Marshall Plan 1947-1997: A German View

by Susan Stern

"The truth of the matter is that Europe's requirements for the next three to four years of foreign food and other essential products - principally from America - are so much greater than her present ability to pay that she must have substantial additional help or face economic, social and political deterioration of a very grave character. Our policy is not directed against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. ... Before the United States Government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government ... The initiative, I think, must come from Europe."

(From the speech given by General George C. Marshall, Secretary of State, at Harvard University on June 5, 1947)

History is full of plans, some implemented, some discarded. Most of them eventually end up as short paragraphs in dusty text books, remembered only by academics and researchers, and by students at exam time. That the Marshall Plan is still very much alive in the minds of ordinary people 50 years after it was announced is quite remarkable. It is even more remarkable that a four-year Plan that ended in 1952 continues to have significance today.

Without the Marshall Plan, what would have happened to Europe, and indeed the world, in the aftermath of World War II? What direction might the East-West conflict have taken? Would the European Union as we know it exist today, and would we be on the verge of a single European currency? Speculation is fun but idle. The fact remains, however, that the Marshall Plan is one of the most visionary Plans history has known, a landmark in the aid annals, and it brought huge returns to all involved - to the benefactor, the United States, and to the beneficiaries, the countries of western Europe. And perhaps most of all to West Germany.

The Plan of Plans

What was what became known as the Marshall Plan? At first, it was a generous proposal to help the Europeans get back on their feet by providing them with some wherewithal to boost their recovery. A condition of this financial aid was that the European governments must themselves take the first steps towards economic collaboration. The offer was made to all the war-affected countries, including the Soviet Union and its satellites, although it was fairly clear at the time that with Europe already divided by Churchill's Iron Curtain (a term he coined in a speech he delivered in Fulton, Missouri in

1946), the Soviet bloc was unlikely to participate. Sure enough, it declined, claiming that its sovereignty would be endangered by accepting U.S. help. As a result, the Marshall Plan became strongly identified with American anti-communist foreign policy (supporting the "free world" as a buffer to the spread of communism), and this aspect went down well with Marshall Plan sceptics in the U.S.

A Little Help for my Friends - and Former Enemy

> *"The Marshall Plan ... is not a philanthropic enterprise ... It is based on our views of the requirements of American security ... This is the only peaceful avenue now open to us which may answer the communist challenge to our way of life and our national security."*
> *(*Allen W. Dulles*, The Marshall Plan)*

Sceptics there were, since Congress was being asked to approve the transfer of a considerable amount of money (it ended up at over $13 billion between 1948 and 1952, a sum equivalent to more than $65 billion today) not just to its friends, but also to its recent enemy and cause of all the devastation in the first place, Germany. There were other Plans on the table which were more appealing to those who feared the defeated aggressor or wanted revenge: the Morgenthau Plan, for example, which according to popular myth envisaged removing all industry from Germany and turning the country into a vast farm ("pastoralization") to prevent it from being able to wage another war. Congress had to be convinced that the whole of Europe, including the Allied-occupied part of Germany, should be given as much support as possible, not as an altruistic gesture, but in America's own interest.

The bulwark-against-totalitarianism argument was a good one, even among staunch Germanophobes; a weak western part of Germany could easily be overrun by its eastern neighbors. But aid to Europe also made a lot of domestic economic sense: not only could the U.S. put to good use goods and commodities it had too much of anyway (a short-term benefit), but it would eventually greatly profit from a thriving European continent (at least the part that was not under the Soviet thumb) which would need - and more importantly, would be in a position to pay for - American exports. Congress approved the Marshall Plan, or European Recovery Program (ERP) as it was formally named, and a body called the Economic Cooperation Administration (ECA) was created in Washington D.C. to administer it.

Meanwhile, Back in Europe ...

> *"Marshall aid contributed to the spirit and the reality of European unity by firmly planting the seeds of intergovernmental cooperation and witnessing a vigorous germination."* (Stephen Browne, *The Marshall Plan and Early Bilateral Aid*)

The European countries responded enthusiastically to General Marshall's Harvard speech, and 16 countries got together in Paris within weeks to discuss what they needed. France (in particular) was not happy that Germany would also receive substantial aid, but could not deny the wisdom of the policy. Negotiations with the U.S. started up soon thereafter.

