The Marshall Plan

Lessons Learned for the 21st Century

Edited by **Eliot Sorel**
and **Pier Carlo Padoan**

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Lessons Learned for the 21st Century

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Foreword

"… It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos."

– George C. Marshall, 5 June 1947

On 13 June 2007, the partnership of the George C. Marshall Foundation, the George Washington University, the Organisation for Economic Co-operation and Development (OECD), and Jean Monnet Foundation for Europe, in collaboration with the three US missions in Paris, France (the Embassy, the OECD and the United Nations Educational, Scientific and Cultural Organization – UNESCO – missions) jointly organized the Marshall Plan 60th Anniversary Symposium at the recently restored, elegant *Hôtel de Talleyrand*, now the George C. Marshall Center. This historic symposium, celebrating one of America's and Euro-Atlantic alliance's finest hours, was a great success, by virtue of the superb scholarly presentations and concluding speech by Under-Secretary R. Nicholas Burns, the spirited participation of the audience and the extraordinary support provided by Ambassadors Craig R. Stapleton, Constance A. Morella, and Louise V. Oliver, and their superb staffs.

The Marshall Plan 60th Anniversary Monograph is derived from the Symposium's scientific presentations and inspired by several anteceding tributaries, including:

- the Marshall Plan Exhibit at the US State Department in Washington, DC (during Secretary Colin Powell's term in office, June 2004); followed by
- *The Marshall Plan: French and American Perspectives on Lessons Learned Applicable to the 21st Century,* organized by the Conflict Management and Resolution Section of the World Psychiatric Association, the George Washington University Institute for European, Russian and Eurasian Studies, the United States Mission at OECD, The French Embassy in Washington, the US Diplomacy Center, and held at the Elliott School for International Affairs, Washington, DC, in February 2005; and
- the George C. Marshall Foundation sessions at the *Hôtel de Talleyrand* in Paris, and the ensuing monograph, *In Search of a Usable Past*: *The Marshall Plan and Postwar Reconstruction Today* in June 2006.

The 60th Anniversary symposium and the monograph are a synthesis of these three antecedent events, augmented by the new knowledge generated through scholarly contributions presented herein, in the context of contemporary and anticipated 21st century global challenges.

The 60th anniversary monograph

Our 21st century world is replete with contrasting challenges. Hunger, poverty, desperation, chaos and conflict are still quite pervasive in large areas of the globe, as they were in post World War II Europe, contrasting with the remarkable achievements and wellbeing of the European Union and its enlargement to include central and parts of Eastern Europe, in effect a continuation of the Marshall Plan.

The Marshall Plan: Lessons Learned for the 21st Century monograph addresses historical, diplomatic, economic, and strategic aspects of the European Recovery Program (ERP), (popularly known as the Marshall Plan), which brought Europe out of the chaos, hunger, poverty, desperation, and ashes of World War II.

The authors of the monograph review the more than half a century journey from the early days of the ERP through the common market, the OECD, the European Union and its central and Eastern European inclusion. The Marshall Plan was intended for the whole of Europe and not only its western part. The authors – scholars, policy makers, and business leaders – address applications of the Marshall Plan's lessons learned to the 21st century, for capacity building, human and sustainable development, and the role of public, private partnerships in emerging market economies and democratic societies. The scholarly contributions are from France, Italy, Poland, Romania, the United Kingdom and the United States.

The editors hope that this monograph, of insightful, thought-provoking papers derived from the Marshall Plan 60th Anniversary Symposium would further stimulate the dialogue regarding the lessons learned from the European Recovery Program, and contribute to the development of solutions to the complex global challenges of the 21st century.

- Eliot Sorel and Pier Carlo Padoan, editors

Marshall Plan 60th Anniversary Symposium: Introductory Remarks

by Ambassador Constance A. Morella

Good morning ladies and gentlemen, welcome to the Marshall Plan 60th Anniversary Symposium. Today, we hope to review the lessons learned from the Marshall Plan and their applicability in the 21st century.

On 5 June 1947, speaking to the graduating class at Harvard University, Secretary of State George C. Marshall laid the foundation for a US program of assistance to the countries of Europe in the aftermath of World War II. It was just 10 minutes, 1,500 words or so, a short speech – but one that changed the world forever.

At a time when great cities lay in ruins and national economies were devastated, Marshall recognized that something had to be done and called on America to do whatever it could do to assist in the return of normal economic health in the world.

World War II was the bloodiest war in history. More than 70 nations were belligerents and over 60 million people were killed. The devastation included Europe's great cities: in London, 30 000 people were killed, more than 50 000 seriously injured, hundreds of thousands made homeless and tens of thousands of buildings destroyed. In Berlin, 20 000 lives were lost, 750 000 were left homeless. And in Vienna, over 87 000 buildings and all of the bridges were destroyed. The Hapsburg capital was scarred with 3 000 bomb craters and only 41 vehicles remained in operation. As we know, the devastation was equally great in Paris.

Marshall's Plan

Marshall aimed to get Europe working again. He instructed the State Department's Policy Planning Staff and other agencies to report on Europe's needs for economic assistance. At the same time, he urged Europeans to take the initiative and assume the responsibility of drafting a program of economic recovery. The willingness to help was there, but Marshall wanted the program to be based upon such principles as self-help, resource sharing and German reintegration.

In the spring of 1948 the US Congress passed Marshall's far-sighted proposal as the "Economic Recovery Act". By the program's end in 1952, the United States had channeled to 16 European countries some USD 13 billion in economic aid and technical assistance, amounting to about 2% of our gross national product over the four-year period – today valued at over USD 100 billion.

One of the largest aid programs in America's history and the most successful peacetime foreign policy launched by the United States in the 20th century, the Marshall Plan was praised by many. One of the most eloquent voices was Sir Winston Churchill's,

to whom it represented "the most unsordid act in history". British Foreign Secretary Ernest Bevin, in turn, considered it an act of "generosity … beyond belief".

Among the secrets for the success of the Marshall Plan, as the Economic Recovery Act came to be known, was the spirit of cooperation evidenced in its execution. The program was truly a joint European-American venture, one in which American resources were complemented with local resources and all the participants worked cooperatively toward the common goals of freedom and prosperity. The program also enlisted the private sector and recruited the "best brains" from the areas of business, labor, agriculture and other professions.

The Marshall Plan also mandated the creation of a regional authority that could represent Europe, leading to the creation of the Organisation for European Economic Co-operation (OEEC), forerunner of today's Organisation for Economic Co-operation and Development (OECD). This emphasis on Europe as a region helped in turn lay the foundation for the integration of Western European economies and the creation of the institutions that would eventually become part of today's European Union.

Thanks to the Marshall Plan, not only did the countries of Europe become closer together, but Europe and the United States also became inextricably linked. Today, this transatlantic partnership still exists and faces new global challenges that require us to work together as never before.

It was here in this historic building, the *Hôtel de Talleyrand*, that Marshall Planners were headquartered and worked together to fulfill the goals of the Marshall Plan. It was here that men such as Paul Hoffman, Averell Harriman, Robert Marjolin, and Jean Monnet met to plan and execute Marshall's dream of a "family of nations".

Europeans and Americans were linked by a set of common values. The effort to create economic and social stability was a shared goal. That dream has become a wonderful reality, a model of cooperation and partnership the world over.

As the world continues to deal with postwar reconstruction efforts and capacity building some 60 years later, cries for a 21st century Marshall Plan are often heard. Yet there are those who would argue that the Marshall Plan cannot be replicated, that it represented a specific place and time in history.

To be sure, there are many lessons to be learned from the success of an aid program whose effects are still with us today, some 60 years later. On the 60th anniversary of that famous Harvard address, today's symposium will address these issues and what we can all learn from Marshall's vision. It is important, indeed paramount, to remember the lessons of the Marshall Plan today. Simply put, the lesson is that when nations work together, they can overcome the gravest of challenges and build a better future based upon a set of core values.

The Marshall Plan Symposium – the program

We have assembled before you today a distinguished panel of speakers, some of the "best brains" as Marshall would have called them – scholars, historians and business leaders. During two plenary sessions that have been outlined in the symposium program, we will review the Marshall Plan, its lessons, and how we could apply them in today's world.

Each plenary will have two speakers and a respondent, each followed by a "Question and Answer" session with you, our guests. We are hoping for a robust and meaningful exchange of views and opinions.

We will conclude the plenary sessions today at 1:00 pm when we will take a short walk to the Westin Hotel, where we will have lunch together. The luncheon will begin at 1:30 pm sharp and I would ask all of you to leave this building as soon as the symposium concludes at 1:00 pm and move as quickly as possible with us to the Westin Hotel. The hotel is literally just two blocks down the street, walking along rue de Rivoli – we have also provided maps to assist you.

There is one change in the program that I wish to note. Unfortunately our keynote speaker, Under Secretary Nick Burns, is unable to deliver his remarks during the luncheon as planned. In order to benefit from his remarks, we have accommodated him here at the symposium at 12:15 pm, during which time we had originally planned the Q&A session for the second plenary. This Q&A will now take place at the luncheon. Our apologies for this change, but we are pleased that Under Secretary Burns will be able to address us despite his very hectic schedule while in Paris.

Partners and sponsors

This event would not have been possible today without the support of our partners and sponsors. I would like to give special thanks to our partners – the George C. Marshall Foundation, the George Washington University, the OECD and the Jean Monnet Foundation – for their tremendous help in planning this symposium, along with our three US Missions in France – the US Mission to the OECD, the US Embassy Paris and the US Mission to UNESCO.

I would also like to thank our sponsors for their generous contributions and for believing in the importance of continued shared values – the Bettencourt Schueller Foundation, Air France, Gaz de France, Schneider Electric, Renault and Dassault Aviation.

Monograph

I am so pleased that I am once again involved with recognition of the Marshall Plan. In fact, it was just one year ago that the George C. Marshall Foundation conducted a study session at the George C. Marshall Center, here in the *Hôtel de Talleyrand*, with a panel of scholars who examined and critiqued the second draft of a study of the Marshall Plan and its potential applications in contemporary post-conflict situations. You will be happy to learn that the resulting monograph, *In Search of a Usable Past: The Marshall Plan and Postwar Reconstruction Today*, has just been published and is being made available to each member of this audience today. In addition, the Marshall Foundation brought the author, Dr. Barry Machado, back to Paris to bring his special insight to today's symposium as one of our panelists.

With those remarks, I will turn the reigns over to Dr. Eliot Sorel, our partner at George Washington University, who will act as our moderator for this morning's sessions and co-chair the first plenary.

Thank you all for accepting our invitation to be here today and we look forward to a fruitful discussion on this historic occasion of the 60th anniversary of the Marshall Plan.

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Part I. History, Diplomacy, Democracy and Development

Chapter 1. The Marshall Plan: History and Legacy

by Gerard Bossuat

The Marshall Plan, officially called European Recovery Program (ERP), was in place from April 1948 to September 1951. Most contemporary actors considered that it played an essential role in the economic successes of postwar Western Europe. The various European programs of modernization greatly benefited from the ERP, since it financed imports essential to reconstruction and modernization. It produced counterparts in European currencies, the allocation of which needs to be clarified, and generated a debate on their use. Moreover, the Marshall Plan was at the origin of the Organisation for European Economic Co-operation (OEEC), created to encourage European unity. The Marshall Plan was a political tool in the hands of the American administration in the context of the Cold War and the defense of the West.

What was the role of the Marshall Plan in the development of a consumer society? Was the Marshall Plan Americanizing European societies? The ERP thus also held a socio-cultural dimension. Finally, over the last 60 years the Marshall Plan has become a myth. Whenever our countries are hit by a crisis, the media or politicians ask for a "new Marshall Plan". The Marshall Plan was, and remains, appreciated, but it also raised criticisms in Europe. So we have to separate what belongs to history and what belongs to the collective memory or to the myth.

The Marshall Plan figures

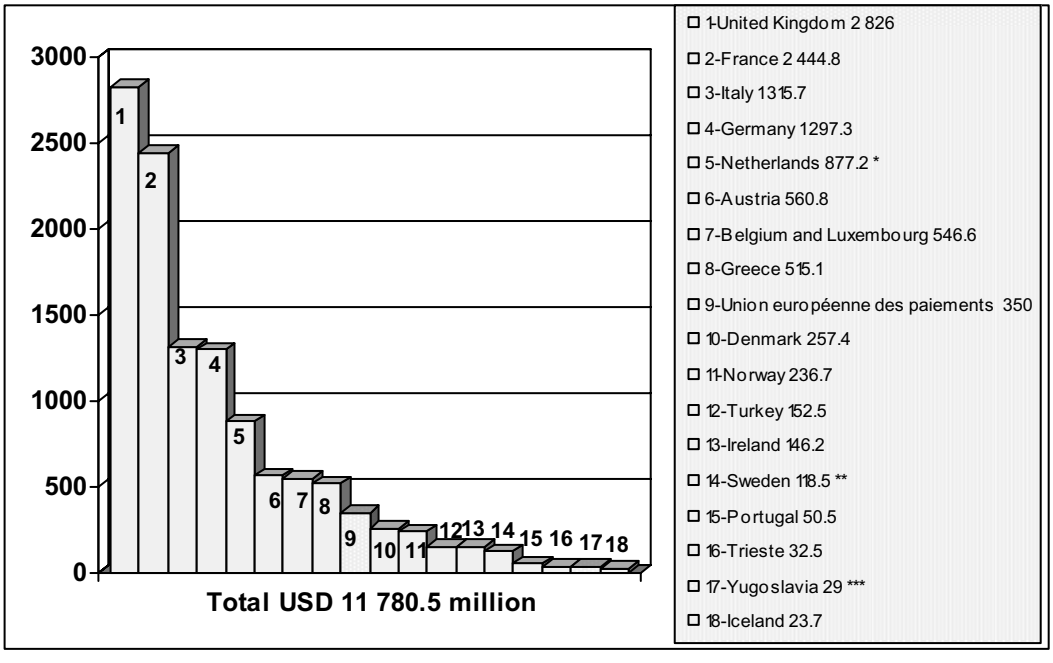
The Europeans asked for USD 22 billion over four years. The US Congress accepted to take into account a basis of USD 17 billion over four years. In fact, the participant countries received USD 11.8 billion as grants between 3 April 1948 and 31 June 1951. See Figure 1.1.

To these grants, loans added up to USD 1.139 billion. Globally, the ERP aid amounted to USD 13 billion, decreasing each year. This corresponds to about USD 108.3 billion in 2006 dollars.[1]

Figure 1.2 helps appreciate the role and the place of the Marshall aid compared to all American aid programs to Europe.

Figure 1.1. Distribution of American aid in gifts (direct and conditional grants) among European countries

April 1948-June 1951



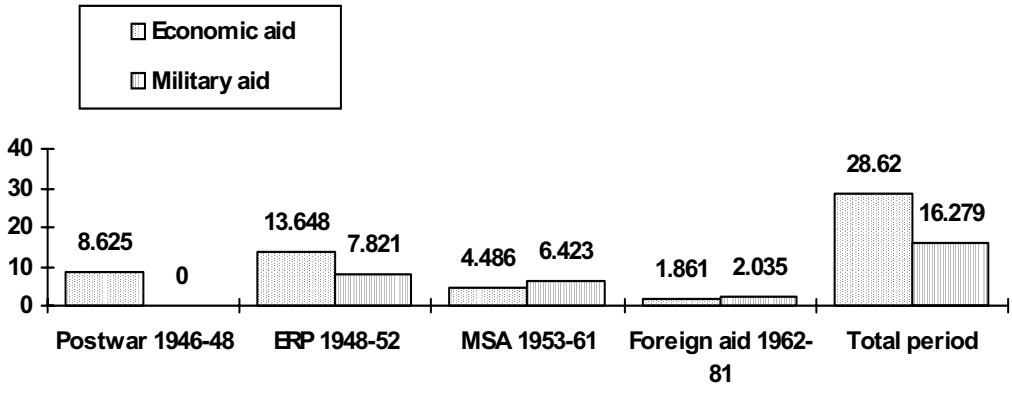
Notes: Many thanks to Valérie Aubourg, historian, UE Marie Curie scholarship, for help with the translation.

*Not counting Indonesia, which received USD 101.4 million; **Conditional aid only; ***Yugoslavia was not included in the Marshall Plan, but in 1950 American economic aid was transmitted via ECA.

Source: *Problèmes économiques*, No. 306, 10 November 1953, Documentation française; Office of Research (1953), Statistics and Reports, 30 October, FOA, European program.

Figure 1.2. American aid to Europe

In USD billions



Source: Bossuat, Gérard (1992a), *L'Europe occidentale à l'heure américaine, 1945-1952, le plan Marshall et l'unité européenne*, Brussels, Complexe.

History of the Marshall Plan

Origins

In the beginning of 1947, American funds for foreign aid amounted to USD 350 million and were aimed at stopping the actual or alleged Soviet expansion.

The 5 June speech of Secretary of State George C. Marshall, given to a crowd of students and VIPs of Harvard University and outside, came as a surprise. But the speech was not a plan yet. It developed nonetheless two understandable ideas: the American aid has to support a united Europe and to fight misery in Europe.

The draft of Marshall's speech, founded on ideas of J.M. Keynes, was born in the Policy Planning Staff headed by G. Kennan.[2] On 8 May 1947, the Under-Secretary of State, Dean Acheson, tested the idea of a "world economic assistance plan to democracy" in front of the Delta Council at Cleveland (Mississippi). Kennan thought that the difficulties of Europe were not linked to communism but to "hunger, poverty, desperation, and chaos." Nonetheless, the fight against communism was a strong reason for the American aid to Europe.

A payment crisis was developing in Europe, preventing the delivery of supplies to European populations and economies. How did the Congress, mainly interested in German recovery, react?

The Paris conferences in summer 1947

The French and British invited the Soviet Union to debate the Marshall offer in Paris. Viatcheslav Molotov, the USSR Foreign Affairs Minister, attended the conference. He knew that Czechoslovakia, Poland, Yugoslavia and the French communists were ready to be helped. But he declined it, accusing France and United Kingdom to try to control the small European countries. The USSR satellite countries had to decline the Marshall offer.

A new 16-participant conference was convened to elaborate a concrete program of European rehabilitation and unification during the summer.[3] It produced a report for the American administration which was rejected for lack of serious unification plans. Moreover, according to the administration, the USD 29.2 billion aid plan requested by the 16 countries over four years was unacceptable. A new European report (22 September) reduced the amount to USD 22.44 billion over four years (minus USD 3.11 billion from World Bank loans). The new total was USD 19.33 billion. On 19 December, President Truman asked the Congress for USD 17 billion until 1952: USD 6.8 billion for the first 15 months since April 1949 and USD 10.2 billion for the remaining three years. The aid would thus decrease each year.

The decision to finance the ERP

But an emergency aid was necessary before the Marshall aid to Austria, France and Italy. This decision was made easier by the worrying meeting of the European communist parties, at Szlarska Poreba (Poland) (22-27 September) against "the American subjugation plan of Europe." On 17 December 1947, an interim aid was voted for up to USD 540 million towards Austria, China, France and Italy. Clashes occurred again on topics such as the control of end use of the funds and propaganda. Some criticized what

they saw as the colonization of Europe. France, however, received USD 312 million from 17 December 1947 to the end of March 1948.

Debates in Congress were difficult.[4] But after four months of debates Public Law 472 pertaining to the ERP was passed by 398 votes against 75. It created the European Recovery Program and the European Cooperation Administration under the responsibility of Paul G. Hoffman in Washington, DC. In Paris, at the *Hôtel Talleyrand*, Averell Harriman was in charge of the special ERP missions in Europe in each participating country (Bossuat, 1992a). But the amount of the aid was reduced to USD 5.3 billion from April 1948 to April 1949 (in fact USD 5 billion). The Congress undertook to vote each year the necessary funds until June 1952.

Drafts of the bilateral agreements were a very sensitive issue for most Europeans. Some European countries were afraid of alienating their independence. Meanwhile, the threat of war had increased since Berlin was blockaded. The British and the French criticized the American demand to obtain free access to rare resources of the European Overseas Territories. The ERP introduced an ill-defined American control which gave to the Congress, each year, the power to question the allocation of new funds.

The Marshall Plan disappeared one year before its planned end. In October 1951 it was replaced by a military aid (defense support) with another spirit, the Mutual Security Program.[5] The Congress wanted to give aid to countries that were important for American security such as Spain, Turkey, Yugoslavia, or Formosa. About ERP, William Foster, the new administrator of aid, declared to the Congressmen in July 1951, "Historians will be struck later by the realizations operated these three years and they will consider them as one of the more brilliant demonstrations of the capacity of mankind to co-operate for a common cause." This uncommon judgment from a diplomat in charge bears witness to the turn of the summer of 1951, and to the human and political adventure of the ERP.

The Marshall Plan, a revolution in Europe?

How did the Marshall Plan serve European and American interests?

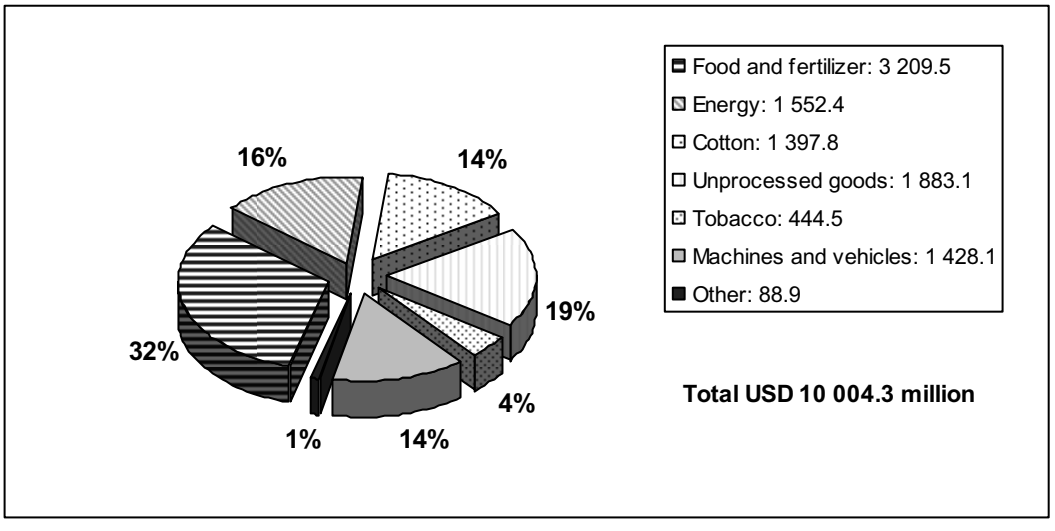
The aid had emergency characteristics for some countries. Food and raw materials accounted for 15.7% of the ERP imports in 1948-49 and only 2.2% the following year. Equipment represented 16% in 1948-49, and 34.3% the following year. In Germany the ERP imports accounted for only 7% of the USD 1.4 billion 1948 importations to which GARIOA aid (Government and Relief in Occupied Areas) has to be added. They both amounted to 37% of the German importations during the 1949 fourth semester, but only 3% in 1952. The Marshall funds of the first year were only partially used. The United Kingdom imported only 10% of her purchases under ERP. The purchase of farm products was important at the beginning of the program at least (Italy and United Kingdom). There were some purchases under duress to promote American farm exports (eggs, peanuts, fruits and American tobacco instead of Turkish tobacco).[6]

The equipment purchases amounted to 14% of ERP funds, which may not seem much, but thanks to them Europe's industrial strength was starting to work again. But the equipment year was the second year. The Marshall Plan partially financed 143 industrial equipments plans for up to USD 600 million out of USD 2.25 billion. In France, the ERP partially financed 43 great equipment plans up to USD 132.9 million (Sollac, Usinor, hydro and thermo-electric plants, oil-producing installation). In Italy, the Economic

Cooperation Administration (ECA) offered a USD 14.6 million loan to Fiat. Netherlands built polders and created a new steel industry at Ijmuiden with ERP funds. See Figure 1.3 for a snapshot of the distribution of aid by item.

Figure 1.3. Distribution of aid by item - ERP deliveries to Europe, 1948-1951

In USD million



Source: Bossuat, Gérard (1992a), *L'Europe occidentale à l'heure américaine, 1945-1952, le plan Marshall et l'unité européenne*, Brussels, Complexe.

Interest for overseas territories

The question of the development of overseas territories (OT) became important with Point Four of the Truman 1949 Inaugural Address, a program of technical assistance to underdeveloped countries. Americans showed an intense appetite for the strategic materials of the European overseas territories and the European military bases there, while arguing in the same time for anti-colonialism. In 1948, George Kennan pictured Africa as "becoming a common exploitation affair for the European nations to whom Germany would have been associated" (*Archives nationales*, 1948a).

In the French OT, the government decided that foreign investments must meet "certain conditions to make the French top interests enforced." But connivance was real, and common study investments companies were established in the OT (*Archives nationales*, 1948b).[7] However, the French government denied Bethleem Steel the right to exploit ore alone in French West Africa, in spite of a pre-agreement with the French local administration (*Archives nationales*, 1949a). It forbade direct contracts between American administration and French private companies despite the impatience of ECA and French capitalists. The Zellidja affair in Morocco proved it very clearly (*Archives nationales*, 1949b). French, Moroccan and American businessmen were jointly interested in the exploitation of the natural resources of Black and North Africa.[8]

In connection with this interest, ECA gave a special aid of up to USD 45 million in the form of grants to develop the production of strategic materials. The United States was able to bring out more than USD 1 billion worth of strategic materials from Africa each

year. But the production increases were shared between the American administration and European countries. The American aid to European or American private investors (special aid) did not benefit the OT because they were not industrialized enough.

