell employed Keynesian analysis in co-authoring the influential Harriman Report.

With his “strong background in Keynesian doctrine and a consequent belief in the value of governmental activism,” Bissell made the Marshall Plan into a proving ground for the monetary and fiscal ideas of John Maynard Keynes. Employing the master’s tools, he and his cohorts sought to balance Europe’s need to achieve high levels of investment required to modernize its economy with its requirement to keep inflation, trade deficits, unemployment, and especially dollar shortages under control. With their expertise in taming business cycles and managing demand, they confidently prescribed economic measures for national and regional growth in western Europe. Often, the skills of a nimble juggler were essential.<sup>14</sup>

By fall of 1949, with Hoffman and Bissell in the forefront, Marshall Planners were already pushing strenuously for greater European production, productivity, and economic interdependence as antidotes to the poisons of class consciousness and class hatreds that circulated widely throughout European society. Indeed, they sought to foster new values among Europeans towards market forces, particularly towards the expansion of Gross National Product (GNP). According to Paul Hoffman, the ECA’s “end goal” became truly ambitious, “nothing less than the creation of a ‘new’ Europe.”<sup>15</sup> For the European historian David Ellwood, the Marshall Plan now “aim[ed] to change attitudes and outlooks, aspirations and mentalities . . . [and] wants [and] needs” of European businessmen and workers, rendering the former more enlightened and the latter less revolutionary. The Americans had rolled the dice in a high-stakes game. After all, a transformed western Europe would not only be less distinctive, politically and culturally, but also much better able to challenge the United States for global economic supremacy. In the context of the Cold War, the gamble seemed worth it.<sup>16</sup>

But before Phase Two had a fair chance to play itself out, war on the Korean peninsula gradually redefined the Marshall Plan after the midpoint of its projected four-year life. Thereafter, concerns for international security and the defense of western Europe inexorably transformed the ECA into a quasi-armaments program that undercut its purely economic and political objectives in the prewar era. In October 1951, Congress passed the Mutual Security Act, abolishing ECA as an independent agency and making it a part of the Mutual Security Agency, or MSA. In a practical sense, the Marshall Plan as an economic recovery program with accompanying political aims ended prematurely. After forty-five months, the Plan officially shut down on December 31, 1951. By that time, the impact of the “catalyst” had been profound, justifying the difficulties of its installation. To get congressional and public approval, and then to make it function properly, had called for a great mobilization of effort in both the United States and western Europe.<sup>17</sup>