To fulfill the condition that the Europeans should collaborate among themselves, they too created a body, the Organization for European Economic Cooperation (OEEC) to coordinate the Marshall Plan on their side of the Atlantic. This was not an easy task; the Europeans had no tradition of common economic problem solving. Britain did not relish, then as now, giving up any of its precious sovereignty and was determined that the OEEC should be a multilateral but not a supra-national body. Germany was not an original member of the OEEC, but the organization soon realized that Europe needed Germany as much as Germany needed Europe. In the end, the Federal Republic of Germany was admitted soon after it was established in 1949, at which time a federal ministry under a deputy chancellor was created to handle Marshall Plan funds.

How the Marshall Plan Worked

Set up for a limited period of four years, 1948 - 1952, the ERP operated through a counterpart fund. The money contributed by the U.S. included currency for loans, but went primarily (70 percent) towards the purchase of commodities from U.S. suppliers: $3.5 billion was spent on raw materials; $3.2 billion on food, feed and fertilizer; $1.9 billion on machinery and vehicles; $1.6 billion on fuel.

The OEEC decided which country should get what (based on what each country declared it needed), and the ECA arranged for the transfer of the goods. The American supplier was paid in dollars, which were credited against the appropriated ERP funds. The European recipient, however, was not given the goods as a gift, but had to pay for them (although not necessarily at one go) in local currency, which was then deposited by the government in a counterpart fund. This money, in turn, could be used by the ERP countries for further investment projects. Most of the participating ERP countries were aware from the start that they would never have to return the counterpart fund money to the U.S., and it was eventually absorbed into their national budgets and disappeared. Germany, however, was left in doubt - would it have to repay its debts? This uncertainty was to have a very positive effect.

Germany - A Special Case

> *"To talk about the recovery of Europe and to oppose the recovery of Germany is nonsense. People can have both or they can have neither."* (George F. Kennan)

As we have indicated, that Germany was a Marshall Plan recipient in the first place did not make the other participating countries very happy, but taking economic revenge was simply not a viable alternative. In fact, Germany had already received a large amount of U.S. aid before the Marshall Plan was even conceived: starting almost immediately after the end of the war, the Allied-occupied part of the country received U.S. goods through the GARIOA program (Government and Relief in Occupied Areas), and the value of these goods amounted to around $1.7 billion.

So the Marshall Plan aid to Germany, which amounted to about $1.4 billion in the first four years, was not that dramatic in itself. Britain, France and Italy all received a larger slice of the cake (see listing below for the distribution of help to the ERP countries). And yet Germany put the aid to better use than any other country, and today, 50 years later, still continues to benefit directly from the ERP counterpart fund, known after 1953 as the ERP Special Fund.

U.S. Economic Assistance Under the European Recovery Program
April 3, 1948 - June 30, 1952
(Total Amount in Millions of U.S. Dollars, Source: USIA)

United Kingdom	3,189.8
France	2,713.6
Italy	1,508.8
Germany (West)	1,390.6
The Netherlands	1,083.5
Greece	706.7
Austria	677.8
Belgium/Luxembourg	559.3
Denmark	273.0
Norway	255.3
Turkey	225.1
Ireland	147.5
Sweden	107.3
Portugal	51.2
Iceland	29.3

Since Germany did not know until 1953 how much money it was going to have to pay back to the U.S. (and by then its "debts" through the GARIOA program and Marshall aid added up to over $3.3 billion), it was particularly scrupulous in its use of the ERP counterpart funds. It insisted from the beginning that the money could only be given out as loans subject to interest - a revolving system which ensured that the funds would grow rather than shrink. A lending bank was charged with overseeing the program.

As Time Went By ... The ERP Special Fund

In 1953, it was finally established in an agreement signed in London that Germany would have to repay only a third ($1.1 billion) of its debts to the U.S. At this time, the ERP Special Fund already contained DM 6 billion (then equivalent to about $1.5 billion). The money Germany owed the U.S. was paid back in installments (the last check was handed over in June, 1971) and interestingly enough, did not come from the ERP pot, but from the federal budget. The Special Fund, now supervised by the federal economics ministry, kept growing: in 1971, it was over DM 10 billion. Today it has reached more than DM 23 billion. And thanks to the revolving loan system, by the end of 1995, the Fund had made low-interest loans amounting to around DM 140 billion.