The French OT were the great beneficiaries of the special aids. See Table 1.1.

Table 1.1.Special aid to European overseas territories, 1948-1952

Zones	USD million
French Africa	50.8
Belgian Congo	19
British Africa	36.1
Portuguese Africa	4

Source: Bossuat, Gérard (1992a), *L'Europe occidentale à l'heure américaine, 1945-1952, le plan Marshall et l'unité européenne*, Brussels, Complexe.

The Europeans retained political control on their OT because they knew how to keep communism in check and keep order. However in Indochina due to the military American aid to France, local branches of the American administration were set up and opened the Indochina market to American companies which were in competition with French companies in the field of pharmacy or farm mechanization (*Archives nationales*, 1950a). The French President, Vincent Auriol, wrote: "The Americans give us money and we are paying by giving parts of our independence; that is dreadful" (Auriol, 1950). This American attitude sparked off strong reactions from the *Quai d'Orsay*, who talked about a new imperialism under "the appearances of a kind of humanitarian crusade from which religious inspiration is not out" (*Archives nationales*, 1949c) and refused idea of co-responsibility of France and the United States in the French OT (*Archives nationales*, 1951a).

Therefore, the special aid benefited to investments in ores and to extraordinary social and economic investments designed to show how the American administration was close to the needs of colonized populations (roads in Sub-Saharan Africa, soil restoration, rice culture in Morocco, ore research in Guinea, railroad in Mozambique). Up to 11% of the normal ERP given to France also benefited to the OT in the form of general interest investments or aid to private industrial plans (Sakoa coal field, iron from Guinea, public works, forestry, ore and textile industries).

The counterpart created by the dollar aid

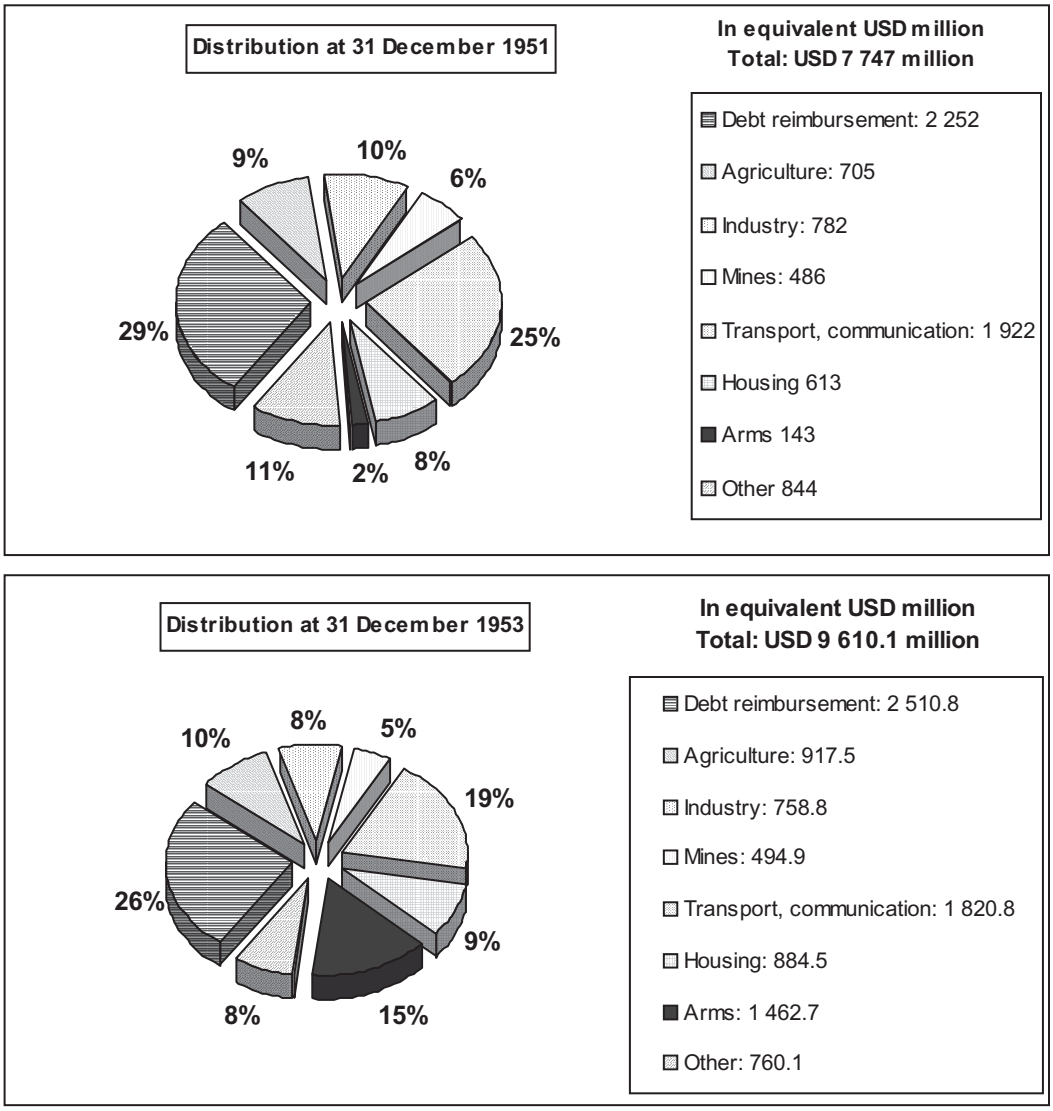
The ERP dollars paid the European importations on the American market as long as European currencies were not convertible. But the ERP products were sold in local currency to consumers. From this operation was born the counterpart fund which had to be used according to the dispositions of bilateral agreements. A double national and American supervision watched on these funds.

The counterpart was used either to reduce the internal debt or to invest and modernize the economy and public administration. The Congress was deeply interested in the first of these uses. Negotiations on the use of the counterpart allowed the United States to exert a control or a pressure on public expenditures. According to the Germans, ECA exerted a deep influence on the credit policy in Germany, against Erhard opinion. The counterpart

has been allocated to the basic industries in the framework of a two-year recovery plan endowed with USD 8 billion.

From 1949 to 1952, the counterpart amounted to only 5.5% of the big industrial investments. In Austria, counterpart funds were used to improve the livestock farming and training. In Italy, since the first months of ERP program, the southern economic lobbies asked the *fondo lira* to allocate two-thirds of its reserve to the south. Italians were quickly instructed to solve their debt issues. In Greece, half of the counterpart funds were allocated to the recovery, reconstruction and development of companies, and emergency aid to civil war victims, and the other half to the cumulated budgetary deficits. The Turkish effort for equipment was real while an important part of the counterpart was allocated to rearmament. See Figure 1.4.

Figure 1.4. How the different items of the counterpart were distributed in 1951 and 1953



Source: Bossuat, Gérard (1992b), *La France, l'aide américaine et la construction européenne, 1944-1954*, Comité pour l'histoire économique et financière de la France, Imprimerie Nationale, Paris.

In France the most important part of the counterpart was dedicated to the modernization plan (Plan Monnet) through a budgetary line called *Fonds de modernisation et d'équipement*. The provision of the counterpart to the national budgets as extraordinary but inflationist source of liquidities was obvious. Nonetheless France and other nations can only be very pleased about it.

American pressure, advice and interventions

Did ECA modify any investment programs? ECA and the Congress showed an obsession indeed for the "good" of Europeans. They wanted a strict fiscal reform in France and Italy but got no real success. They asked for the liberalization and the use of the finance market for investments.[9] They urged the French, non-communist political parties to support reforms (*Archives nationales*, 1948d). ECA officers disliked letting the counterpart go to the national and public companies, but for two years they accepted it, allowing the French, German and Italian governments to gather important funds for the primary economic sectors. ECA decided to simply choose the eligible investments to Marshall Aid from the annual lists of planned investments.

French and American bilateral relations became sensitive in 1950 when ECA refused to finance public companies. Indeed, when Americans felt a real danger of war during the summer of 1951, the Congress imposed to use most of the counterpart for military and social housing expenses in Europe and for increases in productivity. Americans published a list of social accommodations which appeared to have been financed by the counterpart funds.[10] The social concerns of ECA were taken charge of by French unions, except the CGT, and by the American CIO (*Archives nationales*, 1951c). "We feel there are important psychological advantages to be gained [in] providing tangible benefits of immediate interest to the average Frenchman," explained Barry Bingham, Head of the ECA Mission in Paris (*Archives nationales*, 1950b).

The American control was a reality everywhere, to different degrees, but never became a secret management of the economy of the great European countries. It was not the same in Austria, Greece and even in Italy. In Greece, which was under "American protectorate", the director of the Greek foreign trade, an American civil servant, distorted the *appels d'offres* to the benefit of American interests (*Archives nationales*, 1949d).[11] European governments had to strongly react to the urgent pressure of the American missions which wanted to fight against a possible spreading of communist propaganda in Belgium, France and Italy.

But according to the French experience, the more a government was determined to allocate the counterpart in a certain way it chose, the more it had the possibility to obtain its release from the Americans (*Archives nationales*, 1949g).

Propaganda was a main concern in bilateral relations. The French administration was opposed to support political propaganda. The ECA motto "For European Recovery" affixed on the imported ERP goods disturbed the French administrative authorities, the references to the American aid on dams and French *lycées* rebuilt totally or partially under the ERP were deeply criticized or sometimes destroyed. ECA also insisted to mark its "own" social accommodations (*Archives nationales*, 1951d, 1952). The French government accepted nonetheless to organize big humanitarian operations and to inform public opinion on the radio. Funds were allocated to a non-governmental organization (NGO), American Aid to France, for the reconstruction of Saint-Lô hospital (*Archives nationales*, 1951e). On the contrary, *Electricité de France* (EDF) outraged ECA-Paris by

forgetting to mention American aid in the financing of Genissiat dam. A battle of prestige and politics was in progress between competing French and American authorities, in front of the people of France and of the overseas territories.

The impact of the Marshall Plan

Contacts with the United States, with American goods, and with the men of the Marshall Plan contributed to the emergence of a new society in Western Europe. In particular, a new middle class was appearing. It was different from the classic *bourgeoisie*; it started to like American music, American thrillers and science fiction. In France, from 1953, it got used to reading a new, weekly magazine, *l'Express*, and to listen to a new radio station, *Europe n° 1*, both largely inspired by American mass media. American marketing techniques to reach consumers were starting to be used in Western Europe also. Credit, publicity, self-service developed like in the United States (Tournès, 1997). Paperback books and *microsillon* discs disturbed the habits of the youth, while Coca Cola settled in France in 1953 after a big battle in Parliament. Access to new drugs, such as penicillin or streptomycin was permitted. It was not a revolution, but a deep transformation of the values framework of an important part of European societies. **One has therefore to take into consideration the birth of a Euro-American model of modern society with different nuances adapted to each national European nation.**

The OECD, created on 16 April 1948, succeeded in liberalizing inter-European trade and in multi-lateralizing payments. To speed up the pace of trade liberalization, the United States proposed the creation of a European Payments Union (EPU). The EPU had the mission to first ease the transferability of the European currencies and later to reach convertibility, to release the quantitative restrictions on trade and to withdraw the trade bilateral practice. The plan mixed liberal economy and controlled organization of the markets.

The OECD increased European productivity by sending productivity missions to the United States or other European countries. The Americans proposed to teach participants of these missions their production methods. Productivity missions were formed with 20% white collar workers, 40% engineers or heads of workshop, and 40% workers (*Archives nationales*, 1949h). In France, worker, executive, and employer trade unions agreed to these missions, except the *Confederation générale du travail* (CGT). They were a way to persuade workers in general to accept new methods of production and to demonstrate *in situ* how a consumer society could work. The first mission was received by General Electric in Philadelphia (*Archives nationales*, 1949i, 1949j, 1949k).

The OECD and the Marshall plan, besides new aspirations for modernization, have built together the postwar society in which, says a historian, it is impossible to accept "the simplistic division between leader and followers". Modernization and the most recent American technology "produced a model of international relations which produced exchange of technology rather than one-way imports" (Varaschin, 2002).

Memory and future of the Marshall Plan

The memory of the Marshall Plan varies according to time and to social, political, and professional groups. The Marshall Plan was not ignored by European people because of an intense propaganda and of course of its obvious usefulness. But many Europeans who were not anti-American resented the deep dependence of Europe *vis-à-vis* the

United States, in a time of Cold War which drove them to adopt the point of view of the Atlantic and capitalist world.

The memory of the Marshall Plan is selective. Senior civil servants remember now how certain decisions were taken, without a political or even economic view on the context. Some of them speak mostly of the productivity missions. Few stress trade liberalization. They easily talk about EPU, but forgot the debates of OECD about liberal economy and controlled economy. The political choices have marked the memory of the Marshall Plan. Indeed, the nationalists, the communists, and the extreme left are resentful of the political dependence implied by American aid. For some people, to be in favor of the Marshall Plan, 20 years after it, was seen as a denial of USSR. On the contrary the necessity of a temporary aid was accepted by the center-left and center-right, in spite of its disadvantages. The memory of this debate remains.

The memory of the Marshall Plan is sometimes mixed with that of the military program. The Marshall Plan is wrongly considered as a rearmament plan and authors can write that the Marshall Plan was a victory of Atlanticism and a rejection of national independence. It has no longer now the same importance after the fall of the Soviet block. But the Marshall Plan remains a powerful argument for building the Atlantic solidarity.

The memory of the Marshall Plan is linked to Europe's entrance into the era of consumer society. The American presence in Europe through the Marshall Plan, military bases, high technology or even the social compromise from the New Deal, as well as anticommunism and decolonization, invited Europeans to a new world. However, that process could feed some anti-Americanism at the same time because of the threat of destruction of Europeans' own, historical values. Indeed the French opponents to the Marshall Plan were proud of their little national homeland with its gastronomic, economic, cultural or liberal arts traditions – without seeing how the war had already globalized the issues. Difficulties were made worse by the shock of the encounter with American society, which had already started, but accelerated in a period of extreme weakness for Europe.

Public opinion usually recognizes that the Marshall Plan contributed a great deal to the *Trente glorieuses* – the 30 glorious years of growth and prosperity which followed the liberation of France. Historians are divided over the impact of the Marshall Plan because Germany took off before benefiting from the Marshall aid, while France used the Marshall funds to finance the modernization plan of Jean Monnet. Moreover, the relevance of the Marshall Plan for development of any country is perceived differently in each nation according to its economic, moral, human, and financial condition. Historians have shown that the success of the ERP was linked to the previous success of a given country in the field of innovation capacities, production capability, or trade. And it is the case of the Western European countries. The Marshall plan invited the OECD countries to co-operate, a great innovation compared to the pre-war period. In fact it contributed to the division between Western and Eastern Europe.

Today the Marshall Plan is now used to warn public opinion against an impending, unusually disastrous situation demanding immediate solution. It is a great honor for the Marshall Plan. Here one is not talking about the historic Marshall Plan anymore, but about an icon representing a success story celebrated by history.

The sociologist has to analyze what the Marshall Plan means in the mind of those who call for a Marshall Plan for Eastern Europe (1991), for Africa (always), for the French *banlieues* (2005), for French universities, or for the reduction of the European

technological gap. Using this historical reference without any connection with the real Marshall Plan means the will to act quickly, with efficiency and with significant financial transfers, in order to reach a quick success. Here we are entering the mythical and the miracle sphere.

Historians always say that a historical event is specific. So the Marshall Plan is linked to a period when Europe was destroyed, to the unchallenged power of the United States, to the dream of consumer society and to the power of the dollar. The Marshall Plan answered European problems because the young international institutions, such as the United Nations (UN), the General Agreement on Tariffs and Trade (GATT), and the World Bank, lacked efficiency. The Marshall Plan was a success because it associated considerable financial aid with a modernization plan of the whole European economic system, and it made the union of Europe possible. It permitted to overcome the terrific nationalisms of the 20th century. It worked because the danger of war was not urgent anymore in 1947, and it fell in 1950 due to the threat of hot war. The Marshall Plan represented an unstable equilibrium between a fixed aid (take or leave) and a negotiated aid, between political imperialism and respect for participant countries. It meant important technological and financial transfers, opening markets and minds. It drove to its own end as quickly as possible.

Conclusion

The reference to the Marshall Plan is always a necessity. But is it a model good to be reproduced in the conditions of the 21st century international relations and internal development of the states? It is a myth that crystallizes energies. The still-existing troubles against which Marshall intended to fight are called today disorder, terrorism, exclusion, poverty and hunger, illegal immigration, inflation and unemployment, as well as pollution. Now it is the European Union that fights against them, obviously in co-operation with the United States and other actors in the world. The European Union calls for the design of a new world and internal order in its own ways, in the spirit of the Marshall Plan.

Notes

1. See the conversion rate table for inflation-corrected dollars in *http://oregonstate.edu/cla/polisci/faculty/sahr/sahr.htm*, Professor Robert Sahr, Oregon State University.

2. With Joseph E. Johnson, Ware Adams, Jacques J. Reinstein and Carlton Savage.

3. France and the United Kingdom convened in that conference representatives from Austria, Belgium, Denmark, Greece Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland and Turkey.

4. Harriman report from 8 November 1947, reports by Julius Krug and Edwin Nourse.

5. The Congress approved USD 4.9 billion for European military security, and only USD 1 billion for "defense support", a term designating the old economic aid. The ECA is replaced on 1 January 1952 by the Mutual Security Agency (MSA). The Mutual Security Law of 1952-53 ceases to be associated with the ERP.

6. Luxury cars, car audio, cameras and films, clothing, sweets, household appliances, precious metals, musical instruments, personal items, sport accessories, toys.

7. Chase Manhattan Bank with *Banque de l'Indochine, Banque de Paris et des Pays-Bas,* Bank of the European Union*, Banque de l'Union Parisienne*, Lazard, Worms, Bank of West Africa.

8. The ECA was interested in manganese and cobalt from Morocco, lead from Northern Africa, graphite and mica from Madagascar, chromium from New Caledonia, and tin from Indochina.

9. "Il faut que les Américains s'immiscent dans les affaires du pays et lui apprennent à gérer ses affaires jusqu'au moindre sou", wrote Charles H. Kline on 8 October 1948 in *US News and World Report.*

   David Bruce, the ECA representative in France, writes to his administration: "If the French administration cannot provide a satisfactory commitment on budgetary and fiscal policy and cannot present us with plans calculated to achieve that policy, we should refuse to agree to the release of the counterpart" (*Archives nationales,* 1948c).

10. Paris, Le Plessis-Robinson, Clamart, La cité universitaire d'Antony, en Moselle les villes sidérurgiques, Strasbourg, Le Havre, Rouen, Douai, and the Lyonnaise region: Parilly, Saint Etienne (*Archives nationales*, 1951b).

11. Bull is replaced by Remington Rand for the sale of statistical machines. The Greek ECA refused to buy with American aid Dietrich railcars. See *Archives nationales*, 1949e and *Archives nationales*, 1949f.

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Chapter 2. The Marshall Plan and the Recasting of Europe's Postwar Industrial Systems

by Volker R. Berghahn

This chapter is designed to complement Gerard Bossuat's Chapter 1 on "The Marshall Plan: History and Legacy" and thus approaches the topic from a somewhat different perspective. While Bossuat's first presents a historical perspective in the contexts of a balance sheet and some illuminating quantitative information that is indispensable to an understanding of the impact of American aid to postwar Western Europe, my contribution attempts to raise questions about the larger historical context in which the Marshall Plan might be seen.

More particularly, it deals with the strategic calculations of the United States as the hegemonic power of the West after 1945, and starts from two presuppositions: *(1)* that American planning and policies during the 1940s are best understood if related to the ideas and experiences of a generation of decision makers that had by then moved into key positions of power and influence; *(2)* that this generation was profoundly shaped by memories of World War I and the interwar period.

This means that the announcement and implementation of the Marshall Plan must be seen against the background of the decisive role that the United States played in the defeat of the Central powers in 1917/18, followed by a similarly crucial role in the defeat of the Axis powers – Germany, Italy, and Japan – in 1941/45. The fact that America, in World War II, found itself fighting what was in many ways a repeat performance of a conflict with Germany a generation earlier, led decision makers in the 1940s to learn one major lesson from the past, *i.e.* that it had been mistake in 1919 to retreat from world politics after the country had tipped the scales in favor of the Allied victory in 1918. There was to be no second return, after the end of World War II, to isolationism and to letting the Europeans, faced once again with unprecedented human and material devastation, sort out their problems by themselves.

In the eyes of the generation that came of age in the 1920s but was still too young to wield much influence at that time, isolationism had contributed not only to the mess of reparations that poisoned intra-European relations in the 1920s; it had also exacerbated the structural weaknesses of Europe's economy and prevented a more far-reaching stabilization and modernization of the region after the blood-letting and material destruction of the "Great War", as the British called the 1914-1918 catastrophe. Worse, in 1929, the world economy that had seen a precarious recovery in the mid-1920s collapsed once more. Mass unemployment and economic despair spilled over into the political systems of Europe, promoting voter radicalization and the rise of extremist parties on the right and left of the political spectrum.

A first climax in this development was reached in Germany in 1933 when Hitler's Nazi movement seized power, quickly transforming the parliamentary Weimar Republic

into a ruthless one-party dictatorship bent on overthrowing the 1919 peace settlement by military force and on conquering "living space" in the depths of the Eurasian continent. Moreover, in Italy a fascist dictator had been in power since 1922, with no less exorbitant ambitions of territorial conquest in the Mediterranean region, and in the Far East Japan was expanding into China in search of its own "Greater East Asia Co-Prosperity Sphere" (Hildebrand, 1973; Smith, 1976; Lebra, 1975). And so, in 1939, the United States again saw itself confronted with the question of whether and when to intervene in this follow-up world conflict.

The generation of American decision makers who, without being able to do anything about them, had witnessed these developments as young men at the beginning of their professional careers or as students at European universities, drew two conclusions from these experiences and memories of what had gone wrong after 1918:

1. This time the Axis powers had to be totally defeated. There was to be "unconditional surrender" without hope of compromise, such as US President Woodrow Wilson's Fourteen Points had raised among Germans in the fall of 1918 (Schwabe, 1985).
2. There was to be no second retreat into isolationism. After World War II, America would take an active role in shaping the postwar Europe and the rest of the world.

This active role was to focus on two aims, *i.e.* the re-establishment of an open door world economy and multilateral trading system, as had existed, albeit incompletely, before 1914 (Hull, 1948). There were to be no more protectionist economic blocs with imperial preference systems; no more autarkic empires such as the Axis powers were dreaming about and in fact began to build in the early 1940s. The world was to be organized along the lines of a liberal-capitalist economy based on the idea of competition in the market place and the welfare state principles that had been introduced under the New Deal.

Secondly, there was also to be competition in the political market place within the framework of democratic-parliamentary systems. One-party dictatorships of the kind that proliferated in the 1930s and resorted to the repression of political opposition were anathema to the generation that began to move into key positions at this time. Ultimately, the two spheres were viewed as interdependent. Just as lack of economic competition was assumed to be promoting authoritarian politics, political democracy could survive only if complemented by what Thurmond Arnold, the head of the antitrust division in the Washington Justice Department in the late 1930s, once called "economic democracy".[1]

Discussions of these ideas and of the lessons to be learned from World War I began among the political, economic, and intellectual elites of the United States well before the Japanese attack on Pearl Harbor and Hitler's declaration of war on the United States. They were first enshrined in the Atlantic Charter of August 1941 – a document still worth reading for an understanding of American peace aims (Brinkley and Facey-Crowther, 1994). Another pertinent summary of US peace aims can be found in a famous article that Henry Luce, the owner and editor of *Life Magazine*, published there in January 1942. Entitled "The American Century" it was implicitly critical of American foreign policy in the first half of the 20th century when it had failed to make that era "American" (Stoler, 1989). In light of this failure, the United States, he continued, should make certain that it decisively shaped at least the second half.

In order to understand the significance of these statements of the early 1940s, it is worthwhile to recall what the Axis powers were saying and doing at this same moment.

Thus, following his attack on the Soviet Union in June 1941, Hitler confidently expected the imminent collapse of Russia by the fall of that year, which would have put him in a position to execute with even greater ruthlessness and on a larger scale than before the policies of looting, exploitation, and mass murder that he had begun inside Germany after 1933 and in conquered Europe between 1938 and 1940 (Rich, 1973). Meanwhile the Japanese were continuing their brutal conquest of East Asia while Mussolini was trying to build his "Roman empire" around the Mediterranean. Clearly, the "New Orders" that the Axis powers were talking about and implementing represented in every respect the opposite of the norms and values that the West had been trying to uphold and enunciated again at the end of the war in the preamble of the Charter of the United Nations.

However, these were not just high-minded statements. Planning for the eventual peace whose arrival was merely a matter of time once the United States had entered World War II, began without delay. Experts from all spheres of society were pulled together and postwar planning committees set up at all levels. And just as the war boards and other bodies, charged with the organization of production and manpower allocation for winning the war, united people and groups from all walks of life, the planners for the postwar period also met around the table and drafted assessments and programs for the future (Wala, 1994).

They were faced with a myriad of problems and searched for answers to innumerable questions. However, there were two that loomed particularly large for the planners of the postwar European order: the role of the Soviet Union and of Germany in the "American Century". The Soviet problem was a particularly thorny one because of the deep suspicions and tensions that had existed in America's relationship with Bolshevik Russia ever since 1917 (Kennan, 1956). But in 1941, with Hitler's invasion of the Soviet Union, these differences and ideological incompatibilities had been swept under the carpet by the joint effort to defeat the Axis powers. The question before the planners in Washington was now as to whether the wartime alliance with Stalin would continue beyond the war and, if so, how and how far that country could be integrated economically and politically into the postwar order.[2] This question powerfully moved into the foreground during the preparation of Marshall's speech at Harvard University in June 1947, and was settled at that point.

Although the Soviet question was linked to the German question, the latter was actually decided upon a little earlier and will therefore be discussed first. In the eyes of the American planners and decision makers, Germany posed an awkward choice. On the one hand, she was seen by the Americans as having been responsible for the two world wars which the United States had been dragged into. There was hence a marked and understandable tendency to deal harshly with the Germans, not only in order to punish them for their crimes, but also to make certain that they would never again be in a position to unleash World War III. The most effective way of securing this particular peace aim was to destroy the war-making capacity of German industry.

However, there was another lesson to be learned, this time from the experience of the 1920s. It was during those years that a parliamentary-democratic Weimar Republic had been weakened not only by its internal antidemocratic enemies, but also by the refusal of its foreign neighbors to reintegrate it into the community of nations politically and economically. The American refusal to be a major actor in the international system of the 1920s had made a genuine revival of Weimar Germany's industrial economy all the more difficult. There were, it is true, mitigations of Germany's ostracism; but they proved too

weak. It was only in the 1930s, after Hitler had destroyed the Republic and built his dictatorship that the Allies offered concessions that they had refused to make to his predecessors, thereby boosting the Nazis' domestic prestige and bolstering their aggressive designs. The other lesson to be learned from this particular earlier history was therefore that it was better to bring a democratic Germany back into the international system than to keep her out.[3]

It should be stressed that both positions were held during World War II in postwar planning circles in Washington and elsewhere. Some experts tilted more in the direction of a harsh policy while recognizing the need for reintegration; others gave priority to reintegration over purgatory.[4] The debate came to a head in 1944 when the so-called Morgenthau Plan put forward the punitive solution. There have been many myths about this plan that allegedly advocated a reagrarianization of industrial Germany. While this has been shown to be an exaggeration; US Treasury Secretary Henry Morgenthau certainly envisioned the destruction of the German industrial war production capacity that was concentrated in the heavy industries of the Rhine-Ruhr region (Kimball, 1976; Greiner, 1995).

The ephemeral acceptance of the Morgenthau Plan by US President Franklin D. Roosevelt and British Prime Minister Winston Churchill triggered a huge interdepartmental struggle in Washington. It pitted the Treasury and Justice departments against the War and State departments, with the latter two leading the "reintegrationist" camp. Indeed, Secretary of War Henry Stimson was so alarmed by the plans of the opposition that he warned that implementing the Morgenthau Plan would lead to nothing less than a revolutionary upheaval in central Europe. Anticipating that the end of the war would complete the massive impoverishment of the German population that had begun under the exigencies of the Nazis' total war effort and the massive German losses both at the front and from aerial bombing, the proposed deindustrialization, even if limited, would drive the Germans into the arms of communism at the very moment when the Allies, appearing on the scene as an occupying power, would have enough on their hands to feed the population and establish some kind of order and security. International law of occupation and humanitarian considerations left them with no other choice.

Given that large bureaucracies tend to move very slowly and interdepartmental rivalries cannot be resolved overnight, it was perhaps inevitable that the two positions continued of exist side by side as the war came to an end. It was reflected in the directive JCS 1067 that was supposed to guide American occupation policy. General Lucius D. Clay, as the man in charge of the American occupation, was prepared to pursue a tough policy toward the Germans (Smith, 1974). But when he toured the country and saw the degree of destruction and misery that had been wrought, he quickly took a more moderate line, paving the way for a policy of German reintegration rather than punishment and ostracism.

There are many manifestations of this shift after "unconditional surrender". For example, the ban on fraternization between the occupiers and the population was abandoned quite soon; the authorities and private organizations, such as the Quakers, began to feed a starving people; the reemergence of political life was encouraged with the licensing of parties, trade unions, civic associations, and news media. The initial dismantling of factories was slowed down. Instead the Military Government's Economic Division under William Draper, a former executive of the Dillon Read investment house, tried hard to get industry going (Sobel, 1991). In line with the American goal to create the foundations of a competitive open door market economy he ordered a ban on the

formation of protectionist industrial cartels, *i.e.* the horizontal agreements between independent firms to fix prices and production quotas that were so widespread in the German industrial system before 1945.[5]

The element that it might be argued still reflected a concession to the hardliners around Morgenthau was the decision to break up some of the very large corporations that had occupied something like a monopoly position in the Third Reich. Two examples of this deconcentration are the *Vereinigte Stahlwerke* and the *I.G.Farben* chemicals trust (Bührer, 1986; Stokes, 1988). But Draper never contemplated their breakup into a welter of small firms. The idea was always to preserve units that were large enough to compete in a market that, like the American one, would be organized in oligopolistic fashion.

There was a major strategic calculation behind this policy of decartelization with limited deconcentration: German industry was to be used as the engine of growth in the planned reconstruction of European industry under American aegis and according to Fordist principles of organizing a modern system geared to mass production and mass consumption to be discussed in a moment. Indeed, German industry was well placed to fill this role. It still was potentially the strongest in Western Europe, and Draper wanted to mobilize that potential for Western European reconstruction at large.

Having examined why the Morgenthauians failed to push through their solution to the German question and thus also explaining why West Germany came to be included in the Marshall Plan just a few years after the end of a horrific world war, there are now two further issues that have to be mentioned in the context of our topic.

The first issue emerged from scholarly criticism of the importance and effectiveness of the Marshall Plan. Thus, the British economic historian Alan Milward in his influential book *The Reconstruction of Western Europe* has argued that Marshall's European Recovery Program (ERP) was but a minor factor in the resurgence of Europe (Milward, 1984). According to Milward, the Europeans more or less pulled themselves up by their own bootstraps. He was seconded by the German economic historian Werner Abelshauser who asserted that the crisis in the German economy, especially in the winter of 1946/47, was essentially of crisis of a breakdown of the transportation system, not of insufficient production and capacity. Once this crisis had been overcome, West German recovery had begun before the arrival of ERP funds (Abelshauser, 1989).

These arguments have been vigorously disputed by other experts who have marshaled their own statistical evidence against Milward and Abelshauser (Hardach, 1987; Schröder, 1990). However, the two of them may also be said to have overlooked an aspect of ERP that cannot be quantified and leads us into the less tangible field of social psychology. The fact that the US administration in Washington, through its Secretary of State, committed itself in June 1947, if not before, to the economic reconstruction of Europe was, to begin with, an enormous boost to European morale. Abandoning its isolationist tradition from the post World War I period, Washington came into Europe prepared to help the region lift itself out of its post-1945 destruction and depression. The optimism that this generated is obviously difficult to quantify, but it would be wrong not to factor it into an assessment of the recovery of the late 1940s.

There is yet another qualitative factor: Washington's official commitment to Europe also encouraged American private industry. Some of the big corporations had investments and production facilities in Europe whose expansion and modernization they were now more prepared to consider. Other firms, with a strong dollar in their hands, similarly contemplated attractive participations in European companies that were looking for

American technology, new production techniques, work organization, management, and marketing.

This, finally, leads to an aspect of the execution of the Marshall Plan on which a good deal of research has been done over the past decade: the Productivity Councils. This was a program developed by ERP administrator Paul Hoffman, a former president of the Studebaker Corporation, and his colleagues to take European managers, trade unionists, politicians, and bureaucrats to the industrial centers of the United States (Raucher, 1985; Hoffman, 1951). They were invited to witness steelmaking in Pittsburgh, tire manufacturing in Ohio and the long assembly lines of the Ford Motor Corporation in Michigan. They were also shown the full car parks outside the factories, department stores, and the benefits of a consumer society (Kipping and Bjarnar, 1998). Hoffman's hope was that these visitors would go back home sufficiently impressed to think of introducing, in their own enterprises, some of the institutions and practices they had seen across the Atlantic. He did not expect them to copy everything, but develop variants that took account of indigenous traditions and attitudes. Although there has been some discussion of *Americanization and its Limits* of this kind, the impact of this program on gradual economic change in Europe should not be underestimated (Herrigel and Zeitlin, 2000).

The fact that West German industry had been earmarked by the Americans to become the motor of European reconstruction and by 1948/49 had in fact taken on this role, inevitably alarmed West Germany's neighbors, particularly the French, the fourth occupying power. One response to what the French government had come to realize the Americans wanted to do in postwar Western Europe economically was to develop a major plan for the modernization of its industries (Kuisel, 1983). It was led by Jean Monnet who, based in Washington during the war, had glimpsed enough of American postwar planning to want to prepare French industry for the new competitive American-dominated world economy and multilateral trading system that he saw coming.

But there was also the fear of German industry, especially of the Ruhr that had provided the military hardware of two invasions of France. For a while, Paris fell back on its interwar strategy of trying to keep West German industry weak. When this was vetoed by Washington, the French pushed for the internationalization of the Ruhr and failed again (Hitchcock, 1998; Willis, 1962). It is against this background that the effort of the ERP administrator must be seen to give France a major chunk of the aid package. The blocking of France's German policies by the Americans and the sense on the part of the latter that something must be done to reassure Paris finally explains why Hoffman made a major speech in Paris in October 1949 in which he encouraged the Europeans to integrate their economies and to start with coal and steel, so vital to the successful reconstruction process.

To quote him directly, he began by applauding European reconstruction efforts. He had seen "anxiety give way to hope" and was now asking his audience "to turn hope into confidence." He called upon his audience "to move ahead on a far-reaching program to build in Western Europe a more dynamic, expanding economy which will promise steady improvement in the conditions of life for all its people. This means nothing less than the integration of the Western European economy." Later Milton Katz, one of Hoffman's closest collaborators, recalled this speech as the point "when we began moving away from the original problem of how to organize a sensible aid program to the larger emphasis on the reorganization and the restructuring of the European economy and European society" (Behrman, 2007).

Indeed, in line with American objectives, as formulated during the war, reorganization had always implied a recasting. It is therefore no coincidence that Hoffman, appearing before the Sub-Committee of the Appropriations Committee in Washington in May 1950 (*i.e.* at the time of the Schuman Plan announcement) argued that the destruction of the European cartel tradition filled him with great hopes "for the reestablishment, via Germany, of competition in Western Europe." The aim was to build in the Federal Republic "the kind of free competitive economy that we have in the United States." Once this had been achieved with the means that he had developed within the ERP framework, Germany would have "a very effective economy" whose principles would spill across the Rhine (Berghahn, 1986). After all the adoption of competition in a powerful industrial economy like that of the Federal Republic would also stimulate competitiveness among its neighbors. Germany, in other words, was to be the engine of material recovery and the pacemaker of American-style capitalism with a Keynesian face. The forces of the market were to be unleashed, while upholding the welfare state and a sense of solidarity with those who, for perfectly good reasons, could not fully participate in the rising prosperity (Collins, 1981; de Grazia, 2004; Daniel, 1982; Ellwood, 1992; Herbst *et al.*, 1990; Lundestad, 1998).

Again there has been some debate about who initiated the Schuman Plan and the creation of European Coal and Steel Community (ECSC). There can be no doubt that most of the credit must go to Monnet and his team as the driving force behind this scheme in 1950/51 (Gillingham, 1991; Wilkens, 2004). But again the American contribution to the conception of the ECSC has been very important, and so was the help that Washington gave the French during critical phases in the negotiations. In the end, the managers of the Ruhr industries had to be pushed into accepting the draft that Monnet submitted in the spring 1951, and without the leverage that US High Commissioner John J. McCloy had and used in Bonn, the first step to the later European Economic Community and the European Union might well have come to grief (Schwartz, 1991).

If we have examined the Marshall Plan thus far in its various ramifications, including the German question that loomed so large in the postwar settlement, we must finally return to the Soviet question. As is well known, the wartime alliance with Stalin did not hold. The structures and principles of the socio-economic and political order that Washington and Moscow embodied were just too far apart to be integrated under the same roof. The Cold War was probably unavoidable. It is nevertheless intriguing that Marshall extended the invitation of aid also to the countries of Eastern Europe and to Stalin. A good deal of research has been done on how sincere this offer was and how seriously Moscow contemplated it. But the fact remains that Stalin ultimately turned the offer down (Roberts, 1994; Hering, 1997; Westad *et al.*, 1994).

There is general agreement that this outcome was very distressing to societies that were soon incorporated into the Soviet Bloc. They had to wait for another 40 years before they could become part of a European Community that had meanwhile emerged as a major zone of prosperity and stability with more or less well functioning parliamentary democracies. It is a story that Professor Geremek's contribution takes up. But there is an irony in that it may well be doubted if the Marshall Plan would have been as successful as it was had Washington not been able to concentrate its effort on Western Europe. Certainly, the original estimates of the funds required were much higher than what Congress eventually approved. We should also not overlook that a good deal of domestic opposition had to be overcome in the United States.[6]

It is an open question as to whether the Administration would have succeeded if the countries of Eastern Europe had been included in the program. Even more seriously, there is the problem of how much change ERP could have affected. In Western Europe the aid flowed into societies that were largely urban and industrialized. The economies of Eastern Europe, on the other hand, had remained rural and agricultural. However, historians are never happy to draw up large counter-factual scenarios of how things might have developed if Stalin had agreed to the American offer. History took a different turn in 1947. Having prospered under American hegemony, the West Europeans were economically strong enough by the 1980s to help the former Soviet Bloc countries, in conjunction with the United States, in making their transition to modern competitive market economies, consumer societies with rising living standards, and political systems that had left behind the authoritarian and repressive structures of the Soviet period. In a way, this, too, may be seen as part of the long-term impact of the Marshall Plan.

As we have seen, the United States learned many lessons from the period prior to 1945 that were applied to the conception and execution of the Marshall Plan. If there is a lesson to be learned from this experience for the 21st century, it is that a successful strategy of postwar socio-economic change that ERP encapsulated has to be prepared well in advance and must bring together the best expertise. Amateurs who are oblivious of history and societal complexity will merely produce disaster.

Notes

1. On the interconnectedness between "economic democracy" and political democracy as understood in the United States, see Arnold (1940). On Arnold see, for example, Gressley (1964).
2. See, for example, Mason (1940). This book was, significantly, published under the auspices of the influential Committee on Economic Development, an economic think-tank and discussion circle whose membership included many prominent businessmen and a *pendant* to the Council on Foreign Relations that was more concerned with political planning.
3. See, for example, Robbins (1997) and Schmidt (1986). There was also an American version of "economic appeasement". See Schröder (1970). The basic idea on both sides of the Atlantic to entice Hitler back into the international system by offering political and economic concessions in return for a promise that he would not overthrow the territorial status quo by means of force. By 1938/39 it was clear that Hitler was not prepared to accept this kind of deal. He was aiming at military conquest and an autarkic empire.
4. For an excellent study on this topic, see Mausbach (1996).
5. Cartels had also been formed in other West European countries and there was also a trend toward the formation of international cartels, often directed against their American competitors.
6. Thus Allan Dulles', *Marshall Plan*, (1993) was originally written to highlight the importance of this program, but was not published at the time, partly because the Administration's domestic propaganda effort was yielding results.

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Chapter 3. The Marshall Plan and European Integration

by Bronisław Geremek

Introduction

As a Polish intellectual and politician I was honored and privileged to be able to take part in the conference marking the 60th anniversary of the Marshall Plan, even though my country was not included in the original European Recovery Program. Under pressure from Stalin, the Polish government of the time rejected the United States' offer of assistance, as did the governments of all East Bloc countries. This meant that Poland was condemned to four decades of economic under-development and subjugation to the Soviet Union. During the debates on what the plan's geographical extent should be, France in particular was in favor of Poland's inclusion in it. Prime Minister Paul Ramadier said in 1947, "It is necessary for that unity to also include Poland, because then we would be able to say that Europe extends at least as far as the Vistula." I would like to express my gratitude also as a European politician and president of the Jean Monnet Foundation for Europe, because Monnet, one of the European Union's founding fathers, played a crucial role in the promotion and implementation of the Marshall Plan, and the plan itself was an element of the process of European integration.

American aid to Europe has been extensively discussed in the historic literature, which includes the works of Alan Milward, Stanley Hoffman, Tony Judt, and the exemplary work of Gérard Bossuat. In this paper, I shall focus primarily on the Marshall Plan's impact on European integration.

Historical perspective

The Marshall Plan can be considered in the short time it was in place, from George C. Marshall's speech at Harvard University on 5 June 1947 to the outbreak of the Korean War and the reorientation of American policy in 1951. When seen in this perspective, it is obvious that it was an extraordinary undertaking, one which defined Western Europe's development trends for decades to come. In terms of "probabilistic" or "counterfactual" history, it can be supposed that without the Marshall Plan, the postwar history of Europe would have would have been entirely different. Germany would have been weak and fragmented, vulnerable to annexation into the Soviet bloc, or at any rate economically and politically marginalized. France and Italy would have had to confront the perspective of being ruled by communist parties subordinated to the strategic objectives of the USSR. The United Kingdom, absorbed in the internal crisis of its empire, would have turned its back on the Continent, and the English Channel would have become a civilizational frontier. The United States would have oriented its policy toward the Pacific, tending toward isolationism and limiting its Atlantic involvement only

to the other English-speaking power, United Kingdom. Without the Marshall Plan the world would have been very different indeed.

However, we can also consider the Marshall Plan in a much broader perspective – of the period of 1914-1945, which would include both world wars. Some historians see the two wars as a Thirty Years' War, so closely were they connected. As a strategic endeavor, the Marshall Plan grew out of the bitter experience of World War I and the attempts to establish a new European order. Other significant factors included the memory of the effects of the United States' withdrawal from European affairs, of the lack of a vision for the defeated Germany's postwar future, and of the insufficient level of co-operation between European states within the League of Nations and outside it. From this perspective the Marshall Plan can be seen as an expression of the far-sighted geo-strategic approach of the United States, which overcame the temptation of isolationism and undertook the challenge of co-operating with Western Europe on laying the economic foundations for a new European order. The key concept of Marshall's Harvard University speech was that for American aid to be effective, the countries of Europe must agree on their own expectations as well as on the actions they themselves would undertake in order to carry out the plan. Just as important were the words addressed to the Americans, reminding them of the United States' historic responsibility for Europe's success in its postwar reconstruction.

The Marshall Plan was initiated already after the beginning of the long "Cold War". Winston Churchill had already made his speech about the "iron curtain" which had divided East and West. In 1947 Walter Lippman published his famous book, "The Cold War". The French historian Georges-Henri Soutou gave his book on the confrontation between East and West the significant title "The Fifty Years War", with the beginning of that war in 1943 and its end in 1990 (perhaps the more accurate date would be 1989, when the people of that "other Europe" overthrew the communist system). Although I believe the ideas on which it was based and its political intentions seem to place the Marshall Plan outside the logic of the Cold War, its outcome played a fundamental role in unifying the West and forming the Euro-Atlantic community.

The European postwar context and the Marshall speech

We now know that Marshall's Harvard speech was prepared in secret by a team of the Secretary of State's closest co-workers, headed by George Kennan, and that it came as a surprise to European leaders. However, there was a growing conviction in both Europe and America that international policy could not be a continuation of the war-time alliances; this was proved right by the growing tensions within the Big Four on the subject of the administration of occupied Germany, as well as about the European situation in general. In his memorable 1946 Zurich speech, Winston Churchill introduced the idea of the United States of Europe, thereby presenting the issue of the unity of continental Europe as an urgent challenge of the moment.

Diplomatic activity focused on the political future of Germany. After the foreign ministers of the Big Four met in Moscow in the middle of 1946, it became clear that France would not accept the idea of German unification and the UK minister, Ernest Bevin, convinced US Secretary of State James F. Byrnes that the English-speaking nations should support the French in order to maintain the unity of the West. In his speech in Stuttgart on 6 September 1946, Byrnes stated that American troops would remain in Germany as long as the troops of the other great powers. Through the Bizone and

Trizone, this led to the creation of the German Federal Republic and cemented the division of Germany. The challenge was the catastrophic material situation of the German people. In 1997, Helmut Schmidt described those years in the following words, "I had imagined that when we lost the war we Germans would have to live in caves and holes in the ground, but this apocalyptic vision turned out to be much worse than our actual conditions. True, we struggled for coal and food; there were days during the winter of 1946-1947 when we stayed in bed because there was nothing to eat and nothing to burn for warmth. Divided into four zones and occupied by the allies, Germany was in agony. Its remaining industrial capacity was being dismantled, unemployment was rising, and the black market was the only market."

The situation in France after the end of the war was not very different. The specter of famine and galloping inflation, coal and coke shortages, ration cards providing the citizens with amounts of food that were frequently smaller than during the occupation – that was how the French lived in the years after World War II. Reparations from Germany were not enough to revitalize French industry. France's gold reserves were becoming exhausted at an alarming rate. When American wartime aid under the Lend-Lease program ended, the French economy felt an acute shortage of dollars. Plans for British-French co-operation did not bring political nor economic results. In this situation, Jean Monnet's voice was clear: France needs American assistance, and Germany should be given a proper place in the reconstructing Europe.

The situation in other countries on the continent was not much different than in Germany and France. Italy and the Netherlands were in a similar situation, as were the countries of Eastern and Central Europe, which had been invited to take part in the Marshall Plan. Jean Monnet noted in his memoirs that England had exhausted its resources to a similar extent as France and in 1947 was forced to suddenly suspend its aid to Greece and Turkey, which threatened not only Great Britain's post-imperial interests, but also the stability of all of post-Yalta Europe. The United States' response was immediate: President Harry Truman asked Congress for loans and arms for Greece and Turkey. The civil war in Greece influenced the President to make the 12 March 1947 proclamation in which he formulated what came to be known as the Truman Doctrine, stating that all nations fighting for their freedom could count on assistance from the United States. Another element of the doctrine was the declaration that American aid would be primarily economic and financial, in order to support economic and political stabilization. The Marshall Plan should be seen in that context. The failure of its conciliatory diplomatic overtures toward the Soviet Union reinforced the United States' belief in its historic responsibility.

Jean Monnet records in his memoirs that Marshall's Harvard speech surprised him, but that at the same time he was pleased that it reflected his own analyses, which led to the conclusion that the most important thing was to help others help themselves. He felt admiration for the results of the work of the American team which had developed the plan. Marshall, Acheson, Clayton, Harriman were all people he knew well. Another one was John Foster Dulles, whom Monnet had befriended already in the first years after World War I. In the face of the Russians' blocking all decisions on the future of Germany, the future secretary of state, at that time a Republican senator, convinced General Marshall that the resources of the Ruhr should become the focal point for the reconstruction of the European economy, with the region remaining under the supervision of Germany's neighbors. In that way France could receive satisfaction, all of Europe – a chance for recovery, and the United States could foster Western solidarity against a rising Eastern Bloc.

Another reference point for the Marshall Plan were George Kennan's arguments about the ideological root causes of Soviet expansionism and the strategy of containment as the only effective way the West could oppose that threat. The Marshall Plan fit in with this line of reasoning, since by providing Western Europe with economic support, it deprived the communist parties in those countries of a chance to take advantage of social discontent and seize power. Without American aid it would have been necessary to introduce severe austerity measures, which could have caused social unrest and in consequence radical political changes.

This political aspect of the Marshall Plan, *i.e.* the defense of Europe against communism, went hand in hand with a geo-strategic aspect – the aim of restoring Germany to its proper place on the European political scene. This was what General Marshall was referring to in his Harvard speech when he said, "Any government which maneuvers to block the recovery of other countries cannot expect help from us." Since he could not have been referring to Russia, which would not be receiving any aid, he meant Germany, whose recovery France feared.

It can thus be said that in its general political intentions, the Marshall Plan was in line with the Truman Doctrine and the plan of containment authored by X – *i.e.* Kennan – and did not in fact promote European integration. The plan can be considered to form an integral part of the development of the Euro-Atlantic alliance – with the Treaty of Brussels of 1948, which created the Western European Union (WEU) and the 1949 Washington Treaty, which established the North Atlantic Treaty Organization (NATO).

Jean Monnet and European contributions to the Plan

"It would be neither fitting nor efficacious for his Government [*i.e.* the US Government] to undertake to draw up unilaterally a program designed to place Europe on its feet economically, this is the business of the Europeans. The initiative, I think, must come from Europe". The response to these words spoken by George Marshall was already prepared: it was the Monnet Plan. It was the voice of France, but spoken by a great European.

Jean Monnet had worked at the League of Nations and the bitterness of that organization's impotence stimulated him to think of the future of Europe in entirely new terms. It was already in 1940, during his stay in the United States, that Monnet and his American and European friends had the first discussions which helped form his conception that the European federal idea must begin with the postwar rebirth of the nation-states, followed by their interlinking through bonds of economic co-operation. During his stay in Algiers with his future co-workers (Hervé Alphand, Robert Marjolin, Etienne Hirsch, René Mayer) on 5 August 1943, Monnet presented a memorandum which constituted a plan of an action strategy for the postwar years. Remembering the two plans which Monnet was to formulate after the war – one named after him and the other after Robert Schuman – we read this memorandum, full of detailed and even technical directives, with a mixture of emotion and admiration. It unequivocally supported federal co-operation on a pan-European scale, warning at the same time against returning to national prestige politics and protectionist practices. Monnet believed that protectionism and "economic nationalism" constituted a fundamental threat to the future of Europe.