KfW - The Watchdog Bank

Money business is bank business, and in the case of the counterpart funds and, later, the ERP Special Fund, a lending bank was needed to secure collateral for individual loans and supervise repayment. In late 1948, before the Federal Republic came into being and before the Special Fund was set up, a state-owned bank called the Kreditanstalt für Wiederaufbau (KfW - Reconstruction Loan Corporation) was founded, headquartered in Frankfurt. Its job: to grant medium and long-term loans to all sectors of the economy for projects serving the reconstruction of Germany. While the KfW was not specifically created because of the Marshall Plan, it was designated the main lending institution for the ERP and frequently increased the ERP loans with its own funds. Although the KfW is no longer the only lending institution, it is responsible to this day for 80 percent of the ERP loans.

A Special Fund For Special Purposes

Where have all the ERP loans and credits gone over the years? In the beginning, primarily to basic goods industries, to the transport system, to export industries, housing and agriculture - in other words, to projects designed to get Germany up and going.

- Until unification, West Berlin, a city surrounded by communist East Germany, needed all the help it could get, and ERP loans played an important part in preserving its special status.
- Environmental protection projects, energy projects and apprenticeship programs have also been eligible for the coveted loans.
- But for the most part, the loans have gone to support the German economy and the small and medium-sized businesses (the German Mittelstand) that make up its backbone. The loans have enabled enterprising individuals to start-up businesses (Existenzgründung) and others to expand.
- The loans have gone towards innovation and research.
- The loans have gone towards the securing of jobs.

One aspect of all of the loans: they were originally designed to help German industry within Germany itself. It took a change in the law in 1961 to make it possible for ERP funds to be used on projects abroad - and on aid for developing countries. Germany had started such an aid program in 1957, and modeled it to some extent on the Marshall Plan. Low-interest loans could be made to developing countries, and both the capital and interest would be used to finance further loans. The 1961 budget allowed DM 1 billion from the ERP Special Fund to be used for this purpose, and ERP loans are now an integral part of Germany's financing of Third World projects.

Germany Shows Its Gratitude

June 5, 1972, was the 25th anniversary of George Marshall's Harvard speech, and German Chancellor Willy Brandt was determined to come up with a very special anniversary present as a sign of his nation's appreciation. He flew to Harvard with a moving speech in one pocket and a large check in the other. His thank-you gift: the "German Marshall Fund of the United States," an independent American foundation to be paid for by Germany, and designed to "increase understanding, promote collaboration, and stimulate exchanges of practical information between the United States and Europe."

The check was for DM 10 million, and the same amount was guaranteed each year until 1987. The Germans would sign the checks (which were drawn on the ERP Special Fund), but leave the running of the foundation strictly to the Americans. The GMF set up its headquarters in Washington (with a representative in Bonn after 1976), and its trustees established an endowment to support programs in the areas of economic cooperation and competition; the environment; the informing of policy and opinion leaders; reform in Central and Eastern Europe.

In 1985, the Bundestag approved a further DM 100 million over a further ten years (1987-1997), but this time, not without strings; it wanted Germany to have a say in how half of the money would be spent. Accordingly, a German Advisory Committee was set up.

And it was entirely logical for the GMF to move its representative office from Bonn to the eastern part of Berlin right after unification, to open up channels of communication between the new Länder and the U.S. Thanks to the GMF, a considerable number of young eastern German leaders and academics have been able to spend time in the U.S.

When the time came for Germany to decide whether it would go on giving the GMF its annual DM 10 million check after the agreed 25 years were up, the endowment of the German Marshall Fund of the United States had a market value of about $135 million and could presumably stand on its own feet. Consequently, as of the beginning of 1997, the annual DM 10 million of the ERP Special Fund was earmarked for a newly-created German Marshall Fund of Germany - the German Program for Transatlantic Contact. Its declared purpose is to support projects which contribute to the German-American partnership and which lead to better understanding between the people of the two countries, especially in the areas of culture, education, science and industry.

ERP Special Fund Loans to the New Länder

Loans from the ERP Special Fund (amounts paid out, Source: BMWI)

- DM 100.6 Billion over 46 Years - Old Länder and Western Berlin (1949-1995)
- DM 39.1 Billion over 6 Years - New Länder and Eastern Berlin (1990-1995)

In the beginning, Marshall Plan aid was given to countries whose economies needed a strong boost to get them up and running again. No country was more in need of such help at the time than Germany, but only one part of Germany was in a position to accept it. How appropriate, then, that West Germany was in a position to help East Germany when the Wall came down. The German-German story does not belong here, nor does a discussion of the massive transfers of money, loans, manufactured goods, commodities and human resources from the old to the new Länder. What should be mentioned is how the ERP Special Fund has been implemented to spur growth in the eastern part of Germany.