Monnet addressed his own country, "France is connected to Europe. It cannot escape that. The life of France depends on solving the European problem." Monnet was deeply convinced that individual European countries were too small to guarantee their people

economic prosperity in line with modern standards. In his 1943 memorandum he also applied that thought to France. He repeated this in 1945, when he told General de Gaulle, "You speak of greatness of France, but today the French are small." He said it once again near the end of his life, when he visited President Valery Giscard d'Estaing at the Élysée Palace, "France is too small to achieve its greatness without Europe."

After the war, however, Jean Monnet was confronted with the task of rebuilding France from the destruction it had suffered. As a member of the Provisional Government and, after the liberation of France, head of the Planning Commissariat, he seemed to put his European ideas and hopes aside. He not only had to deal with the consequences of wartime losses and the desperate state of the national economy. It was also necessary to introduce deep structural changes into the national economy and on this point General de Gaulle and Monnet concurred fully: France needed to be modernized, and its economy adapted to the challenges of the times. It was imperative not to repeat the mistakes that had been made after World War I, when it was universally believed that German reparations would enable France to overcome its economic devastation, and the necessary reforms were not introduced.

Monnet, working feverishly with a team of his close associates in temporary quarters at the Bristol Hotel, developed a project that what came to be known as the Monnet Plan. The wartime years had made people used to state interventionism, while Keynesian concepts and Roosevelt's New Deal promoted new ways of thinking about economic restructuring. From the very beginning, Monnet assumed a close co-operation with America. Thus, in France, the Marshall' Plan received an appropriate and original response: the Monnet Plan, foreseeing a mass mobilization of the French society in a collective effort.

However, Jean Monnet had no influence on the formulation of the Marshall Plan, he did not inspire it, nor did he play an active part in the initial negotiations. He also had a critical attitude toward the Marshall Plan in certain areas, believing it was overly strict and did not acknowledge the importance of flexibility. George Marshall likewise did not conceal his reservations about Monnet's program or his fears that it separated the interests of France from the situation of Europe as a whole. However, there can be no doubt that both programs shared a common philosophy of action and that their concurrence was a fortunate stroke of fate that enabled them to succeed.

Solidarity *vs*. hegemony

From the very beginning, opinions of the Marshall Plan in Europe represented a confrontation of two legends – the black and the white. Public opinion in European countries was divided between the fear that the plan was an instrument of subordinating Europe to American hegemony, and the conviction that it was an expression of American solidarity with the Old Continent. This division did not always run along party lines or the divisions between right and left. Leon Blum was enthusiastic about the plan, and even the Italian communist leader Palmiro Togliatti initially gave his full support to the new perspective of American aid. Only the failure of negotiations with Russia and Stalin's decision rejecting any possibility of the participation by Eastern Bloc countries in the Marshall Plan, followed by the creation of the Cominform in October 1947, changed this situation: the Marshall Plan became one of the factors that crystallized the division between East and West.

European integration and the Marshall Plan

When judging the historic significance of the Marshall Plan in a longer perspective, we have to weigh its real meaning for the entire process of the postwar integration of Europe. There have been suggestions that the influence of the American aid program on the state of the European economy should not be overestimated, because the growth of the European economies dated from the economic crisis of the spring and summer of 1947, and in fact pre-dated the mass influx of American assistance. It has also been pointed out that countries that received less American aid experienced stronger economic growth than those who received it on a larger scale. Doubts are also raised about whether the Marshall Plan had any real influence on the unification of Europe.

Even if we assume that America's aid to Europe was only one of the factors that contributed to economic recovery, Tony Judt rightly states that thanks to it, "Western Europe in 1947 had a stroke of extraordinary good fortune." The philosophy behind George Marshall's speech was in fact based on stimulating the European countries to independent action.

Jean Monnet's role in this process cannot be overestimated. He promoted the idea of granting Germany a place in the reconstruction of Europe's economic life and integrating the defeated country into the future Europe. The Schuman Plan, of which he was the architect, laid the groundwork for the Franco-German reconciliation, without which European integration would have been unthinkable. From Marshall's call to create an alliance of European states for economic recovery, Jean Monnet was able to fashion an instrument of European integration. The synergy of the Marshall Plan and the Monnet Plan was the basis of that process.

Describing Europe's desperate situation, Marshall said, "The remedy lies in breaking the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as whole." However, the creation of the European community did not result directly from the American aid plan. Recorded in Monnet's *Memoirs* are "the great inspirator's" reflections after the discussions he had in Washington in the spring of 1948 with his American partners and friends. At that time, the convention establishing the Organisation for European Economic Co-operation (OEEC) was signed in Paris. Monnet was critical of the fact that the new organization was based only on co-operation between governments. In a letter to the French foreign minister, he wrote the significant words, "Efforts by the various countries, in the present national frameworks, will not in my view be enough. Furthermore, the idea that 16 sovereign nations will co-operate effectively is an illusion. I believe that only the establishment of a *federation* of the West, including Britain, will enable us to solve our problems quickly enough, and finally prevent war. I realize how difficult it is – it may even be impossible – but I see no other solution, if we have the necessary respite." Jean Monnet feared that the balance between America and Europe could be upset, because the former was marked by extraordinary political dynamism, whereas the latter remained trapped in traditional political forms and a traditional mentality. This could have resulted in upsetting the political balance between the two partners, or even the long-term dependence of European production on American loans, and Europe's security on the military and political potential of the United States. It is significant that these fears were voiced by one of the most pro-American of French politicians. In a letter to Robert Schuman, Monnet wrote that the conclusion he arrived at after his discussions in Washington was that "to tackle the present situation, to face the dangers that threaten us, and to match the American effort, the countries of Western Europe must turn their

national efforts into a truly European effort. This will be possible only through a *federation* of the West."

The road to that end did not lead through the OEEC, which was only an inter-governmental organization, nor through the enthusiastic initiative of the 1948 European Congress in The Hague: the first of these was not ambitious enough; the second was not sufficiently pragmatic. He believed the proper solution was to seek an instrument intended to bring together people, and not create a coalition of states: the coal and steel community initiated in 1950 was meant to be such an instrument. History would prove Monnet right.

Still, it is difficult to imagine the start of the process of European integration without the Marshall Plan. It played a decisive part in the reconstruction of war-torn Europe. It created links of interdependence between European states. It ensured the inflow of badly needed funds. Tony Judt, a historian of that time, writes of the psychological effect of the plan – that it gave the Europeans a new consciousness; helped them reject a nationalist mindset and the temptations of authoritarianism; promoted the need for individual countries to co-ordinate their economic policies; and demonstrated the absurdity of the trade and financial conflicts that neighboring countries had engaged in between the world wars. It is true that for Europe "the dollars were less important than the psychological boost." While it covered only Western Europe, in a continent divided into two opposing blocs, the plan created conditions enabling the affirmation of a socio-cultural model formed around a set of fundamental European values. As Jean Monnet wrote about the American aid, "the economy, at that time, was not just a matter of material well-being: it was the necessary basis for national independence and the preservation of democracy." The Europeans regained faith in the future and in their own strength. And this was a necessary prerequisite for the unification of Europe.

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Chapter 4. A Usable Marshall Plan

by Barry Machado

In an age of renewed totalitarian threats, challenges to Western values, and economic crises throughout the developing world, democratic governments seek insights on how best to respond. The Marshall Plan stands, seemingly, as one shining provider. But can an experimental program of the late 1940s and early 1950s actually supply important guidance to foreign policy makers in the 21st century? And by embracing it as a model, do they not choose to overlook what prominent scholars consider its inconvenient truths? At least one influential historian of the European Recovery Program, Alan Milward, has asserted its irrelevance while another, Michael Hogan, has claimed American ideology as its dominant animating force. Is it not then a beacon whose light burns too dimly, or not at all?

My answers in this chapter are threefold: Marshall Plan lessons abound, histories that dismiss or diminish its historical significance are flawed in important respects, and other histories illuminate its enduring relevance as well as its current and future limitations. In support of these conclusions about a usable past, this chapter focuses on four related topics: it assesses, briefly, the Marshall Plan's two principal misrepresentations; singles out for recognition a long-undervalued Marshall Planner; analyzes how the Marshall Plan was disregarded and misapplied in postwar reconstruction of Iraq; and, lastly, evaluates the Marshall Plan's biggest but avoidable weakness.

(Mis)interpreting the Marshall Plan

In their own fashion the Marshall Plan's standard, comprehensive, English-language histories suffer from present-mindedness and overstatement. Alan Milward's revisionist account, while deeply researched, powerfully argued, and of great value, exhibits how historians can read contemporary grievances into past conduct, with unfortunate results (Milward, 1984; *Diplomatic History*, 1989). In apparent reaction to Washington's controversial European policy of the early 1980s, Milward advanced what seems a perfectly Orwellian subtext: the reinterpretation of America's landmark program in order to discredit its current proposal. One also suspects a settlement of accounts for America's Vietnam debacle. His thesis is as much about false consciousness as counterfactuals. Except in France and the Netherlands, he argues, the Marshall Plan really did not matter. He concludes that "American diagnosis of Europe's economic difficulties in 1947 was wrong," with its underpinnings "quasi-religious assumptions" and "puritanical, missionary zeal to put the Old World to rights." Allegedly, prior conventional wisdom had been a huge misunderstanding.

Clues to the author's ulterior motive and animus surface at times. Top Marshall Planners were, in the British historian's opinion, "parochial, complacent and arrogant," traits identical to those that "were to mar American policy making in more helpless parts

of the world" in later years (Milward, 1984, pp. 210-11, 285). Is this true? Were the Marshall Plan and the disastrous Vietnam War really parts of a coherent, misguided postwar diplomacy, as implied? Milward's message has transparency. If Harry Truman, George C. Marshall, and their advisers – "Wise Men" to some (Isaacson and Thomas, 1986) – were mistaken at the Cold War's outset, and the most celebrated triumph of America's leadership in the anti-communist crusade proves on closer inspection an illusion, then Ronald Reagan and his counselors could not be trusted to get it right in another Great Power "crisis" with the Soviet Union either. Most revealing of Milward's political agenda is that Josef Stalin vanishes from his analysis, while the Cominform, Czech Coup, and Berlin Blockade/Airlift remain offstage as well. Communism itself merits scant mention. Curiously, a real-life Winston Smith dropped a most vital geopolitical context, and some inconvenient facts, down the memory hole. Milward's anti-Americanism is at least more subtle than Harold Nicolson's once was.

Michael Hogan's book has no comparable ax to grind. Selective perception, though, weakens his obvious response to Milward's reinterpretation (Hogan, 1987). Despite prodigious work in primary and secondary sources, the American historian overstates his own case, too. To Hogan, the Marshall Plan did in fact matter in Europe's postwar recovery, but it also represented a grand strategy to "remake the Old World in the image of the New." Hogan's Marshall Plan was a radical quest for a New Order in Europe that aimed to "close the door to extremist elements on the left and the right."[1] His Marshall Planners consciously promoted European reforms in America's likeness, pushing economic integration and growth as panaceas for political failings. Public-private co-operation, as well as adoption of a "mixed American economic system" with the New Deal as archetype, constituted dominant goals. Only partially successful in their ambitious objectives, Marshall Planners left Western Europe "half-Americanized". But they purportedly set in motion forces that in subsequent years institutionalized their values.

Like Milward, however, Hogan wore his own "*post hoc, ergo propter hoc*" blinders. Maybe the heavy ideological content of the so-called Reagan Revolution, and the reaction provoked by it, blurred his perceptions of the past. Much historical scholarship of the 1980s treats the late 1940s as if it were the prior decade. For Milward's anti-American motivation, Hogan substituted a myth of Super-Americans driven ideologically to transform Western Europeans into replicas of themselves. Rather than ignorantly, as Milward maintains, Hogan's Marshall Planners acted purposefully, remarkably united and tenacious in their efforts. Whether at the Economic Cooperation Administration's (ECA's) Washington or Paris headquarters, or its 16 country missions, a shared commitment to the same priority supposedly prevailed.

In fact, Marshall Planners "accepted the principle of British exceptionalism," supporting Britain's leadership of the sterling bloc and accepting its rejection of the Schuman Plan, which Hogan himself amply documents (Hogan, 1987, pp. 261, 292). They also extended to France, Italy and Norway, for example, additional passes for their own exceptionalism, something other historians have persuasively shown. Just how great, then, was the structural integrity of the Economic Cooperation Administration's "design" for Western Europe, let alone the commitment of "designers" and implementers to its elaboration? Instead of being propelled by ideology, Marshall Planners often behaved in highly pragmatic ways. They were frequent proponents of what promised to work rather than an abstract political economy. Relations with 17 recipient countries reflected two principal realities: a genuine partnership, full of friction, and national self-help, attended by occasional unwanted prodding by the donor. Both took precedence over promoting an

ideology. As historian Kathleen Burk has noted, where Milward's analysis had been "relentlessly economic", Hogan's reformulation was "relentlessly political".[2]

Fortunately, re-revisionism has found its voice. A new judicious treatment of the Marshall Plan has recently been published. Unlike Milward's and Hogan's, Greg Behrman's "narrative" history makes productive use of scores of interviews and oral histories provided by Marshall Planners on both sides of the Atlantic.[3] Behrman also exercises greater empathy than Milward did, returning to the fearful European world of the late 1940s. There, reason and high emotion mingled. On its own terms he has effectively recaptured Western European society: a place where a grave "crisis of confidence" overshadowed severe balance-of-payments, inflation and production problems. Purposely, he has readjusted and enlarged his historical focus, evaluating the Marshall Plan's impact in its economic, political, geopolitical and psychological dimensions. His interpretation echoes the conviction of Milton Katz, ECA's second-in-command in Paris. Katz comprehended the "heart" of America's European policy from1947 until 1952 as the "integration" of those same four "factors" instead of an obsession with the integration of Europe (Katz, 1975). Behrman's Averell Harriman did not obsess about reshaping Milan's boardrooms and workplaces to eventually resemble Chicago's. America's wartime ambassador to the Soviet Union worried more about Stalin's paranoia.

To his credit, Behrman neither trusts uncritically macroeconomic statistics nor distrusts implicitly Washington's capacity for doing the right thing. He adopts an idea long embraced by Milward's detractors, namely, that vital criteria for judging the Marshall Plan's success may be the most difficult to quantify. He has, in effect, built on and complemented earlier works by William Diebold, Charles Maier – particularly his compelling insight that "America and Western Europe […] changed together through the Marshall Plan" – as well as J. Bradford DeLong and Barry Eichengreen, especially their discernment that the Marshall Plan's great contribution was indirect, "by altering the environment in which economic policy was made," reducing the price of political compromise, and thereby accelerating Western European growth. Together with others, they illuminate the Marshall Plan's importance and pertinence in today's international crises (Diebold, 1988; Maier, 1993; DeLong and Eichengreen, 1993; Eichengreen and Uzan, 1996).

Praising all Marshall Planners

Additional light still needs to be shed on some individuals responsible for the European Recovery Program's (ERP's) favorable outcome. In Chapter 3, "The Marshall Plan and European Integration" Bronislaw Geremek emphasized the important role of Jean Monnet, visionary and prophet of French modernization, in the triumph of the Marshall Plan and Europe's ensuing prosperity. Although in a strict sense Monnet was not a Marshall Planner, he nonetheless generated power, both personal and institutional, that facilitated ERP's ultimate success and laid the foundation for the European Union. A Polish historian and member of the European Parliament, Geremek rightly identified the Frenchman as the arch-enemy of economic nationalism, someone who grasped, like Marshall Planners on both sides of the Atlantic, unilateralism's shortcomings and the virtues of multilateralism in international affairs. And the author shrewdly observed that European integration was advanced by the "synergy of the Marshall Plan and the Monnet Plan." He might have added the Schuman Plan, another Monnet offspring, to that particular observation.[4]

In spite of little formal education – his schooling ended at 16 – one quality of Monnet's greatness was that he thought historically. And he did so acutely. This trait he shared with architects and overseers of the Marshall Plan, especially President Harry Truman. Lacking himself a college education, Truman read history voraciously and, more importantly, readily recalled what he had read. Painfully, American and European Marshall Planners remembered the past, especially World War I's failed peace. They felt compelled not to repeat its mistakes. "I was very conscious," Lincoln Gordon, Program Division Director at Office of the Special Representative (OSR)/Paris, has recalled, "that what had been done after World War I was absolutely awful." On the other side of the Atlantic, French economist Robert Marjolin and others meditated after World War II on the nightmare of the interwar years (Gordon, 1988; Gordon, 1975; Marjolin, 1989, pp. 143-58). The demon of Versailles haunted promoters of a brave new world of trans-Atlantic co-operation. Geremek has insightfully observed that the Marshall Plan "grew out of the bitter experience" of an earlier madness.

Another reason for Monnet's rendezvous with destiny and his lasting legacy was his open-mindedness. This was reflected in his willingness to co-operate closely with Americans despite a chorus, sometimes shrill, of anti-Americanism among his fellow Frenchmen, especially the Parisian intelligentsia. With David Bruce, initially as head of ECA Paris and later as American Ambassador to France, serving as Monnet's indispensable collaborator, the Marshall Plan financed the Monnet Plan. Monnet also went against the Gallic grain as advocate of "Franco-German reconciliation." His was not a popular view. Not only did he see much that was good in the country of George C. Marshall, but he insisted on ending Germany's pariah status as necessary prelude to a "New Europe" and a genuine Atlantic community. Both were the best guarantees against the 20th century's third continental war. In other words, Monnet comprehended well before most that being French, pro-American and a "great European" need not be mutually exclusive and incompatible. Today, French President Nicolas Sarkozy seems to walk in his footsteps.

Like Greg Behrman, Geremek has also underscored what some historians and economists of the Marshall Plan, particularly those enamored by aggregate trade numbers, investment figures, and production statistics, notably Alan Milward, have too often failed to grasp: the Marshall Plan was much more than a four-year economic enterprise. The undertaking had to do with both matter and spirit, with the latter probably the most transformative and the crucial link between the Marshall Plan and subsequent European integration. Try as they might, economic historians cannot squeeze their macroeconomic data tightly enough to yield adequate understanding of confidence, mood, morale and hope. These emotions reside outside the scope of their explanatory system.

Thanks to the Marshall Plan, Europeans, in Geremek's words, "regained faith in the future" and, one might add, their own potentialities. Were they still alive, both Konrad Adenauer and Franz Blücher would agree with Geremek that the Marshall Plan's psychological value trumped all others in Bizonia and West Germany (Blücher, 1952; Adenauer, 1964). Restoration of German self-respect, like the return of optimism throughout Western Europe about the durability of Western values, especially democracy, resists easy quantification. Some prominent economic historians might loudly dissent if the end of West Germany's outcast status were equated with currency reform as the foundation of West Germany's "economic miracle." That is unfortunate. As a Polish intellectual who broke with the communist system, Geremek knows about the limits and

tyrannies of historical materialism, theology masquerading as economic theory, and supposedly scientific economic analysis and laws.

Where clarification is in order is when the author refers, without comment, to Jean Monnet's claim that the Marshall Plan lacked flexibility. Monnet simply erred in this particular case. Wary of what Lincoln Gordon once called "purist dogmatism" (Hoffmann and Maier, 1984, p. 55), Marshall Planners were not doctrinaire about either economics or politics. Though not always, they generally believed that Europeans understood Europe better than American specialists did. They embraced variety, enlisting for example socialists, Catholics, and Muslims as allies in the battle against communism. They managed 16 counterpart funds by virtually 16 different criteria. More so than historian Michael Hogan's, my own research has found a greater American readiness to accept Europe's diversity than to proselytize on behalf of America's real, imagined or exaggerated distinctiveness (Machado, 2007). I concur with Tony Judt in his superb synthesis of postwar Europe that the Marshall Plan, in practice, rejected a "one-size-fits-all approach to recovery programs" (Judt, 2005, pp. 97-98). A refusal to be doctrinaire was, in fact, a distinguishing feature of the Marshall Plan as it was implemented in different political economies and cultures.

Marshall Planners constructed a framework, or process, within which those nations committed to a "New Europe" could debate those willing to be rebuilt or reformed, as the Italian historian Luciano Segreto once forcefully reminded me at the *Hôtel de Talleyrand*, former ECA headquarters in Europe. The critical hinge was always a recipient's readiness to change, and push-back was commonplace. Marshall Planners co-operated with governments of both the center and far right in Greece, of the center-right in Italy and West Germany, and the left in, to name just two countries, Norway and the United Kingdom. They partnered with Royalists, Christian Democrats, Socialists and Labourites.

Furthermore, as historian Irwin Wall has pointed out, "the lion's share of Marshall Plan credits went to nationalized enterprises in France, as dictated by the Monnet Plan." "In 1949," according to Greg Behrman, "90% of Monnet's Modernization Fund came from the Marshall Plan" (Wall, 1993, p. 137; Behrman, 2007, p. 221). Besides support for dirigisme in France, American Keynesians and latter-day New Dealers allied with supply-siders like Ludwig Erhard, West Germany's Economics Minister. Rather than inflexibility, a pervasive realism and pragmatism characterized implementation of George Marshall's conception. Americans provided around USD 13 billion in assistance – more than USD 500 billion as a comparable percentage of present-day American gross national product (GNP) and USD 100 billion in today's dollars – with 90% in grants. Yet they did not impose their will on Europeans. They did not compel Europeans to "behave in a manner contrary to their fundamental interests" (Marjolin, 1989, p. 180). Largesse combined with proper respect for recipients of that generosity. So, like Marshall Planners themselves and some prominent historians at times, Jean Monnet could be mistaken about how the ERP actually operated.

Another great strength of the Marshall Plan, illustrating how fundamentally accommodating it was, inhered in Paul Hoffman's and Averell Harriman's understanding of the "essence of genuine leadership," particularly the requirements of world leadership. They believed, unlike Josef Stalin in Eastern Europe at the same time, in "shar[ing] power with people rather than display[ing] power over them" (Hoffman, 1951, p. 42). In practice, this translated into European Marshall Planners showcasing to maximum benefit the superiority of intellectual, human and social capital over physical assets in rebuilding

their own countries. Indeed, such capital surpassed in importance the wherewithal made available by Americans.

Western Europe's leaders and public servants ensured the ultimate success of the Marshall Plan: West Germany's Konrad Adenauer and Ludwig Erhard; Belgium's Paul-Henri Spaak and Jean-Charles Snoy; the United Kingdom's Eric Roll and Alexander Cairncross; Norway's Halvard Lange and Erik Brofoss; Italy's Alcide De Gasperi, Luigi Einaudi, and Giovanni Malagodi, and numerous other economists and technocrats as well. But of all the European contributors to the Marshall Plan's happy outcome Jean Monnet's own protégé, Robert Marjolin, a respected French economist, might be rated as the most valuable. If Monnet can be regarded as the "Inspirator", then his disciple Marjolin was assuredly the "Co-ordinator". Geremek mentioned Marjolin only in passing, as Monnet's "future co-worker". That modest description fails to do him justice, as does historian Alan Milward's disparagement of the role of the Organisation for European Economic Co-operation (OEEC), predecessor to the OECD (Milward, 1984, Chapter V).[5]

The Marshall Plan relied on three factors for its attainments: good fortune, conducive conditions, and purposeful planning. Unplanned occurrences were, of course, many, and Marshall Planners caught some fortuitous breaks. As significant as any historical contingency was selection of Marjolin as OEEC's Secretary General. Averell Harriman, head of OSR/Paris, did not want him, thinking him too young and lacking the appropriate prestige for the position. Marjolin's fellow Europeans, however, showed better judgment (Machado, 2007, p. 115). Unfortunately, European contributions to the Marshall Plan's effective administration have long lingered in historical shadows in American accounts, even though the co-operation of 17 nations could certainly not be ascribed to magic. In his oral history the Belgian chairman of the OEEC Council has reminded students of the Marshall Plan that "the situation of the West in 1948 was so grave that everybody […] sent his best people to OEEC and to ECA" (Snoy, 1964). Making OEEC work, a most difficult assignment, and guiding those "best people" to the most advantageous results for Western Europe as a whole demanded a special person.

Marjolin, an upholsterer's son, had an unusual blend of character, experience, skill and empathy. He knew well both Americans and Englishmen. Along with his countryman Jean Monnet, he shared an Anglo-American outlook and sensibility. He was, in a British colleague's estimation, "as much at home in Britain and America as he was [in his native France]" (Roll, 1985, p. 73). In the 1930s he had pursued graduate studies at Yale University. During World War II he lived and worked for two years in Washington, on behalf of the French government in exile. There, he also married an American woman. Certainly a big part of the Marshall Plan's formula for success was that its American creators – Harriman, Acheson, Lovett, Clayton and Kennan especially – were themselves multicultural, cosmopolitan, and Euro-Americans, as were many of their European counterparts. In ruling circles provincialism and parochialism were then at ebb tide on both sides of the Atlantic.

Despite his limited formal powers, Marjolin's personal leadership of the OEEC skillfully promoted two of Jean Monnet's primary postwar goals: close co-operation between Europe and the United States as well as a resolution of the difficult "German Problem". Like his mentor Monnet, Marjolin has remained a symbol of a "New Europe" in which personal friendships, nurtured during the Marshall Plan, fostered habits of co-operation and obliterated old cultural preconceptions and national stereotypes. Those friendships turned out to be among the optimum conditions for achieving Marshall Plan

objectives. They also served as bedrock on which subsequent European integration, including the European Union, rested.

Geremek's decision to formulate his analysis of the connection between "The Marshall Plan and European Integration" around the pivotal figure of Jean Monnet was inspired. With a mixture of practicality and idealism, and drawing on extensive business and financial experiences during many years abroad, Monnet strove to put France's house in order after World War II while recognizing that such a task could not be accomplished without also getting Western Europe's house in order. He balanced an old-fashioned national interest with a vision of a brave new world. He was, in other words, motivated by the same enlightened self-interest that shaped George C. Marshall's revolutionary speech at Harvard 60 years ago this year.

Comparison with Marshall can be extended with profit. Monnet's close American friend, lawyer and diplomat George Ball, has written in his memoirs that "the essence of [Monnet's] charisma was that Jean sought nothing for himself" (Ball, 1982, p. 74). Like George C. Marshall, Monnet had the gift of selflessness. In both cases personal humility cleared the path for unprecedented international collaboration. Without leaders and followers in the years 1948-1952 who possessed that same trait in abundance it is difficult, virtually impossible, to imagine anyone ever celebrating the Marshall Plan's 60th Anniversary today. As implied by Bronislaw Geremek, the soul of the Marshall Plan was the soul of both Marshall and Monnet. It was also the soul of Robert Marjolin. It is a soul in need of recapturing in the 21stcentury when new totalitarians threaten world peace and democratic traditions. Modern history assures us that such is the recurring and common fate of mankind. Thus, a big question for statesmen of the new century: will they respond with the same understanding and nobility as the Marshall Planners?

Disregarding the Marshall Plan's lessons

An opportunity to heed Marshall Plan lessons in the 21st century and answer the "big question" first presented itself in conceptualizing and implementing postwar reconstruction for Iraq. President George W. Bush and his principal foreign policy advisers seem to have regarded the Marshall Plan as buried in an unusable past. The word "seem" is in order because journalists now preside over our understanding of Iraqi reconstruction, and will for a long time. Historians are left with an at best provisional assessment, based largely on burgeoning journalistic accounts supplemented by a few insider memoirs. Off-the-record and anonymous are neither ideal nor preferred sources. "The verifiability of source material," Victor Davis Hanson has cautioned, "is what distinguishes history from hearsay." Until relevant government documents are declassified and oral histories collected and processed, historians can offer, guardedly, no more than an interim appraisal of how the United States approached rebuilding a heavily damaged enemy.[6]

The place to begin, cautiously, is with the words of Ambassador Paul Bremer, head of the civilian Coalition Provisional Authority, or CPA, which oversaw reconstruction for 13.5 months, from mid-May 2003 until late June 2004. To mobilize domestic support for his effort Bremer equated his agency's work to the Marshall Plan in testimony before Congress. (President Bush had already likened a projected revitalization of Afghanistan to the Marshall Plan as well.) Bremer's invocation of his nation's most successful foreign aid program merely registered the latest call for a "new" or "second" or "present day" version. Such invocations have been incessant ever since 1952. The Marshall Plan's

supposed range of applications has been near-universal (Chandrasekaran, 2006, pp. 161-162).[7]

A new, *ad hoc* government agency with a special mission, just as ECA had once been, Bremer's organization reported to Secretary of Defense Donald Rumsfeld rather than President Bush. Unlike ECA, therefore, it lacked both independence and Cabinet status. Bremer's comparison invited some rumbles of skepticism and disbelief at the outset. Already, red flags had been raised, during the run-up to the invasion of Iraq, in public remarks by Paul Wolfowitz, then second-in-command at the Pentagon. A well-known scoffer at history's utility, Wolfowitz was no realist in the George Kennan tradition. Events later demonstrated that Bremer's summons, like all before it, was a rhetorical flourish. Yale graduate, Harvard MBA, and career foreign service officer, Bremer was a highly educated government official who should have known that comparisons create expectations. While the head of CPA embraced the historical analogy, the Marshall Plan never served him as a guide to follow in discharging his duties. In fact, Bremer and David Nash, his chief of reconstruction who ran the Project and Contracting Office, or PCO, appear to have been unmindful of the historical ERP's strengths and weaknesses. Suffering from historical amnesia, too, were retired General Jay "I never knew what our plans were" Garner before them, as head of the Office of Reconstruction and Humanitarian Assistance (ORHA), and Ambassador Bill Taylor afterwards, as head of CPA's successor, the Iraqi Reconstruction Management Office (IRMO) (Chandrasekaran, 2006, p. 52).[8]

One might say, without undue exaggeration, that CPA's rehabilitation and reform efforts in Iraq prior to its dissolution essentially repudiated principles, values, methods and practices that contributed to ERP achievements in Western Europe. Americans in charge disregarded history's warnings, and their untutored labors approximated a nearly immaculate misconception. Ostensibly, invoking the Marshall Plan never meant comprehending its salient features, or its limitations. Although CPAers wrapped themselves in historical references, they did not study the Marshall Plan's complexity before their foray into the Middle East. They treated Marshall Plan lessons as if they were deeply submerged and irretrievable secrets.

A most obvious dissimilarity between the Marshall Plan and American efforts in Iraq is that the former was launched three years after World War II ended. This is a seemingly small fact with a huge significance. Why so? Because Marshall Planners presupposed two key conditions: established governments, except in the occupied western zones of Germany, and security, except in Greece where a communist insurgency destabilized the country until the fall of 1949. The absence of both conditions in Iraq made prospects for a "second" Marshall Plan there problematical, but not necessarily undoable. After all, both obstacles had been overcome in Western Europe in separate countries although, to be sure, not in the same nation. What guaranteed failure in Iraq were two other conditions, usual suspects in failed public policies: ignorance and its accomplice, arrogance.

The road away from success commenced when members of the Bush Administration opted to sell Iraq's rebuilding to Congress and the American people as necessitating almost no national sacrifice, thereby setting the wrong tone while ignoring the Marshall Plan's very spirit. Back in the late 1940s, Marshall Planners had appealed to their fellow Americans' generosity and selflessness from the outset, never switching sentiments or signals subsequently. George C. Marshall, George Kennan, and other architects of the ERP were realists. Their realism took many forms, just about all of which absented themselves in Iraq. By contrast, Deputy Defense Secretary Wolfowitz insisted that the

burden of reconstruction and recovery could be shouldered by the vanquished themselves with revenues from expanded oil sales, a notion that proved misguided. Harvey Sicherman of the Foreign Policy Research Institute has quite correctly characterized what CPA attempted as "quick and cheap" reconstruction (Sicherman, 2007, p. 29). Eventually, American taxpayers provided upwards of USD 30 billion in aid (USD 18.4 billion in one supplemental appropriation) but roughly half went for security as the insurgency expanded. The total was still more money than any single Marshall Plan recipient had ever obtained. Iraq, however, was far worse off than France or Italy in the late 1940s. Besides their reluctance to sacrifice appropriately, American policy makers for Iraq overlooked the Marshall Plan's teachings in at least six other ways.

First of all, the Marshall Plan had been a multilateral approach to problem-solving. It was conceived as institution-building and nation-building but within the framework of regional economic integration. It treated 17 countries as a "unit" and expected those countries to behave as a unit, with maximum self-help and mutual aid, especially by regionally integrating their markets, stabilizing their currencies, controlling inflation, and eliminating protectionist measures. ECA was never formulated to deal exclusively with a single country. Hence, Paul Bremer's CPA was antithetical, an exercise in unilateralism and bilateralism, perhaps its most basic violations of ERP principles. All 16 Arab states in the Middle East should have been included in a collaborative, deliberative enterprise. Admittedly, the presence of not a single democratic government among them posed an obstacle. If for political reasons such ambitiousness proved impractical, then no "second" Marshall Plan was ever feasible.

The Marshall Plan's second sturdy pillar involved the initiative, co-operation, and first-class leadership of recipient nations, along with a close partnership between donor and recipient. Beneficiaries had been centrally involved in planning their own recovery in keeping with the crux of ERP's creed that "Only Europeans Can Save Europe." Paul Bremer's most fateful decision, a sweeping ban on Baathists, not only undercut postwar Iraq's very capacity for national self-help but probably left Washington more vulnerable to an "imperial temptation." Notwithstanding Michael Hogan's thesis, Paul Hoffman and Averell Harriman never succumbed to the urge to shape the destiny of other nations "to their liking".

By intent, the quality of Western Europe's leadership functioned decisively. Washington's self-assigned role was as "catalytic agent" and never as "main driving force". Except for Greece, where results were mixed, Marshall Planners assumed a minimal presence in member countries. So how did the CPA staff deal with Iraqis? Although much less so in their "democracy campaign," they generally denied them initiative in their own economic rehabilitation, with virtually no Iraqi participation in David Nash's hastily conceived plans and projects at PCO. CPAers used reconstruction aid as charity or welfare, an ECA taboo. They also refused to treat seriously Iraqi views, professing to know what was best for them. An American official in Baghdad remarked at the time that "one of the biggest problems of Iraq was that we weren't listening to the Iraqis" and that "the key was not for us to be more involved, but for us to be less involved." Bremer aimed to "remake" Iraq, emphatically resisting any partnership of equals (Diamond, 2005, p. 333; Chandrasekaran, 2006, p. 255; Joffe, 2006).

Furthermore, according to Paul Bremer, no Ludwig Erhards could be found among Iraqi leaders. A more revealing historical allusion and a greater understatement tax the imagination. It concedes that an absolutely crucial prerequisite for ERP's success in Western Europe did not exist in Iraq. Ali Allawi, a former Iraqi Defense and Finance

Minister, has explained more straightforwardly than Bremer that defects in Iraqi politicians have been profound ever since the toppling of Saddam Hussein. With an adherence on their part to neither the national interest nor the general welfare as highest priorities, their willingness to "deal" with Americans has been hollow. Marshall Planners shared an opposite experience. They presupposed national solidarity and never faced a situation in which tribal, ethnic and sectarian loyalties eclipsed all other allegiances. In short, 1,500 Americans in the Green Zone had much too large a profile, functioning as "main driving force" that Marshall Planners had spurned. Americans got massively engaged in Iraq's rebuilding, forgetting about the central role and value of self-investment (counterpart funds), demanding minimal Iraqi self-help, and thereby fostering great resentment among even pro-American Iraqis. Most significantly, as Paul Hoffman, head of ECA, predicted long ago, Americans could never either fill or else overcome a vacuum of political leadership in a recipient country (Bremer, 2006, p. 201; Allawi, 2007).

Third, the Marshall Plan for its nearly four-year existence counted on bipartisan backing and public approval that, in turn, derived from six exhausting months of discussion/debate with the American people and Congress. Legislation authorizing the ERP culminated an elaborate campaign of grassroots education. Its final contours resulted from numerous public forums and congressional hearings. It was the product of a long period of reflection, revision and rethinking. In short, the United States undertook the Marshall Plan with eyes wide open because the Truman Administration first patiently built a consensus at home (Machado, 2007, pp. 15-22). What about the genesis of CPA? Since real planning originated less than a month before the March 2003 invasion of Iraq, consensus-building was out of the question, improvisation ruled and a free-wheeling operation evolved. In marked contrast to the ERP's structured, disciplined, and generally well-thought out aid projects, those selected for Iraq tended to be hastily conceived, half-baked, approved in a haphazard fashion, and uncoordinated. CPA was not, of course, a completely dysfunctional agency. At least two laudable successes stand out: persuading the international financial community to forgive most of Iraq's USD 130 billion foreign debt and replacing the old dinar with a new currency that floated freely against all other currencies. Both rank as admirable achievements in conception and execution (Miller, 2006, p. 44; Bremer, 2006, p. 278).

Fourth, Marshall Planners undertook a vast, innovative propaganda war with the Cominform to win Western European hearts and minds. Their public information offensive, though slow to reach full force, was led by talented, experienced, working journalists, among them Alfred Friendly, Roscoe Drummond, Frank Gervasi, and Andrew Berding, as well as gifted documentary filmmakers Lothar Wolff and Stuart Schulberg. Their use of visual media was particularly effective in their public diplomacy and outreach (Machado, 2007, pp. 22-30). By contrast, CPA basically yielded the field of news coverage in the Middle East to al-Jazeera, the Arab-language, satellite television network that Bremer deemed "always hostile to the coalition." Bremer outsourced some propaganda to a private firm lacking both the imagination of ERP's Information Divisions and sufficient Arabic linguists. CPA's misuse of media was a great handicap and symptom of a general mismanagement. In the summer of 2003, according to one United Press International (UPI) reporter, "the media operation at CPA was abominable." It did get better. For a time CPA operated a "makeshift" TV studio providing weekly nationwide broadcasts by Bremer. Meant to be informative, they turned out amateurish and counterproductive. In early 2004 the Americans finally established their own satellite TV channel, al-Hurra, in response to al-Jazeera's dominance. Under-funded, it could not compete with a savvy, established antagonist (Diamond, 2005;

Chandrasekaran, 2006, pp. 128-136; Bremer, 2006; Ricks, 2006, p. 208; Holtzman, 2007, pp. 42-46).[9]

Under a CPA umbrella, a division of the United States Agency for International Development (USAID) undertook a public relations campaign to win over Iraqis to democracy. To counteract negative and biased news, it utilized posters, leaflets, radio, documentary films, videos, and television, as well as subsidizing sympathetic local publications. CPA's "Strategic Communications" office, first run by Daniel Senor, a Harvard MBA unable to speak Arabic, oversaw regional press officers posted throughout the country. Based on digests of local press coverage, its "public service announcements," in both Kurdish and Arabic, aired weekly over al-Iraqiyah, the government TV channel with a national reach. But in the crucial "battle of the handbills," CPA's critics and opponents prevailed. CPA's pro-democracy ads, as well as its radio and TV talk shows, lacked persuasiveness partly because they were rejoinders, forever circulating "too late" to have the desired impact (Diamond, 2005; Chandrasekaran, 2006, p. 128).

Fifth, ECA recruited its nation's "best and brightest", a highly qualified, credentialed mix of Republicans and Democrats. Its manpower, a genuine meritocracy of the educated, experienced and professional, had considerable prior knowledge and basic understanding of Western Europe and its core languages. They were also free of partisanship, having been subjected in the hiring process to no political or ideological tests. ECA banned cronies, buddies, dilettantes, political loyalists, relatives and partisans. The resulting esprit was such that a remarkable continuity of personnel and devotion to the task predominated. For 30 months a Republican businessman, Paul Hoffman, at great financial sacrifice, oversaw all operations in a Democratic administration. Hoffman traded a USD 96 000 annual salary at Studebaker for just USD 20 000 a year as ECA Administrator. Many other bankers and industrialists took big pay cuts, too. The typical tour of duty for everybody at ECA was two years.

During its lifetime Senator Arthur Vandenberg described ECA as "the most non-political organization which has ever been put together on a government project." In stark contrast, CPA appeared as nothing so much as a partisan "pick-up team" with White House connections and with few staffers possessing appropriate competence or grounding in the Arabic language, the Islamic religion, economic development, and Middle Eastern history and culture. Three examples must suffice: David Nash, a retired Rear Admiral who headed PCO for 14 critical months without prior dealings in Iraq; John Agresto, President of St. John's College in Santa Fe and self-styled neo-conservative, who was selected to revitalize Iraqi higher education while knowing almost nothing about Iraq's educational system; and James Haveman, picked to rehabilitate Iraq's health care system despite no experience whatsoever in the Middle East, having never been to Iraq before his hiring (Behrman, 2007, pp. 174, 183; Miller, 2006, p. 114; Chandrasekaran, 2006; Ricks, 2006, p. 203).[10]

Notable contradictions of the general rule of under-qualified, partisan CPAers existed. While Bremer himself neither spoke Arabic nor had ever stepped foot in Iraq previously, he did arrive in Baghdad accompanied by retired Ambassador Hume Horan as Senior Adviser. A superb Arabist with loads of Middle Eastern experience, Horan knew Iraq exceptionally well and was expert in Islamic cultures. Another Bremer deputy, career diplomat Dick Jones, spoke fluent Arabic and was former Ambassador to three countries in the region. He served as CPA's chief policy officer. In addition, CPA's regional co-ordinator for reconstruction projects in six provinces, Michael Gfoeller, spoke Arabic like a native, had studied Islamic history at Cairo's al-Azhar University, and received an

Master of Arts in Middle Eastern Studies from Georgetown University. Gfoeller's knowledge about his recipient country rivaled that of any member of ECA's 16 country missions. Bilingual expatriate Iraqi-Americans also joined CPA, providing invaluable assistance, especially in drafting an interim constitution. Finally, a few Democrats, like Larry Diamond, were recruited out of academia for staff positions. Probably the most prominent odd-man-out was Senior Adviser for Defense and Security Affairs, Walt Slocombe. Not only did he have impressive educational credentials – Rhodes Scholar from Princeton and Harvard law degree – but he was also a Democrat who had served for six years in the Clinton administration. He swam amidst a strong current of political favoritism in the Green Zone (Bremer, 2006; Diamond, 2005).

Still, as one insider and critic of Iraqi reconstruction has described the overall situation, CPA was "very much amateur hour." Ambassador James Dobbins, an expert on postwar reconstruction, has called its volunteers "heroic amateurs", while an American journalist has castigated the White House for "deputiz[ing] a motley posse of amateur nation-builders." They were not a recrudescence of ECA's corps of dedicated civil servants, successful corporate executives, and public-spirited professionals from the private sector. Weakened by constant flux in personnel and its byproduct, a poor institutional memory, CPA hired many staffers by "snap decisions". In contrast to Hoffman's, Bremer's oversight lasted for only 13 months with the usual commitment for CPAers much briefer, just 3 months. High employee turnover posed a chronic problem, undercutting effectiveness in problem-solving. Seemingly, a neo-conservative ideology, naïveté, the Heritage Foundation's approval, and Republican partisanship functioned as four of the most important determinants of a steady flow of short-termers into CPA (Miller, 2006; Ricks, 2006, pp. 203-204).

The sixth way in which the Marshall Plan's instructional value went unappreciated was that ECA administered its appropriations and expenditures as a model of incorruptibility. Thanks chiefly to conditional aid, "guided dollars," and "end-use checks," which assumed a variety of shapes, USD 13 billion in assistance was virtually free of scandal and corruption. A strong sense of accountability and rigorous accounting controls, particularly adoption of Procurement Authorizations, or Pas, which required private European buyers to assume responsibility for arranging contracts with private American sellers, sometimes through government purchasing missions. This method minimized both the flow of dollars outside the United States and the temptation to embezzle or steal funds. ECA's veto over USD 8.3 billion in counterpart funds also prevented abuses.

Iraq's USD 30 billion aid package exceeded all other aid projects earmarked for a single country in American history. CPA also held in trust for the Iraqis USD 20 billion of their own money, kept in Iraq's Central Bank in a "Development Fund for Iraq". Unlike ECA's techniques, however, hasty and sometimes urgent disbursements were handled largely by direct contracts, around 3,000 in all, between a government agency, CPA, and private corporations, primarily American. Monies to run various Iraqi ministries flowed from the "Development Fund". Of its original amount 45% could not be accounted for as of January 2005, according to the Special Inspector General for Reconstruction. Sloppy standards meant sketchy paperwork or else no paper trail for auditors. Although a lack of financial transparency does not define corruption, CPA was beset by overcharges, phantom work, swindles, and scores of criminal investigations. Substantial irregularities and waste, stemming from poor monitoring of contracts and delivery of services, came to pass in Iraq. Hardheaded and vigilant administration of

spending, a Marshall Plan hallmark, existed in even shorter supply than close collaboration between donor and recipient (Miller, 2006).

Rectifying a weakness

Besides usable lessons from the Marshall Plan that went basically unincorporated in CPA's reconstruction practices, a final one is especially worth minding. The last suggests that even weakness in an extraordinary public policy can provide tutelage. Highly relevant to policy makers in all centuries is Sun Tzu's injunction to "know well thy adversary." The ancient Chinese philosopher's universal rule embodies a common sense dictum to create optimum conditions for attaining goals and solving problems. Marshall Planners, unfortunately, fell short of Sun Tzu's standard in one noteworthy regard. They, too, wore blinders on an important subject.

Undermining the appeal of communist parties in France, Greece and Italy was a primary Marshall Plan objective. Nevertheless, popular support for communists in those three countries showed impressive durability throughout Marshall Plan years and for a considerable period thereafter. Communism actually retained its appeal as French, Greek, and Italian national economies grew and improved. As late as 1956, for instance, the French Communist Party, or PCF, still ranked as France's most popular political party. American-sponsored economic and financial renewal clearly failed to achieve a major political objective. While ECA's programs did help to cap, or curb or slow communist growth in those countries, they did not roll back its postwar advances. In a bit of an understatement, Averell Harriman, head of OSR/Paris, later regretted that "we didn't reduce communist influence […] as much as we had hoped." So why Harriman's disappointment?[11]

Despite ultimate success in revitalizing Western Europe's economies, Marshall Planners were partially blinded by their attachment to a type of economic determinism. Consequently, they oversimplified the motives of communists and their supporters, misunderstood the various root causes and sources of its appeal and popularity, and overestimated their own capacity to weaken communism in France, Greece and Italy by principally materialistic means. Their analysis lacked sophistication, simultaneously conceiving of communist strength too narrowly and overrating it. An incomplete diagnosis of the true nature of the totalitarian challenge wasted, in fact, resources by prescribing an inadequate remedy. That Marshall Planners did not take the full measure of the communist threat should not be overlooked. Their mistake was in subscribing to "The Myth of Belly Communism," a half-truth which purported that poverty, hunger, unemployment and misery incubated Red Fascism. Hard times, however, did not necessarily breed and feed communism in Western Europe, or elsewhere. Materialism was only its partial cause and merely its partial cure.

The Marshall Plan educates us not to regard economic change as all-purpose or omnipotent. It especially warns contemporary policy makers to beware of regarding economic growth – enlarging the economic pie or GNP – as a panacea for totalitarian mindsets and tempers. It chastens those presently combating variants of totalitarianism about foreign aid's limits in such a battle. Along with its strengths, then, Marshall Plan misapprehensions need to be studied by postwar reconstruction specialists and anti-terrorist strategists. If the full measure of the growing threat to Western values is to be taken, and Sun Tzu heeded, then comprehensive explanations of motivation must be formulated out of historical, cultural and religious antecedents.

In conclusion, a few major features of the Marshall Plan deserve recapitulation. First, the Marshall Plan's core was its relationship between donor and recipients. Second, its formula applied outside the developed world only when certain indispensable conditions were met, the most elementary being that recipients were genuine nations unified by the glue of nationalism. Third, the Marshall Plan's conceptualization occurred in the context of a grave peril perceived by both donor and recipients. Such shared apprehension fostered common purpose and willingness to co-operate. A "second" Marshall Plan is conceivable only in the context of another agreed upon danger. Last, absolutely essential to converting effort into achievement was genuine political and economic talent in recipient countries. Without latter-day Marjolins and Erhards, the politics of good intentions will be ineffectual. Maybe the most fitting way for today's policy makers to honor the sacrifices of Marshall Planners in this anniversary year is threefold: guard against narrow utilitarianism and reductive thinking in connecting past and present; apply when appropriate their many strengths; and rectify one striking weakness. By not structuring policies and programs on oversimplifications of the origins and genesis of terrorism and Islamic fundamentalism, they will affirm the power of history to enlighten the rocky road ahead.

Notes

1. See, for example, Hogan (1987), pp. 19, 53, 87, 89, 273-4, 291, 293, 427 and 431. For specific references to an American "design", see pp. 3, 21, 53, 236, and 257.
2. On France, see Wall (1993), pp. 134-143; on Norway, see Bourneuf (1958) and especially Pharo (1993); on Italy, see Zamagni (1986); Burk (1995).
3. See Behrman (2007). Benefiting appreciably from William Diebold's earlier critique, Behrman elaborates insightfully on the deficiencies in both Milward's and Hogan's interpretations. See footnotes 27, 266, 335, 336 and 338 on pages 349-51, 397, and 408-11.
4. Helpful in understanding Monnet's pivotal role in postwar Europe are Monnet (1978) and Duchene (1994). A succinct appraisal is in Behrman (2007), pp. 219-22.
5. In their histories of the Marshall Plan, Milward, Hogan and Behrman all fail to give Marjolin the proper credit due him for his vital role.
6. The most detailed and informed journalistic accounts are Ricks (2006), Miller (2006) and Chandrasekaran (2006). The most revealing insider reports to date are Bremer (2006), Diamond (2005) and Allawi (2007). See also Spolar (2007) and Wong (2007). Victor Davis Hanson highlighted liabilities of both genres (Hanson, 2006).
7. Bremer delivered identical testimony before the Senate Appropriations Committee on 22 September 2003 as well as the House Armed Services and House International Relations committees three days later. President Bush made his remarks about the Marshall Plan and Afghanistan in a speech at Virginia Military Institute, Lexington, Virginia, in April 2002.
8. For less than four months Garner ran the Office of Reconstruction and Humanitarian Assistance, or ORHA. Taylor replaced Bremer upon the dissolution of CPA, heading America's third reconstruction agency, the Iraqi Reconstruction Management Office, or IRMO, under State Department aegis beginning in September 2004. Taylor remained on the job for a year. Both agencies lie outside the scope of this inquiry.
9. Iraq's demographics underscore the scale of CPA's failure in the clash of television channels: 40% adult illiteracy, 40% of the population under 15, and 50% of Iraqi households with access to al-Jazeera.
10. The "pick-up team" expression is Retired General Anthony Zinni's. Lincoln Gordon's headcount of top ECA managers revealed that "except for Governor Harriman, the [Marshall] Plan was run largely by Republicans." See Hoffmann and Maier (1984), p. 68.
11. For an expanded discussion of this point, consult Machado (2007), pp. 50-55, 125-126. The Harriman quote is on page 53.