Starting in 1990 (before unification), ERP credits were given to start up small businesses - the first help of its kind from the West. The credits were made in DM - in other words, in hard currency which could be used by the recipients to purchase goods in western countries. After unification, the number of ERP loans to the new Länder increased dramatically, and by the end of 1995, that is, within 6 years, close to DM 40 billion had already been paid out (with another DM 7 billion promised). In 46 years, between 1949 and 1995, a "mere" DM 100 billion had been paid out in the old Länder. The demands on the ERP Special Fund since unification have been such that the Fund itself has to borrow money from the capital market - and pay higher interest rates than the rates it charges on its own loans. To ensure the continued existence of the ERP Special Fund, the difference in interest rates has been made up by subsidies from the federal budget.

Curiously enough, the government approved less money for ERP investment support for 1997 than for 1996 - a reduction of DM 2 billion to DM 11 billion (DM 6.4 for the old Länder and DM 4.6 for the new). The reason: the number of business start-ups in the eastern Länder has decreased.

The Marshall Plan Lives On

At the beginning of this brochure, we indulged in some idle speculation. What if the Marshall Plan had not existed? In the short run, Europe might have pulled itself out of the recession it was mired in without the aid provided by the Plan, which stimulated the recovery process, but was not alone responsible for it. The Western countries might not have fallen victim to the communists, as believers in the Red Menace feared they would. It is also possible that even without the "working together" requirement of the Plan, the Europeans would have seen the necessity for close cooperation to encourage the growth of industrial and agricultural production. But the Europeans have a long history of internal squabbling, and although a common enemy makes for temporary friendships and alliances, these have not been known to last for long. A meaningful economic, military and political European Union (and certainly not one which included Germany) was not on the horizon at the end of 1947.

Then came the Organization for European Economic Cooperation, the agency necessitated by the Marshall Plan. Whether they wanted to or not, the member nations had to work out common goals, reduce trade barriers, take steps to ensure internal monetary and financial stability. West Germany was incorporated. And while there is no direct line from the OEEC to the European Coal and Steel Community (which Britain did not join), and from there to the many other European institutions (such as the European Economic Community, or Common Market, the European Community and most recently, the European Union) which have since been founded, it can certainly be argued that the impetus came from the Marshall Plan. The long-term economic and political cooperation between the countries of Europe is the real success story of the Marshall Plan, and the primary reason the Plan lives on.

And Finally, Back to Germany and the Marshall Plan Myth

There is another reason for the Plan's continued vitality. It has transcended reality and become a myth. To this day, a truly astonishing number of Germans (and almost all advanced high school students) have an idea what the Marshall Plan was, although their idea is very often very inaccurate. They think the Marshall Plan was aid given exclusively to West Germany; that it was given in the form of a vast amount of dollars (cash); that it was an outright gift from the U.S. Many Germans believe that the Marshall Plan was alone responsible for the economic miracle of the Fifties. And when scholars come along and explain that reality was far more complex, they are sceptical and disappointed.

They should not be. For the Marshall Plan certainly did play a key role in Germany's recovery, albeit perhaps more of a psychological than a purely economic one. The Plan gave the Germans back some of their self-esteem. It opened up new perspectives. It gave them the boost - a positive mind-set - which released their energies and made them work all the harder to rebuild their country. The Marshall Plan did what it set out to do - help people help themselves.

Because of the Marshall Plan myth, a lot of East Germans and Eastern Europeans immediately invoked the Marshall Plan after the communist regimes tumbled and the extent of their own economic plight became only too clear. In fact, as Western leaders searched for ways to help, the Marshall Plan became a buzzword.

Times change, however, and no one country was in a position to provide what the U.S. had provided over four decades before (and certainly not what some Eastern

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http://web.archive.org/web/20060709055340/http://www.germany.info/relaunch/culture/history/marshall.html

Europeans were under the impression the U.S. had provided). The whole concept of aid had undergone a transformation in the meantime, and other forms of development assistance for Eastern Europe had (and still have) to be found. Nevertheless, today, almost a decade after the end of the Cold War and fifty years after George Marshall's Harvard speech, the Marshall Plan remains an inspiration.

Literature

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