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Part II. Human, Sustainable Development, Innovation, Open Market Economies, and Democratic Societies

Chapter 5. Lessons Learned from the Marshall Plan: A Corporate Experience

by Bertrand Collomb

For someone who is not an historian, and was only a child when the Marshall Plan helped Europe rebuild itself, it may seem awkward to write about it. Of course, I have been very much interested in the project passionately advocated by Candice Nancel to restore the prestigious *Hôtel de Talleyrand*, and I learned more about George C Marshall when my wife's uncle, Bernard Pujo, wrote his first French biography (Pujo, 2003). But this is hardly a qualification to discuss the historical significance of the Marshall Plan.

I will try to reflect about how, in my business experience, this type of solidarity between different geographical areas could be again envisaged. And there are indeed a number of good ideas in the Marshall Plan, which might be useful in the development of international relations with the emerging world, and which relate to the global experience of a company like Lafarge.

Lafarge and the Marshall Plan

When I looked into our archives, and asked some of our older retirees what the direct impact of the Marshall Plan in the history of our company was, I found only limited information.

In the 1947 annual report, there is a mention of significant investments planned, within the framework of the "Plan Monnet" – which was the French mirror plan of the Marshall Plan – to modernize several of our plants, and also develop the use of slag, a by-product of the steel manufacturing process. And there was apparently a trip to the United States to buy two cement kilns from Allis-Chalmer (Dubois, 1988). Others remember two American-built Marion front-end loaders in the quarry of the original Lafarge plant, in the Rhône Valley.

Later on, Lafarge took part in a "productivity mission", a visit to the United States organized in June 1951 for the French cement industry. One of the participants remembers a trip very professionally organized, where the American cement industry had shown its leadership both in social and technical issues.

On the social side, after the revolutionary strikes of 1947, France still had adversarial labor relations. In the United States, the French managers were shown that co-operative relationships with the unions could be established on the basis of a "pie-sharing" principle: productivity improvements were accepted, as long as they were enlarging the pie, allowing to distribute a larger piece to each stakeholder.

On the technical side, American companies were leaders in size and reliability of installations, as well as maintenance costs, but were not very concerned with reduction of energy consumption, as energy was considered abundant and cheap.

Ironically enough, 25 years later, the cozy relationship with the unions had bred inefficiencies, energy had become more expensive and environmental standards more demanding, making American plants largely obsolete, and paving the way for the take-over of the American cement industry by European and Japanese plants. But in the 1950's Lafarge had lessons to learn from the American industrial expertise, and the Marshall Plan had provided that help.

Doing good and doing well

Going beyond this brief historical reference, how do the main ideas of the Marshall Plan relate to our 21st century experience, and what can we learn?

The first basic idea I like in the Marshall Plan is that doing good and doing well are not necessarily contradictory. The Plan was based on the assumption that giving resources to Europe to allow it to buy goods from American companies would help Europe as well as the American economy.

It was a little like Henry Ford raising his workers salaries, so that they could buy more of his cars. Or like the Monopoly players giving money to a bankrupt player, so that the game could continue.

This idea is not self-evident, but it was more acceptable in an era of Keynesian economics, where protected or segmented economies were able to create demand, even by artificial means, to start up the growth engine and use idle capital resources.

It is more difficult now in an open and competitive world, where supply-side economics is the rule, and where segmentation of trade flows by preferential channels may lead to more negative than positive results.

But there is an enduring lesson, which is often forgotten in today's debate. The world economy is not a zero-sum game, and win-win solutions can be found, if one has the will to go off the beaten track.

That lesson is also increasingly important for companies like us, active in emerging, but still very poor economies. We have found that a large number of people could become our customers, if only we would help them to use our products wisely. In India for example, in the Kolkata area, we came to realize that poor people living in slums could build simple, cheap and decent homes, if they had and understood the technology, were allotted land, and found long—term financing. We designed a model home, simple to build with family or neighbors, and tried to organize land allotment with the state and micro-financing with existing financial institutions. This approach, widely known as "working at the bottom of the pyramid", or "doing business with the poor", is now part of the policies of many international companies.

More generally, the fact that bringing something to the communities where we operate is also a way to grow more and make more money is increasingly recognized. Helping oneself by helping others does work.

Corporate social responsibility can be and must be a win-win approach, where business long-term interests are being served by a proactive helping attitude.

Examples are abundant in the experience of a company like Lafarge, but the best example is probably the AIDS crisis, in Africa as well as in other emerging countries. A responsible company can hardly remain idle when 20-25% of its workforce in an African

country is HIV-positive. We have therefore launched a program to develop prevention, testing and treatment for our workers, their families and their immediate environment in our African operations. If initially the necessary commitment of resources looked out of proportion with the local salary and income levels, it now turns out that the benefits in reduced absenteeism, health costs and training of replacement workers exceed the costs of this program.

It would be naïve to believe that good ethical objectives automatically translate into economic advantage, but my own experience is that, more often than not, effective management can make both compatible. This does not fit well with the ideological attitude developed by some non-governmental organizations (NGOs), who cannot believe that anything good could be compatible with business economic interest. This belief is expressed, especially in the field of environment, in the slogan "no pain, no gain", inviting us to suffer in order to achieve the common good.

The Marshall Plan reminds us that an altruist attitude does not necessarily entail pain or suffering, and can even be rewarding for all.

Sharing power

A second key principle of the Marshall Plan was the role European countries themselves played. In the words of George C. Marshall, "It would be neither fitting nor efficacious for this Government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe […] The program should be a joint one, agreed to by a number, if not all European countries" (Congressional Record, 30 June 1947) In the words of Paul Hoffman, the administrator of the Economic Cooperation Agency, in charge of managing the funds of the Plan, "the essence of genuine leadership" was "to share power with people rather than to display power over people" (Machado, 2007).

At the same time there were clear rules on the way the money allocated to the program could be used. Conditionality was clearly spelled out, but managed in a flexible, not in a bureaucratic, way.

I will leave it to others to make a parallel to current political situations. But I would like to compare that approach with what a company like ours must do when going into a great variety of different countries and different cultures.

Our business, producing and selling building materials, is extremely local, as are our customers and their building habits. But we have expertise in our manufacturing or marketing techniques, as well as management skills adapted to our industry's business model. In that type of situation two risks must be avoided: one is to try and impose a uniform way, which will clash with our local environment; the other to accept relativism as a principle, and let each operation find its own way (which may not fully exploit our group's size, resources and experience).

Much like the Marshall Plan, we have elected to set up clear rules about the values of our company, and the basic principles on which its operations should be conducted. But we leave considerable room for initiative at the local level, to address the specific needs and peculiarities of each country.

In this process we must decide what the essential values of the business are, and what aspects in which local variances are acceptable. In the political arena, the Marshall Plan

faced the same issue. It was clearly based on American ideals of free markets and open economy, and was meant as a tool to fight communism. But it accepted co-operation with market-oriented as well as socialist governments, some of which had chosen, like France and the United Kingdom, nationalization and state-controlled economies as their best option.

In our business operations, we need to maintain the integrity of our principles, in dealing with people as well as maintaining ethical standards. If respecting people, of all gender, race or creed, is a fundamental principle, how do we deal with apartheid, political dictatorship or societies where the place of women has been restricted? What is the border between upholding fundamental values and displaying cultural imperialism?

International companies, like governments, have to make these choices, and they are not always easy. Very often civil rights advocates would like companies to not do business in countries where human rights standards are not acceptable. If we complied with such requests from different groups, we would not operate in many countries.

On the contrary, we believe we should stay and operate as long as we are not obliged to compromise our principles. For example, China is a country where political freedoms are quite restricted. But economic freedom exists, and business is not directly affected. And we have refused to let a cell of the communist party operate in our subsidiary, as this would be introducing political control within our operations.

In general, we believe an international company operating in a country is a window on the world. By promoting exchanges of information and experiences, it helps creating an open climate which eventually is favorable to democracy and respect for people. That is the way the Marshall Plan helped Europe to eventually become an open and free-market area, without coercing anybody.

To take another example, the situation of women, it is clear that we must respect cultures which give women a different role and place in society, whether we agree with them or not. Attempting to shake hands with a Muslim woman in one of our Malaysian offices may be considered inappropriate. But we will not make any difference in the way we deal with men and women in the workplace on business issues, whether it is about pay, responsibilities, or respect.

Beyond respecting the differences, a larger and more difficult issue for us is whether we can use these differences to foster a better and more effective management approach. While upholding our basic principles, can we adapt our management system to leverage cultural characteristics? For example, in a culture which values solidarity and the collective approach more than individual achievement, do we fight to keep the Western approach, with individual objectives, bonuses, etc., or do we try and base the effectiveness of our operations on the collective approach?

Despite years of international development, we do not have a clear answer to this question yet. We have been conducting experiments and even sociological studies, which hopefully will give us a better understanding of this type of issue. A French sociologist, Philippe d'Iribarne (1998), has studied cases of successful operations of Western companies in African countries, and has shown, for example, that very detailed rules, which would look excessively bureaucratic elsewhere, are effective in a culture where personal relationship is assumed to be under any decision, and where decision makers need to be protected from that pressure.

A current issue: climate change

We have seen that several characteristics of the Marshall Plan are relevant in our current experience. I believe that there is even a case for applying the Marshall Plan logic in our modern world. Specifically an approach similar to the Marshall Plan could be useful on the climate change issue.

We all know this is a very serious issue, which may have devastating consequences, especially for developing countries, but for the whole world as well. In the Kyoto Protocol, "rich" countries, who have been emitting most of the greenhouse gases so far, have accepted to commit to significant reductions. But the US Congress has refused to ratify the treaty, arguing *inter alia* that emerging countries, who are going to have an increasing share in the future emissions, were not undertaking any commitments.

These countries in turn refuse such commitments, fearing it could stifle their growth, and wanting to enjoy the same freedom that industrialized countries have had during their industrial development.

Lafarge has significant stakes in this issue, as the cement industry contributes significantly to world emissions. We understand that significant progress in energy efficiency, and therefore in CO^2 emissions reduction, could be achieved in countries like China by using the best available technologies, and by modernizing inefficient and obsolete plants. And it is not so much an issue of technology transfer or intellectual property as it is an issue of investment and management.

It should not be impossible to organize a system by which industrial countries would bring money, investment and management resources from their industries, to help emerging countries tackle the issue, to their benefit but also to the benefit of the industrial nations themselves.

The Marshall Plan experience shows us that the conditions for such a World Climate Change Plan to work would be a certain level of confidence between countries, and the acceptance that each country or region could design its own plan in order to benefit from global help.

These conditions do not seem to be met today, as even the United States has not formally decided to participate in a global effort. But it was also difficult to forecast, after the destruction of World War II, and the ideological fights in Europe, that a few wise men could design a Plan, based on helping others to help themselves, and spend a few percent of the American national product, with the success we have seen.

So the future may surprise us as well, and, in any case, there could not be a greater tribute paid to George C. Marshall than to save the planet through a "Marshall Plan Against Climate Change".

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Chapter 6. The Relevance of the Marshall Plan for the 21st Century

by John Killick

The Marshall Plan is important because it was a major part of the post-war "settlement", and because it helped start the process of globalization that has so increased international prosperity since 1950. The original Marshall Plan was the product of careful thinking by wise men. The problem for would be modern day Marshall Planners is that inevitably over 60 years, times have changed. Now some of the central assumptions of the postwar settlement are threatened, and postwar globalization is generating a reaction. Marshall Planners' task in the 21st century will be therefore be to perpetuate the most useful results of the previous settlement, to control the worst excesses of globalization, and to suggest new international arrangements to stabilize the international economy. If someday, nevertheless, there is a great new international economic crisis modern Marshall Planners will have to address it as effectively as possible, and once over, hammer out a new system that hopefully will work as well as the original post-World War II settlement (Isaacson and Thomas, 1986; O'Rourke and Williamson, 2000).

This chapter comments on Chapter 5, Mr. Bertrand Collomb's account of the lessons learned by his company, Lafarge, from the Marshall Plan. Lafarge is the largest international producer of building materials, and one of the world's leading multinationals. Mr. Collomb was Chairman of Lafarge between 1989 and 2007. He outlined Lafarge's experience during the Marshall Plan, and then explained his company policies on third world poverty, treating employees with AIDS, devolving decision making, living with cultural diversity and opposing climate change. He argued that Lafarge policies echoed the creative give and take spirit of the Marshall Plan. The Marshall Planners wanted to develop large effective companies on the American model in Europe and would have approved of Lafarge achievements and ambitions (Dubois, 1988; Barjot, 2005; Barjot, 2007).

Mr. Collomb, as Chief Executive, gave an effective exposition of his company's values, and neatly tied them to the Marshall Plan. However some of the main subjects of his talk – AIDS, climate change, etc. were inevitably not concerns of the historic Marshall Plan. Faced with them today Marshall Planners would have proposed solutions based on their experience of similar problems in their own period. As public servants they would probably have been as interested in the general environment in which Lafarge operated, how their general settlement had worked out over 60 years, and the problems it now faced. It is a truism that history never repeats itself – but actually often general patterns do repeat, as in stock market manias – it is the detail that varies. This chapter suggests modern Marshall Planners would examine how the late 19th century Victorian trade system degenerated into depression and war; the role of the Marshall Plan in postwar

reconstruction; the problems now threatening the international economy; and what lessons they could apply from this history to a new settlement (Kindleberger, 1973).

Historical background: the first globalization movement and its collapse, 1850-1941

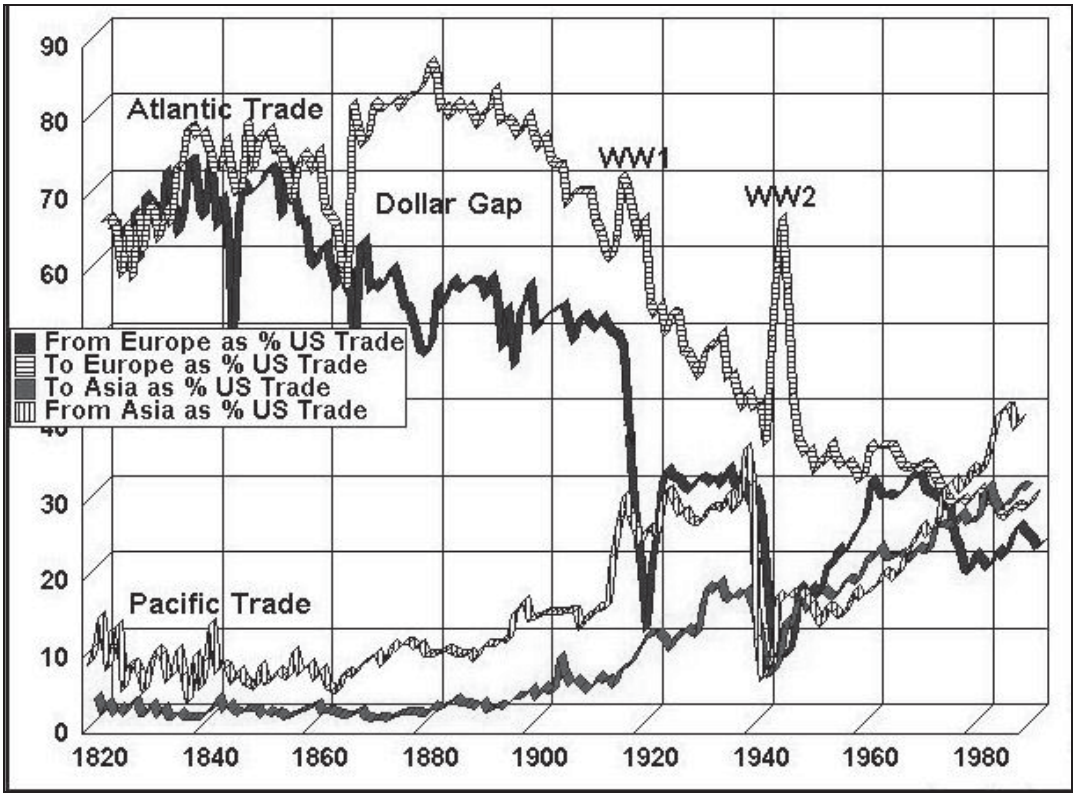
The central dilemma economists and politicians faced in the 1930s and 1940s was the failure of the Victorian free trade settlement. This had been founded on the widespread adoption of free trade following the repeal of the British Corn Laws in 1846, the new transport and communications technology of the period and the general acceptance of orthodox economic theory. The erosion of this settlement, after 1900, the widespread reaction to the Victorian globalization, the rise of socialism and nationalism the diplomatic failures that led to World War I and the botched postwar peace, led to the depression and World War II. The New Deal revolution in social policy and finance, the allied victory in World War II, the rise of the welfare state in Europe, the postwar diplomatic settlement, and the Marshall Plan created a new global world. Now after 60 years of hectic development it may be time for a new settlement (O'Rourke and Williamson, 2000; Nash, 1998; Killick, 1997a).

The mid-Victorian settlement underlay the massive growth of transcontinental trade, finance and migration between 1850 and 1914. This was the global world the Marshall Planners looked back to when they dreamed of normality, and wished to recreate in a modern setting. The United Kingdom, at the center of the world economy, purchased food and raw materials from the new world, especially the United States, but balanced her accounts by manufactured sales to the East, and by invisible earnings. Similarly the United States and the third world ran rapidly growing, interlocking and reasonably balanced accounts. The United Kingdom acted as the market and financial center of last resort, and the Bank of England and Gold Standard conventions of the day disciplined the system. In Europe a vibrant internal trade with Germany at its heart unified the continental economy. The problem was the differential growth of the major players which eventually destroyed the settlement first in World War I, and then in the depression (O'Rourke and Williamson, 2000; Killick, 1997a).

The massive growth of the United States from 1870 on, and the huge trade surpluses she developed in the late 19th century weakened the system. See Figure 6.1 which shows: US trade surpluses with Europe, the famous "dollar gap" in the top two lines; and – US trade deficits with Asia in the bottom two lines. Hence Asia cleared its deficits with Europe, mostly the United Kingdom, by sales – then principally of raw materials and exotics – to the United States. Although the United Kingdom prospered in the late 19th century, relatively she declined. The problem was exacerbated by World War I which vastly widened the dollar gap – temporarily covered by European, principally British – savings and huge American loans. See Figure 6.1. The war cost the United Kingdom and the other European imperial empires a substantial part of their savings and invisible earnings. As her empire, formal and informal, developed, the United Kingdom could no longer rely on her third world trade to balance her new world purchases. The more fundamental problem was the relative decline of European productivity *vis-à-vis* American, not only in food and raw materials, which was justified by comparative advantage, but also in manufacturing, where comparative advantage was less obvious (Killick, 1997a, pp. 1-13).

Figure 6.1. The dollar gap and its decline, 1820-1980

Total US merchandise trade as percent of US trade with Europe and Asia



Source: United States Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970*, United States Government Printing Office, Washington, DC, pp. 903-907; United States Bureau of the Census, *Statistical Abstracts of the United States*, Washington, DC, successive editions, 1970-1995.

In the 1920s, the Marshall Planners knew, these problems had been concealed by the massive flows of US investment to Europe which balanced European trade deficits, and covered reparations and war debts. These flows stopped after the Wall Street Crash, and from 1929-32, faced with massive payments deficits the German and other governments, following the orthodoxy of the time, deflated their economies to rebalance their trade, hoping solvency would revive American investment. This harsh policy came within an ace of balancing the German fiscal and current accounts by 1932, but long before this, the depression had destroyed the 1920's prosperity in America, and communist and Nazi radicalism, enflamed by unemployment, had destroyed the democratic center in Germany. International trade in general and the intra trade in Europe collapsed in a thicket of tariffs and restrictions, and the dollar gap – see Figure 6.1 – necessarily narrowed (Lary, 1944; Kindleberger, 1973).

The war was caused by the ambitions of the dictators, but contemporaries argued that economic factors also played a part. Overwhelmed by the depression, governments desperately attempted to revive internal demand with experiments which varied from New Deal experimentation to German military Keynesianism. By 1937, however, it was obvious that internal recovery could only go so far without the revival of external trade. So short of international consensus, and pressed by hungry electorates, countries sought short-term mercantilist solutions. The United Kingdom and France attempted to revive

their empires. Germany unable to buy food and raw materials from America without incurring huge trade deficits looked to conquest in Eastern Europe. Japan similarly, denied full access to the European and American systems, sought a satisfactory external balance in an enclosed Far Eastern trading block (Ferguson, 2006, pp. 277-344; Gardner, 1956, pp. 8-9).

Internally World War II spending demonstrated how rapidly aggressive fiscal policy could reduce domestic unemployment, but this would not solve the problem of differential national employment and growth rates, and consequent international imbalances. The dollar gap was covered by Lend-Lease in World War II – see Figure 6.1 – but economists knew the imbalances would return with renewed force after the war, as Europe attempted to rebuild. Therefore Keynes and White devised the International Monetary Fund (IMF) to offer trade deficit countries emergency loans until they could improve their trade. However the IMF did not go into effect until the 1950s, after the great postwar boom had started. The United States financed the United Nations Relief and Rehabilitation Administration (UNRRA) for southern and eastern Europe and the American Loan for Britain. These provided breathing space, and financed a rapid early recovery, but did not provide the basis for a long-run postwar settlement. The Potsdam Conference in 1945 failed to conciliate Western relations with Russia, adding urgency for the United States to achieve a settlement at least in Western Europe (Gardner, 1956; Killick, 1997a).

The Marshall Plan and the origins of the second globalization movement, 1941-1960

The eventual settlement was the Marshall Plan which first provided emergency finance to Europe, and then encouraged the basic structural reorganization that underlay the 25-year European boom from 1948 to 1973. The problem of the dollar gap was finally resolved (see Figure 6.1). The Europeans were goaded to create an efficient internal trade, to emulate the United States, and to replace their lost imperial markets. Although they jibbed at the American proposal of a European federal state implicit in the OEEC, the huge growth of the "intra trade" from 1948 on, and the peaceful re-establishment of West Germany at the center of the European economic system led to the creation of the Common Market in 1956. The United Kingdom joined the European Economic Community (EEC) in 1972, when it appeared that the European system was growing faster than her traditional external trade. In the Far East, Japan was also incorporated into the American system, and in effect offered markets that she had been denied in the 1930s (Burk, 2001; Killick, 1997a).

Secondly the Marshall Planners encouraged European industry to increase its productivity. By early 1947, most European countries were near full employment, but could not pay for essential American imports. Even, if as in the case of the United Kingdom, their exports to their traditional third world markets increased rapidly, it was very difficult to earn dollars from these markets, or export to the United States. The swing in the terms of trade since the 1930s in favor of primary products exacerbated the problem. The only really effective long-term solution was to increase productivity per European worker nearer to American levels to secure the necessary exports. The Marshall Plan achieved this by exporting American know-how and machinery, and by exposing European entrepreneurs to the best American technology. The result was that over 30 years or so European technology rapidly caught up with the American norm, although it never overtook it. The Marshall Plan started the process but was only one cause. Later for instance, American companies invested heavily in Europe bringing their technology

with them, and European companies developed their own ideas and/ or copied American methods quite independently of the Marshall Plan (Zeitlin and Herrigel, 2000; Kipping and Bjarnar, 1998).

The Marshall Planners also tried to transfer American industrial organization and "industrial democracy" to Europe. They wanted strong transnational firms, but in the American tradition they opposed restrictive practices and monopoly. All the Economic Cooperation Administration (ECA) bilateral treaties between the United States and the European states contained commitments to antitrust, and the American occupation administrations broke up the Ruhr cartels and the Japanese zaibatsu. Since 1948, most international multi-national corporations (MNCs), like Lafarge, have developed on American managerial lines. They also wanted powerful, but co-operative unions on the American pattern to deliver high productivity and good wages through orderly collective bargaining. This would give status to workers, and hopefully produce an integrated European consumer society on the continental American model that would reject communism, and ensure social stability (Maier, 1987; Freyer, 1992; Mercer, 1995; Carew, 1987).

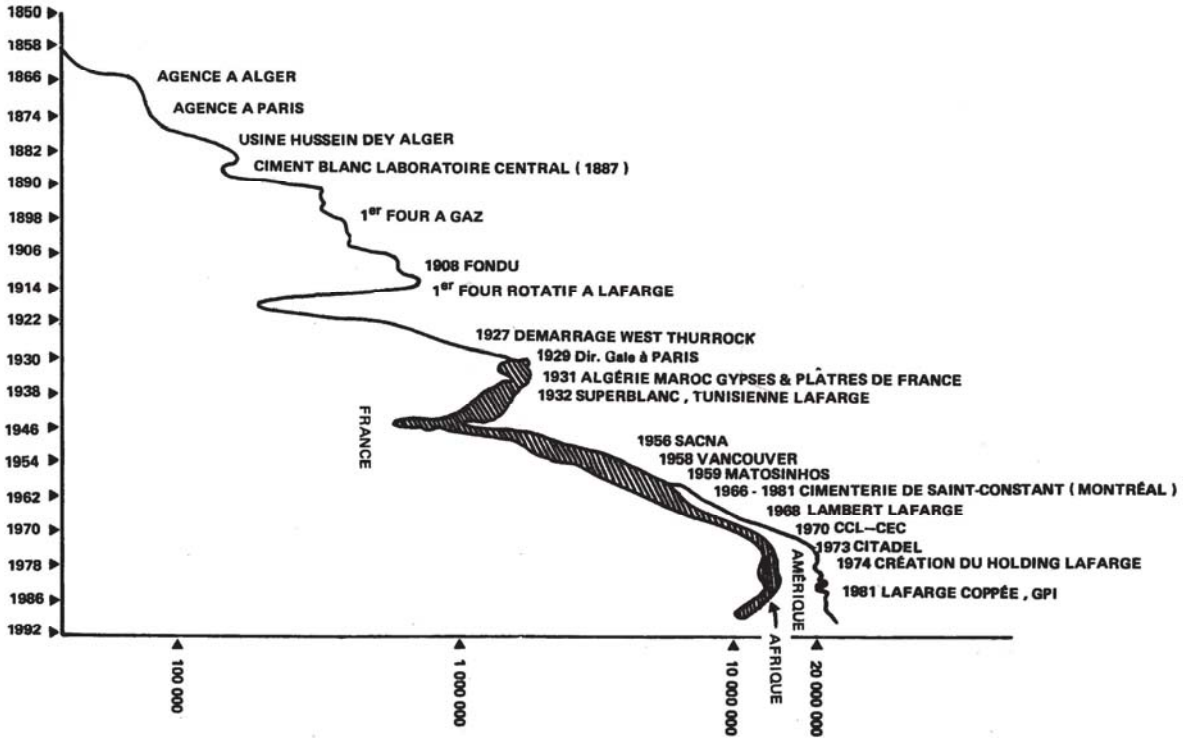
The Marshall Plan and the growth of Lafarge, 1831-2007

Lafarge's history mirrored almost exactly the growth and problems of the international economy – see Figure 6.2. It was founded in 1831 as a small lime producer with one kiln at Le Teil on the Rhone, but it expanded rapidly in the boom of the 1840s and 1850s. It established its reputation in 1864 when it won a very large contract to supply concrete blocks for the jetties of the Suez Canal. Lafarge grew very fast in the late 19th century, and by 1914 was selling 800,000 tons of cement products annually and was the world's largest lime producer. World War I knocked the company back savagely. In the 1920s, Lafarge's output recovered, and the company moved its headquarters to Paris. It adopted a modern divisional structure and developed new products, especially Portland cement. In the 1930s however demand slumped. During the war the Occupation ran the company, and in 1944, Lafarge's plant was sequestered by the Liberation. When it was returned in 1948, the accounts were in the red, the plants were run down, and the workers were depressed (Dubois, 1988; Barjot, 2005).

The Marshall Plan, and its French parallel, the Monnet Plan, involved huge construction works, and French consumption of concrete, and Lafarge production rose by leaps and bounds. Mr. Collomb discussed briefly Lafarge participation in the cement industry productivity visit to the United States, the purchase of new American cement kilns from Allis-Chalmer, and the lessons the company learned about more co-operative labor relations. Lafarge developed from a mostly French firm in 1950, to a global giant in 2005. In the 1970s and 1980s the firm invested in Canada and the United States. The company faced difficult problems between 1989 and 1993 because of the international recession, just at the time Mr. Collomb became Chairman, but renewed dynamic growth from 1993. This was a critical acceleration. The company strengthened its position in Europe, and invested in every continent, especially the emerging countries of Eastern Europe, China and India. Only Japan for a time, and the really poor countries in Africa and central Asia escaped its reach (Barjot, 2005; Barjot, 2007).

Figure 6.2. Lafarge production of lime and cement

In tons, 1850-1990



Source : Dubois, Léon (1988), *Lafarge Coppée : 150 ans d'industrie : Une mémoire pour demain*, Pierre Belfond, Paris, p. 85.

The Marshall Plan and third world poverty

Since 1970, modern Marshall Planners would have been delighted to see that the globalization that started in Europe post World War II had integrated huge areas of the world – especially China and India – into the international economy, and that their incomes were rising rapidly. MNCs are playing a vital role in this second globalization transferring technology and organizing distribution. Mr. Collomb explained that Lafarge is not only opening modern plants in many developing countries, but has also found resources to experiment with lower tech ways of selling its products, and helping its poorer clients. Secretary Burns reminded us at the conference marking the 60th anniversary of the Marshall Plan that there were still 500 million impoverished slum-dwellers and farmers in India. On the other hand, India already has a large population – say 250 million – of well-educated and motivated middle class. Therefore, while sections of the Indian economy clearly need help from internal and external sources, a modern organized state-to-state Marshall Plan would not be appropriate. On the contrary, China and India "on the march" seem almost unstoppable (Barjot, 2007; McGregor, 2007).

However large areas of the world, containing say 1 billion people, especially in Asia and Africa are still in dire straits, trapped by cycles of war, poor governments, geography

and the often perverse effects of natural resource wealth. Each year the growing competitive power of East Asia makes escape more difficult. Private enterprise, new technology and free trade, without state support, will only go so far. Iraq shows how difficult intervention can be. However modern Marshall Planners would not expect the developed world to turn its back. As in the original Marshall Plan, there are obvious charitable and precautionary motives to help. In addition, given the 1 billion people in the developed world, and the successful modernization of so much of the previous third world – with say 3 billion – underway, the resources should be available, if only they could be organized (Collier, 2007).

Many of these societies are so unstable and corrupt that a Marshall Plan would require not only aid, and trade protection to encourage industry and build infrastructure, but also determined military intervention to restore order, and democratic controls to impose honesty and responsibility. Actually the original Marshall Planners discovered a wide range of standards in Europe from the north-west to the south-east, but nothing like Afghanistan or Sahel Africa. Stability is critical. The original Marshall Planners faced occasional riots and strikes, but relief and reconstruction were not disrupted by violent disorder, except in Greece. The possibility is hardly mentioned in the Marshall Plan literature even though there were incendiary elements – Nationalists, Nazis, communists, as well as surplus weapons – in abundance (Collier, 2007; Killick, 1997a; Machado, 2007).

Possibly the German defeat in early 1945 was so terrible and decisive that potential terrorists were exhausted. Postwar stability was also aided by the general desire to rebuild – even by the communists – in 1945-46. A third factor was the very low unemployment between 1946 and 1951. Reconstruction demanded labor, demobilized soldiers almost immediately found jobs, and young men were fully occupied. By contrast many poor countries have very high youth unemployment. However they also all need masses of basic new housing and infrastructure which can sop up labor. Modern Marshall Planners might encourage Lafarge, and similar firms, to replicate their Indian building, and other experiments in those high-risk areas (Bessel, 2007; Killick, 1997a, p. 67; Collier, 2007).

The Marshall Plan and welfare capitalism

Poor countries also need improved health and welfare. The original Marshall Planners in Europe mostly found well established health and welfare programs such as the National Health Service (NHS) in the United Kingdom, although in south-eastern Europe Marshall Plan programs made an important contribution. Mr. Collomb raises the question of what modern companies can do. He cites Lafarge's interesting HIV experience in Africa. Lafarge's rapid growth and high profits in the last 20 years has enabled it to treat its employees well, and to gain from their good health and greater productivity. This, like the Marshall Plan, is enlightened self interest (Machado, 2007, pp. 69-70).

The debate about entrepreneurial paternalism goes back to British industrial pioneers such as Robert Owen who needed to attract good workers. However once industrialization had matured in the early 19th century, firms found that in relatively sophisticated and densely populated markets in western Europe and the eastern United States they could retain workers without special benefits. Modern corporate philanthropy and welfare capitalism developed in the United States between 1900 and 1930, after the great consolidation of industry had created giant oligopolies like

Carnegie and Ford with market power and surplus resources. However when the new giants were shaken by the depression, Roosevelt was obliged to expand government welfare. After the war, MNCs recovered their confidence, and increased their provision in good times, but focused on core activities in recession. Conservatives like Milton Friedman argued in 1970, "The social responsibility of business is to increase its profits." Since 2000 however most MNCs have made good profits and like Lafarge admit responsibilities not only to their investors, but also to their workers, and the community generally (Pollard, 1968; Friedman, 1970).

Health and welfare can be provided in different ways in different communities. It is not surprising that public health is deficient in poor third world communities. Mr. Collomb, in effect, asks to what extent MNCs should raise their employees' health and other benefits above local levels. In the modern world MNCs need to demonstrate that they are not just commercial actors but also good citizens. Modern Marshall Planners would argue that aid agencies, the state and private companies with resources and special knowledge should work together to provide welfare in poor countries (Collier, 2007).

The Marshall Plan and industrial organization

The original Marshall Planners wanted strong transnational firms balanced by effective unions, but opposed restrictive practices and monopoly. Since 1948 most international MNCs, like Lafarge, have developed on American managerial lines, but with greater geographical delegation, than the original Marshall Planners might initially have expected. Mr. Collomb argues one source of Lafarge's success was its ability to combine central direction with flexibility. Lafarge's main products – cement, plaster, gypsum, aggregates, roof tiles, etc. (unlike cars, grain or oil) – are heavy, bulky, low value products necessarily produced and traded in single markets. Lafarge needs global size and unity to establish its reputation and brand name, but the separate branches are only held together by careful management organization and human relations, and carefully husbanded industrial knowledge (Dubois, 1988; Barjot, 2007; Perrin *et al.*, 2006; Som, 2003; Esposito, 1995).

There are centralizing and centripetal forces in MNCs which must be negotiated and balanced. During the post-World War II boom, 1948-1973, some unchecked MNCs according to Mira Wilkins developed into labyrinthine conglomerates, which were ripe for "unbundling" by Wall Street financiers in the 1980s. Lafarge managers operating in a great range of cultures and economies are expected to demonstrate independent initiative, but always under the final control of the company. The original Marshall Planners, who had to deal with their own problems of guiding the 16 willful European nations, recognizing the industrial and personnel problems involved, would have understood and approved (Wilkins, 1974).

Since 1948 antitrust has become the norm nearly everywhere. Building materials firms tend towards cartels and monopoly – it is the nature of the product – and Lafarge has occasionally had problems with the authorities. However Lafarge in an international environment is generally subject to strong competition, and has to be efficient to earn good profits. The company aims to take a significant part of the market in each operating area to fulfill its legitimate reputation and brand needs – but has to balance these against the particular regulatory demands in each jurisdiction. Modern Marshall Planners would wish to maintain effective competition and to curb elite income and privileges where they seemed excessive (Barjot, 2007).

Mr. Collomb says little about unions. The New Deal Wagner Act, 1935, gave American workers the right to form unions in order to protect wages and consumer income. Although qualified by Taft Hartley, 1946, in the United States, the Marshall Plan transferred Wagner ideas to Europe. In the United States and United Kingdom, trade unions have declined since 1980, and formally negotiated "industrial democracy" has slowly been edged out of personnel relations in favor of legally backed human rights. These may protect minorities, but will not raise general wages. Marshall Planners, in the modern global era, would still wish to balance labor and capital, Not only for the sake of equity and democracy, but also to protect consumer demand (Lichtenstein and Harris, 1996).

The Marshall Plan, equity, and human rights

Globalization – the free movement of trade, finance and people has major effects on welfare and distribution. Mr. Collomb is concerned that the different nationalities and religions in his company should be treated fairly. Human rights however are only one important aspect of battles over distribution. Globalization raises income levels generally by giving full rein to comparative advantage according to classical economic theory, but discriminates between sectors. In the Victorian globalization, most urban Europeans benefited from plentiful frontier food, but competing European farmers suffered. Today Asian goods threaten American factory jobs. Unrestrained migration and unleashed financial mobility have similar complex offsetting effects (O'Rourke and Williamson, 2000).

Disadvantaged groups in democracies usually shout louder than the electors generally. The reaction to the first globalization began in Europe in the depression of the 1890s as farm prices fell – leading to the French Méline Tariff, and similar restrictions in Germany and Italy. The United Kingdom remained free trade for the time, but in the far greater crisis of the early 1930s, Europe generally imposed controls. Similarly limits on unrestricted migration began in the 1890s, but reached their peak in the US 1920s Quota Acts. Locked into Europe, selected alien or migrant groups were then massacred by the Nazis. More generally, globalization usually, but not always widened the distribution of income and wealth – provoking nationalist and socialist reactions (O'Rourke and Williamson, 2000; Williamson and Lindert, 1980).

This did not lead directly to the depression, since other factors were involved, but it did create an unfavorable environment which threatened to make the Victorian system unworkable. The Gold Standard for instance, to operate effectively, requires prompt market clearing. However from about 1920 onwards, disadvantaged groups were able to prevent the timely adjustment required to prevent, or even more serious, once started, to alleviate depression. The only solution was fiscal and monetary ease – the Keynesian revolution – permitting adjustments in other ways, stooping to conquer, but which in the long run, without careful controls, could cause inflation or introduce moral hazard (Eichengreen, 1992).

The depression reduced international flows to 20th century minima reducing the external pressure on internal equality, but at the cost, of course, of a massive contraction of welfare. The New Deal, World War II, and the postwar recovery narrowed American wealth and income differences to a 20th century low, and increased national solidarity. The postwar welfare state in Western Europe similarly provided an effective European settlement between social classes. The Marshall Plan contributed by successfully

deflecting communist agitation and convincing Europeans that with reasonable effort and sensible compromises they could achieve American standards of living and reduce class and national rivalries. As Paul Hoffman said, "You too can be like us." Implicit in "consumer society" was more than cars and washing machines, but also a range of values, *e.g.* egalitarianism, style and homogeneity, meritocracy, legal rights and rationality (Williamson and Lindert, 1980; Maier, 1987; Hoffman, 1951; Carew, 1987; Ellwood, 1992).

"Civil rights" did not become an issue in the United States until the 1950s and 1960s, a decade say after the "great migration" of African Americans off southern farms to northern (and southern) cities had resumed. The turning points were the 1954 Brown decision, and the long hot summers of the 1960s. More recently gender, religion and age have been added to US civil rights, and are being copied overseas. American companies began to accept that corporate responsibility for good human relations was important in the 1980s, and in the 1990s these ideas were spread to France by large French MNCs like Lafarge with branches in the United States, and substantial American share-holding sensitive to human values issues (Spar, 1998; Colonomos and Santiso, 2005).

There is now a growing reaction to modern globalization. The huge imports of East Asian consumer goods and the growing export of service jobs offshore threaten many western workers. Immigration, assimilation and multiculturalism have become issues in most Western countries, especially after 9/11. Global capitalism is now seen as a threat by many, and the postwar institutions (or their modern successors) such as the IMF and the World Trade Organization (WTO) are increasingly attacked by radicals. The flows of international capital are now so large that they often dwarf the postwar institutions like the IMF designed to control them. Globalization, while raising average incomes generally as in the late 19th century, also seems to be creating far more powerful MNCs, and a new, wealthy elite, on the one hand, and in some areas, a new underclass on the other (O'Rourke and Williamson, 2000; Krugman, 2002).

Modern Marshall Planners therefore should address a range of equity and human issues. They should be concerned about widening differences between the international elite and the new poor. They should ask who is gaining from the industrialization in the developing countries, and how this will affect the demand for consumer goods in those countries, and the impact on the balance of payments. In their own societies they should attempt to balance the traditional civic values of the European enlightenment as embodied in European and American law, and the requirements and practices of Western consumer societies, with the needs of diversity. Diversity should be respected, but there are core Western values – as Mr. Collomb implies – that modern Marshall Planners should not sacrifice (Wolf, 2006a; Wolf, 2004).

The Marshall Plan and the environment

Globalization, and the rapid industrialization of China and Japan, on top of the existing large emissions from North America and Europe, are according to leading scientists threatening to unbalance the world's climate. Mr. Collomb argues modern Marshall Planners would take the risks necessary to tackle the consequent climate change. The cement industry produces an abundance of carbon, and Lafarge has become a leader in emissions control. If directed appropriately Lafarge could work with the new large scale builders like India and China to install and manage the best industrial technologies.

Other major companies, such as Wal-Mart, would spread best practice in their industries, and among their suppliers, and everyone would gain (Stern, 2006; Birchall, 2007).

The original Marshall Planners' main aim was increased production, full employment and exports. They wanted clean modern equipment, but environmental costs were not a priority. European governments and populations however hoped Europe could be re-planned and rebuilt to much higher standards than before. The wartime destruction gave the town planners their chance, and there were some major success stories such as the British new towns. However quickly built postwar building in Europe was often poorly planned, and has often since had to be torn down. Similarly rapid industrial recovery often created environmental problems such as terrible winter smogs. As the problems in Europe evolved however, they were gradually solved (Donovan, 1987; Machado, 2007).

The United States, such as other land- and resource-rich economies like Argentina, Australia, Canada, etc. has historically sacrificed the environment to save labor and raise wages, and the same countries opposed Kyoto. However in the West relatively slowly rising gross national product (GNP) since 1900 has been partly offset by reduced fuel and natural resource inputs per unit of GNP, as technology has improved, and tastes have changed. Recently new high-tech microelectronic innovations like computers save resources at work and leisure, and suggest the possibilities of general swings in consumption patterns. A new vision of welfare is required, substituting high-skilled service inputs – for instance in medicine, education and the arts – for natural resources, and unnecessary technological obsolescence. The real problem for the climate is the explosive growth of output in Asia, as the new developing countries attempt to emulate traditional Western consumption patterns (Habakkuk, 1962 Wolf, 2006b).

Nevertheless the United States and Europe have a history of strong environmental movements. Americans responded positively to crusades in the 1900s, 1930s and 1960s. The real political problem is convincing them, and the Western public generally, of the more remote and uncertain dangers involved in the present environmental crisis. The devastation of trees in the late 19th century, soil in the 1930s, and industrial pollution in the 1960s was obvious for all to see. Like Franklin D. Roosevelt in 1940, politicians have been scared to get too far ahead of really hard evidence or public opinion. However thanks to increasing scientific certainty and brave campaigns by Al Gore and many others, the Western public is now far better informed (Andrews, 1999; Stern, 2006).

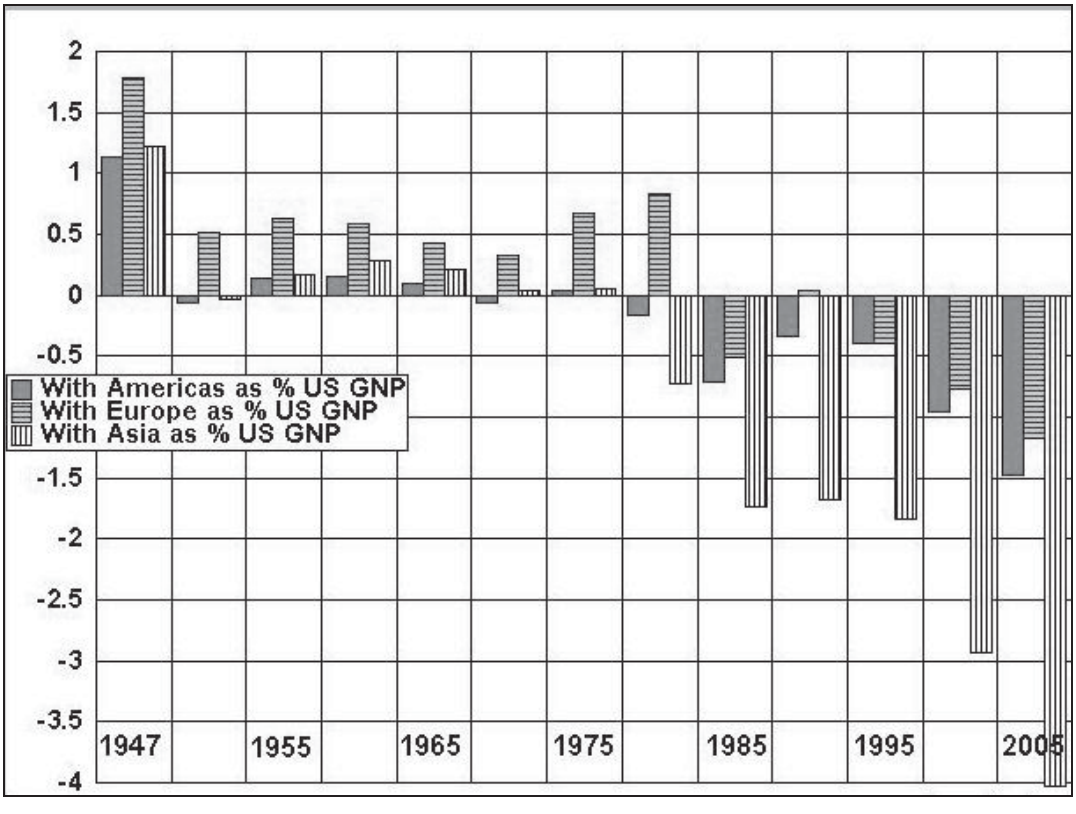
The recent British Stern report suggests that the costs of mitigating the worst effects of emissions may be relatively small if governments act promptly. Some sort of carbon permit scheme, or even far higher fuel taxes would encourage economy. Huge carbon savings could easily be made in North American transport or Chinese heavy industry. Trade surplus countries like China could pay well informed companies like Lafarge for technical assistance. Asian leaders now understand their countries will probably suffer earlier and heavier than in the West. The poorest countries would need aid. A Marshall Plan-like deal therefore should be possible (Stern, 2006).

The Marshall Plan and economic stability

Modern Marshall Planners would, undoubtedly be delighted by the rapid spread of prosperity around the globe since 1950, and by the creative activities of Lafarge and other MNCs. However they would be concerned about some aspects of globalization and desperately worried by the associated trade and financial imbalances which the

United States has developed since 1970. Figure 6.3 shows the massive swing in US trade from surplus in 1947 to deficit by 1985. Table 6.1 shows how the deficit was covered. Figure 6.4 shows the associated exchange rate changes. Looking back from 2007, but with memories of 1929, 1947, and 1971, modern Marshall Planners would note how trade imbalances had helped cause the Great Depression, had threatened European recovery in 1947, and had precipitated the collapse of the Bretton Woods agreements in 1971. As good Keynesians they would be satisfied that the authorities had so far kept the economy on course, but concerned that one day the balancing act would fail (Killick, 1997b).

Figure 6.3. United States trade balance by regions as % US GDP, 1947-2005



Source: United States Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970*, United States Government Printing Office, Washington, DC, pp. 903-907; United States Bureau of the Census, *Statistical Abstracts of the United States*, Washington, DC, successive editions, 1970-2006.

Table 6.1. US balance of payments, 1949-2005

In constant USD

	1949	1960	1970	1980	1990	2000	2005
BALANCE ON G+S+I	**38**	**27**	**15**	**20**	**-63**	**-391**	**-650**
Exports G+S+I	96	138	233	649	872	1419	1612
Imports G+S+I	-59	-111	-218	-629	-935	-1809	-2261
UNILATERAL TRANSFERS	**-35**	**-38**	**-11**	**-16**	**-33**	**-54**	**-79**
US govt grants & pensions	-32	-34	-7	-14	-17	-22	-35
Private gifts	-3	-3	-4	-2	-16	-33	-45
US ASSETS ABROAD	**-8**	**-24**	**-30**	**-162**	**-100**	**-581**	**-393**
Govt Assets	-	-	-7	-23	0	-1	18
Direct Investment	-	-	-15	-36	-46	-152	-8
Foreign Securities	-	-	-4	-7	-35	-125	-166
US bank & other lending	-	-	-4	-96	-19	-302	-237
FOREIGN ASSETS IN US	**0**	**12**	**22**	**109**	**152**	**1024**	**1116**
Foreign official assets net	-	-	-	29	42	38	184
Foreign private assets net	-	-	22	80	110	987	933
Direct investment	-	-	-	32	60	288	101
US Treasuries	-	-	-	5	-3	-53	184
Other US securities	-	-	15	10	2	486	437
US bank & other liabilities	-		7	33	51	266	211
RESIDUAL	**-5**	**-22**	**-4**	**-48**	**-45**	**-1**	**-6**
GDP at 2000 prices	**1634**	**2471**	**3747**	**5133**	**7061**	**9708**	**11091**
Price index. 2000=1.00	**0.17**	**0.21**	**0.27**	**0.53**	**0.81**	**1.00**	**1.09**

Notes: The table has been indexed against prices to more accurately present the relative size of the flows between 1949 and 2005. Financial flows and foreign trade have grown far faster than GDP or government transfers since 1950.

Section 1: Balance on goods, services and investment income.

Section 2: Unilateral transfers – *i.e.* gifts. Including Marshall Aid in 1949.

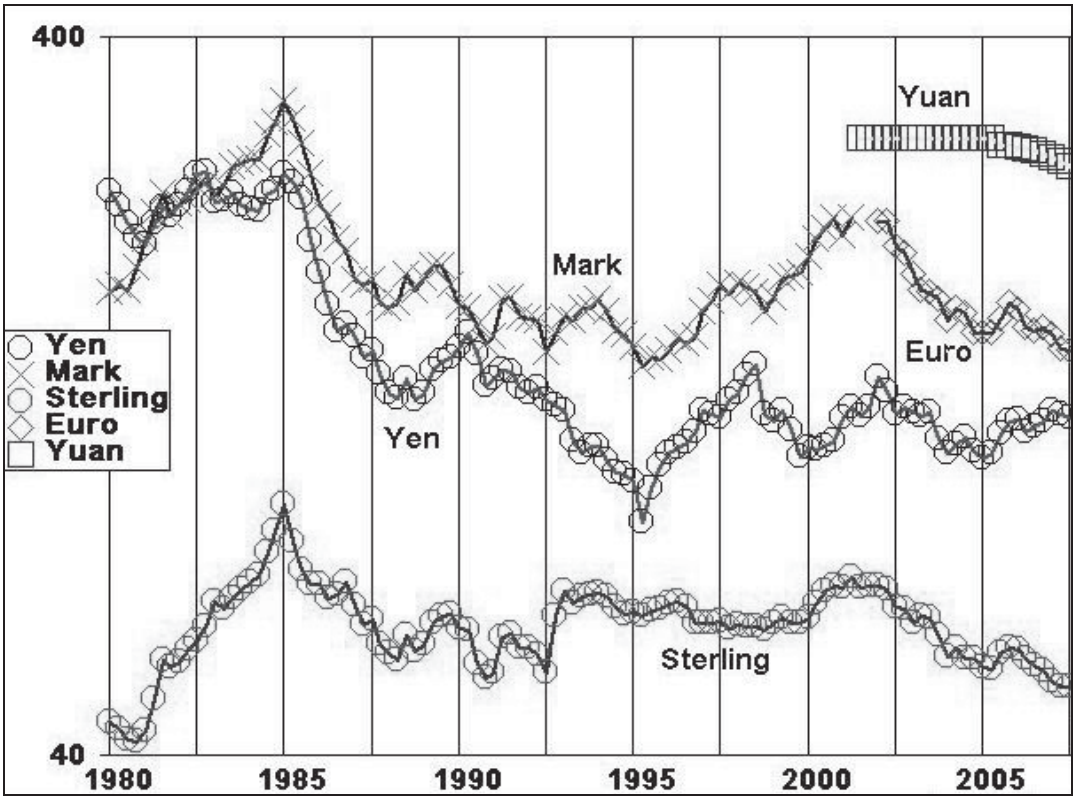
Section 3: Change in US holdings of foreign assets.

Section 4: Change in foreign holdings of US assets.

Residual. Not included or unexplained. For instance gold movements in 1949.

Source: United States Bureau of the Census, *Statistical Abstracts of the United States*, Washington, DC, successive editions, 1950-2006.

Figure 6.4. The dollar relative to leading international currencies, 1981-2007



Note: This logarithmic figure exhibits changes solely in the value of the dollar relative to the other main international currencies, not general relationships. Note the rise in the dollar in the early 1980s during the Reagan boom; the fall of the dollar after the Plaza agreement, 1985; the gradual recovery of the dollar in the late 1990s; the fall of the dollar against the Euro and Sterling since 2001; the recent behavior of the Yen, and the controlled stability of the Yuan.

Source: International Monetary Fund, *International Financial Statistics*, successive editions, 1980-2007.

They would have been surprised by the dollar's surprising ability to weather growing US trade deficits between 1960 and 2007. See Figure 6.4. Previous experience was that countries like the United Kingdom with trade problems had to adjust quickly or face rapid depreciation, but the United States has proved the great exception. America was partly less sensitive to current account imbalances because its foreign trade proportion was historically small. The US authorities' main concern therefore was to maintain momentum at all costs. Secondly, as the dollar was the almost sole "key currency" in the international system after 1960, the United States was able to run a continuous deficit as long as its trade partners were prepared to buy and hold dollars – in order to keep their currencies undervalued. Finally the United States, as the world's largest economy, had a great variety of assets to offer foreign investors, and excellent markets and legal systems to arrange and protect their purchases. Hence the system, up to a certain point, was self-correcting – the worse the crisis, the more foreign investors purchased US Treasuries (Eichengreen, 2006).

Modern Marshall Planners would be aware, much to their surprise, so soon after the original Marshall Plan, that the US current account became a problem in the late 1960s. Between 1950 and 1970, Europe and Japan recovered quickly and increased their exports

to the United States far more rapidly than the United States could reciprocate. Consequently the huge payments surpluses the United States had enjoyed in the 1920s and 1940s faded away and were replaced in the early 1970s by growing deficits. Actually America retained small trade surpluses in the 1970s, except in bad trade years such as 1971-73, but US overseas military spending and US foreign direct investment weakened its overall balance of payments. Table 6.1 above summarizes the main constituents. Ultimately the Bretton Woods system of fixed exchange rates – tying the leading currencies to the dollar and the dollar to gold at fixed rates – which had been one important element of the postwar settlement, failed in 1971, and with associated problems led to a decade of slow growth and inflation (Block, 1977).

The system lasted through the 1960s because Europe and Japan were enjoying export-led booms which they did not wish to disturb and which were partly based on the overvaluation of the dollar The Americans also valued their key currency privileges, and the spread of US foreign direct investment overseas. As the US balance of payments worsened during the mid 1960s boom and the Vietnam War, America's leading trade partners accumulated increasing dollar reserves, and co-operated closely to maintain the existing system. For instance between 1961 and 1968, the Gold Pool attempted to hold the gold price down against the dollar. The United Kingdom and the United States understood one another, and the continental Europeans were used to working together in the EEC. In the late 19th century, and between the wars, several currencies had competed for key reserve status, but the United Kingdom lost her key currency role in the 1960s, and neither Europe nor Japan wanted to challenge the dollar (Block, 1977; Eichengreen, 2007).

Modern Marshall Planners would regret the opportunity for a more fundamental reorganization of the international monetary system was lost in the economic and political turmoil of 1972-75. Unfortunately President Nixon had other concerns. Consequently the United States abandoned the gold parity, and the dollar floated against the other leading currencies, allowing America more flexibility to borrow. However although the tensions and uncertainty caused by the end of the fixed rate system led to substantial inflation and prolonged recession in the 1970s, the essentials of the system remained unchanged. Encouraged by the Reagan boom in the 1980s, Japan and Europe poured consumer goods into the United States. American assets were so attractive to a wide range of foreign investors that the United States had no problems financing its current account. The capital inflows were so large between 1981 and 1985 that they actually had the perverse effect of raising the dollar rate despite the Reagan deficits - see Figure 6.4 (Killick, 1997b).

The Plaza Agreement of 1985, devalued the dollar against the yen, mark, and sterling and stimulated American exports. See Figure 6.4. The Reagan boom ended in the late 1980s, reducing imports, and the US current account temporarily improved. Europe however had lost its postwar impetus since 1980, and Japan entered a long period of stagnation from 1990. The main new beneficiaries of the American market and continued globalization were the developing East Asian countries, China and India. See Figure 6.3. As the US economy accelerated again in the late 1990s, they undercut European and Japanese wage and currency rates and soon developed massive trade surpluses. The Chinese yuan was kept purposefully stable and undervalued compared with the euro, the yen and sterling which all rose against the dollar, 2001-2007 (see Figure 6.4). As had Europe and Japan in the 1960s, the new East Asian economies accepted dollars and other US assets such as Treasury Bills to maintain their exchange rate advantage, and accumulated huge dollar reserves. The figures are staggering. For the last few years the

US trade deficit has been running at 5-6% of US GNP, or equal to say one ninth of total world savings (Mann, 1999; Killick, 2001).

In China, vast new forces have been released and popular expectations raised. Huge numbers of former peasants migrate annually to the cities to enter manufacturing. Farm incomes are so low, that even though industry pays much larger wages, the major share of the income from Chinese manufacturing goes into heavy industrial and urban investment, and into profits. Investment in China is about 40% of GNP – considerably higher than in Europe during its industrialization or during the postwar reconstruction. The general Chinese population does not, and probably could not, receive all the advantages. Similarly in Japan, but for very different reasons, because of the age structure of the population, savings are also high. It is these surplus profits and savings that help fund the US trade deficit, and allow the US domestic and business savings rates to be artificially low (McGregor, 2007; Wolf, 2007a).

Modern Marshall Planners would note that economists have been crying wolf about American trade and financial imbalances for years. So far, however, except for relatively short-lived crises in 1990, 1997 and 2001 – the authorities have successfully kept the economy near full employment. However the stimulus required to maintain full employment has progressively increased as imports have risen. In the United States, consumer goods prices were generally held down by cheap imports, but these easy fiscal and monetary polices have induced asset speculation with potentially adverse results. For instance after the dot com collapse in 2000, President Bush eased government accounts sharply by about 7% of GNP. The Federal Reserve simultaneously reduced rates to encourage domestic spending. Consequently house prices rose rapidly, and householders leveraged cheap, and sometimes risky, mortgage debt into much higher consumer spending, while cutting savings. The Federal Reserve consequently gradually increased rates from 2005-07, leading to the crisis in the sub-prime mortgage market in mid 2007 (Wolf, 2007b).

A critical question Modern Marshall Planners would ask is how long Asian central banks would continue to buy dollars in such large quantities to balance the American trade deficit, and if their withdrawal would be sufficiently gradual to allow the US authorities to engineer a soft landing. Comparing the situation today with the American exit from Bretton Woods they would not take too much comfort from the apparent willingness of Asian central banks to hold US Treasuries indefinitely despite the possibilities of depreciation. Now the US deficit is far larger in proportion to GNP than in the 1960s, and the situation is more delicate. In the 1960s, the Europeans and Japan were a far tighter group with stronger common interests than the Asian central banks today. Misunderstandings between the political and financial leaders in the United States and Europe was one of the features of 1929-33. The great postwar success was in creating common interests and understanding across the Atlantic. In addition, whereas in the 1960s the dollar was the only effective reserve currency, now there is the euro which also potentially has great strengths. In the late 19th century and the inter-war period, investors had the choice of several reserve currencies to choose between – sterling, the franc, the mark, and after World War I, the dollar. In such a competitive regime it would be impossible for one country, even the United States, to play the market as it has since 1960 (Eichengreen, 2006; Kindleberger, 1973).

In the United States and Europe, it has always been assumed that since Keynes, modern economies are depression-proof. In the United States currently (September 2007), a combination of an apparently growing liquidity crisis, serious declines in the housing

market, and the continued foreign trade imbalances trouble observers. Even if this blow is soon over, there is a danger that weak management of the US economy will one day induce a major crisis. Major economies are still susceptible. The Japanese economy stagnated in the 1990s, despite modern management, because of the collapse of the cheap money-induced property boom in 1987, the appreciation of the yen against the dollar following the Plaza Agreement, East Asian competition, and demography. Fortunately Japan's problems did not spread too far, perhaps because the West and China were so buoyant, and because she was not a critical market for western goods. By contrast China currently is export dependant, is allocating 40% of GNP into heavy investment, and is a major purchaser of western capital goods. Hence reductions in US demand for Chinese consumer goods would soon reciprocate back. A stop on a society in the middle of such a major transformation, and with such massive popular expectations would have major political as well as economic effects (McKinnon and Ohno, 2001).

Modern Marshall Planners would argue that the present trajectory of growing trade imbalances cannot continue and must be tackled by both creditor and debtor countries. First American/ Far Eastern/ European exchange rates should change in such a way as to encourage American, moderate Far Eastern, and respect European trade. Secondly the US government, industry and families should increase savings to fund modernization, and divert resources from imports. At some point, the short-term gains of cheap capital are less than the long-term risks of instability. Finally the Far Eastern countries should increase domestic consumption of goods and services, reduce industrial, but increase social investment, cease to rely so much on export-led growth, and trade more with regional partners (Wolf, 2007c).

Conclusion

Modern Marshall Planners' main concern in 2007 would be America's relations with the new developing countries in Asia. East Asia's rush to industrialize, like America's a century ago, clearly has the potential to destabilize the international economy. Lafarge may currently be living through a golden age for multinationals that may not persist. Relations with China and East Asia however are not the only problem. Marshall Planners would argue that current trends could lead to several disasters – economic, climate, terror, etc., and there is an urgent need for new international agreements like the Victorian Free trade or the post-World War II settlements to achieve the required adjustments and to set new ground rules for competition and co-operation. The Marshall Plan was projected by the United States as insurance against further disorder. America cannot probably now propose a sole solution, and maybe parties are only bought to the table by fear. However, the earlier in the process of economic conflict and adjustment a settlement can be conceived and agreed, the better.

A successful settlement generally is constructed from a web of mutually supporting concessions, compromises, and market adjustments, maybe over several years. Centrally, there is need for a new vision of what welfare is – since it will be impossible to satisfy the massive populations in the developing world with the products of the traditional consumer society without destroying the planet. Reduction of American imports of consumer goods and natural resources would help climate change as well as the US current account. A shift in Chinese production from export markets to domestic consumer and social welfare and services could raise welfare for ordinary Chinese and moderate consumption of natural resources. New Asian countries could learn cleaner technologies from high-tech producers like Lafarge, whose service earnings could raise the US and

European payments. Agreement between Western and Asian economies to help poor, failed economies could reduce poverty, employ MNCs, control terrorist cells, and moderate excessive migration between countries.

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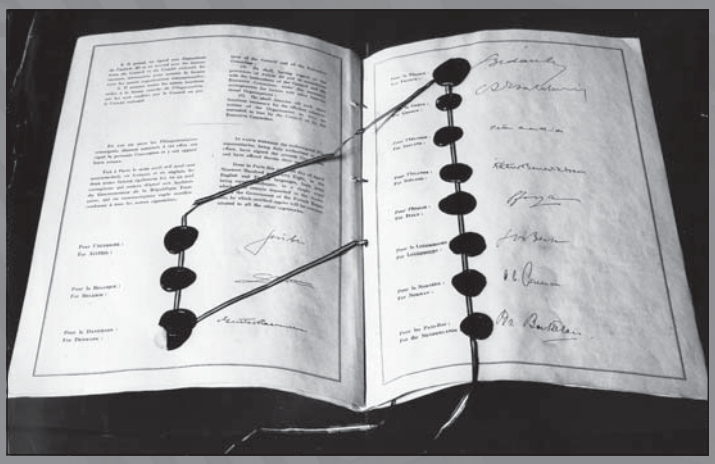
The Marshall Plan in Pictures

The Marshall Plan Speech

©OECD - Harvard University, USA 5.6.1947

General George C. Marshall, U.S. Secretary of State, at Harvard University on the occasion of his address to the graduating class, which became known as the Marshall Plan Speech.



1948: Charter of the OEEC

The signed charter of the Organisation for European Economic Co-operation (OEEC), which was organised to administer the Marshall Plan, on display at the French Ministry of Foreign Affairs.Quai d'Orsay, Paris, 16 April 1948.

1948: European Recovery Programme Labour Meeting

A meeting hosted by the European Recovery Programme, attended by (from left) Eleanor Roosevelt, Chairman of the United Nations Human Rights Commission; Ambassador W. Averill Harriman, U.S. Special Representative in Europe; John Foster Dulles, U.S. Delegate to the United Nations; and General George C.Marhsall, U.S. Secretary of State.

Paris, October 1948 ©USIS Paris 17 OECD ref 48-5

Caen destroyed 1945

Marshall Plan signing

April 3, 1948 - Watching President Truman sign the Foreign Assistance Act, which authorized the Marshall Plan, are (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.

1948: Meeting at the Quai d'Orsay

U.K. Foreign Secretary Ernest Bevin (l), U.S. Secretary of State George C Marshall (c) and French Foreign Minister Robert Schuman (r) meeting at the French Ministry of Foreign Affairs following the Soviet Union's veto concerning the situation in Berlin.

Quai d'Orsay, Paris, 27 October 1948 © USIS 847 ref OECD 48-7

1949: OEEC First Anniversary Broadcast Paris, 16 April 1949

Robert Marjolin, OEEC Secretary-General, broadcasting from the Voice of America radio studios to commemorate the first anniversary of the Marshall Plan and the OEEC.

1949: The OEEC Ministerial Council

©OECD

Foreground, from left to right:
- *Max Petitpierre, Swiss Federal Council for Foreign Affairs*
- *Östen Undén, Swedish Minister of Foreign Affairs*
- *Joseph Bech, Luxembourg Minister of Foreign Affairs*
- *Robert Schuman, French Minister of Foreign Affairs*
- *Paul-Henri Spaak, Belgian Prime Minister and Minister of Foreign Affairs*
- *Sir Stafford Cripps, U.K. Minister of Economic Affairs*
- *Count Carlo Sforza, Italian Minister of Foreign Affairs*

Paris, 1949

1950: European Payments Union

US Special Representative Milton Katz (l), Herbert Prack, Head of the Austrian Delegation (c), and OEEC Secretary General Robert Marjolin (r) discussing the agreement on the European Payments Union, which facilitated financial transactions among European countries during reconstruction following World War II.

Chateau de la Muette, Paris, 19 September 1950 ©OECD

1950: "All Our Colours to the Mast"

As part of it's public relations campaign, the European Recovery Programme sponsored an international poster contest on the theme, "Intra-European Co-operation for a Better Standard of Living". Over ten thousand entries from thirteen countries were submitted in local country competitions from which the twenty-five award-winning posters were selected. Prominent graphic arts experts, each representing a different Marshall Plan country, made up the jury. First prize went to Reijn Ddirksen from The Netherlands.

©Marshall Plan Poster Competition ref C97-33

1951: Thank You Marshall

A parade float at the Dutch Flower Festival, expressing appreciation for the efforts of the Marshall Plan.

More than 15 million dollars worth of Marshall Plan shipments of coal re ached Holland during the first year of the programme designed for the recover of free nations. Dutch industry needed that primary impetus for the still low production of their home mines. The steady increase of of domestic production has gradually reduced the amount needed from the US as Netherlands'industry resumes its'pre-war level. Sassenheim flower festival sayhs : "Thank you Marshall"

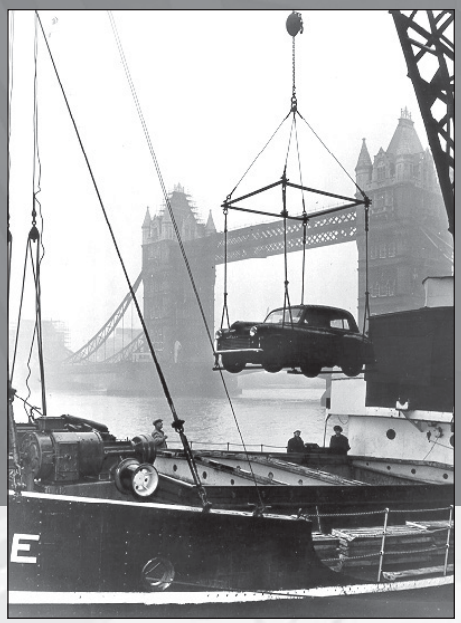
1950: Sir Hugh Ellis Rees

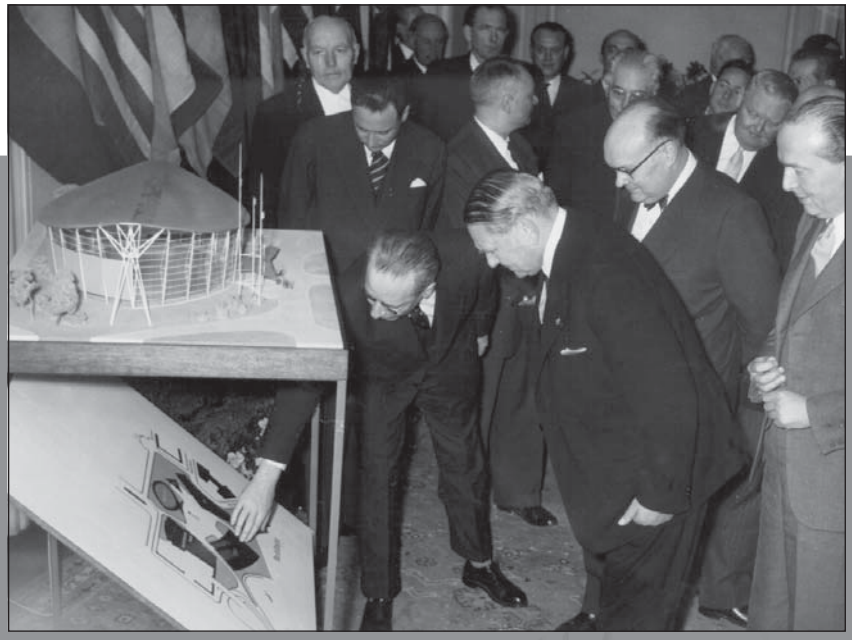
Sir Hugh Ellis Rees, Permanent Representative of the United Kingdom to the OEEC arriving at OEEC headquarters.

Chateau de la Muette, Paris, 1950

1951: The Marshall Plan in Action

Aid provided under the Marshall plan being unloaded at the Port of London.





1957: An OEEC Pavilion for the Brussels Universal Exhibition

OEEC Secretary General René Sergent (l), Paul-Henri Spaak, Belgian Prime Minister and Minister of Foreign Affairs (c), and Peter Thorneycroft , U.K. Chancellor of the Exchequer and Chairman of the OEEC Council (r), examining a model of the OEEC pavilion for the Brussels Universal Exhibition.

Chateau de la Muette, Paris 12 February 1957

1957: OEEC Ministerial Council Meeting

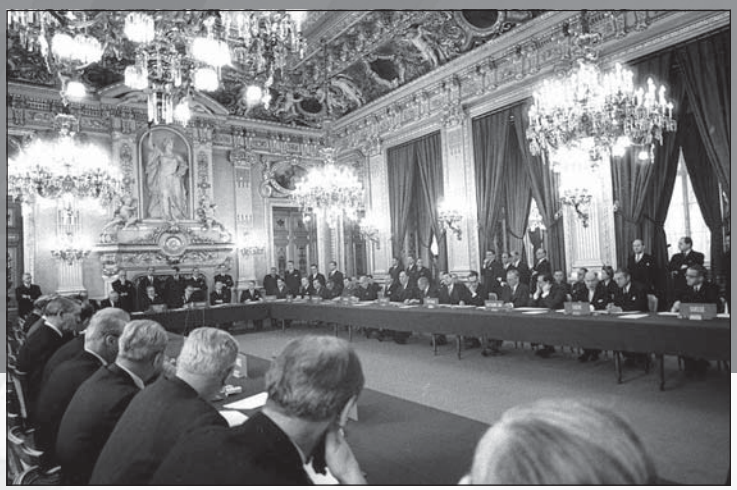
German Minister of Economics Ludwig Erhard attending the OEEC Ministerial Council Meeting.

Chateau de la Muette, Paris, 17 October 1957

1960: Signing of the OECD Convention

Member countries gather in the Salon de l'Horloge at the French Ministry of Foreign Affairs to sign the convention establishing the OECD.

Quai d'Orsay, Paris, 14 December 1960



Robert Schuman and Jean Monnet

© Parlement européen

Source : Médiatheque de la Fondation Jean Monnet pour l'Europe, Lausanne.

Netherlands-bombed homes

Netherlands-rebuilt homes

Sixtieth Anniversary of the Marshall Plan

U.S. OECD Ambassador Constance Morella (second to right) and U.S. UNESCO Ambassador Louise Oliver (far right) greet retired U.S. Ambassador and Marshall Planner Arthur A. Hartman (far left) and his wife Donna during the evening reception at the Hotel De Talleyrand.

U.S. Ambassador to France Craig R. Stapleton speaks with Marshall Planner Dr. Thomas Schelling, economist and 2005 Nobel Prize Laureate, and his wife Alice Coleman-Schelling at the reception.

U.S. OECD Ambassador Constance Morella (right) opens the first plenary session of the Paris symposium organized by the Marshall Foundation, the OECD, UNESCO and George Washington University. Seated from left to right are Dr. Barry Machado, Deputy of the Sejm (lower chamber of Polish Parliament) Bronislaw Geremek, Dr. Volker Berghahn, Dr. Gérard Bossuat, Ambassador Louise V. Oliver, and moderator Dr. Eliot Sorel.

U.S. OECD Ambassador Constance Morella (far left), U.S. UNESCO Ambassador Louise V. Oliver (middle front) and U.S. Ambassador to France Craig R. Stapleton (right) join Marshall Planners (left to right) Dr. Thomas Schelling, Mr. Pierre Vallee, retired U.S. Ambassador John Gunther-Dean, retired U.S. Ambassador James Lowenstein, and retired U.S. Ambassador Arthur A. Hartman.

Guests at the reception listen to comments by U.S. Ambassador to France Craig R. Stapleton about the multi-year project undertaken to restore the historic rooms of the George C. Marshall Center located in the Hôtel de Talleyrand.

U.S. Under Secretary of State for Political Affairs Nicholas Burns (right) speaks with George C. Marshall Foundation Trustee Jay Adams (center) and Marshall Foundation President Brian D. Shaw (left).

Seated from left to right are first plenary session panelists Dr. Barry Machado, Deputy of the Sejm (lower chamber of Polish Parliament) Bronislaw Geremek, Dr. Volker Berghahn, Dr. Gérard Bossuat, U.S. UNESCO Ambassador Louise V. Oliver, and moderator Dr. Eliot Sorel.

Front row audience includes from left to right Dr. Gerard Bossuat, journalist/professor Nicole Bacharan, Dr. Eliot Sorel, U.S. Under Secretary of State for Political Affairs Nicholas Burns and U.S. OECD Ambassador Constance Morella.

U.S. OECD Ambassador Constance Morella (second to right) welcomes U.S. Under Secretary of State for Political Affairs Nicholas Burns as he honors the 60th anniversary of the Marshall Plan speech. Second plenary session panelists seated from left to right are Dr. Daniel Daianu, OECD Deputy Secretary-General Pier Carlo Padoan, Dr. John Killick and LaFarge Chairman Bertrand Collomb.

Chapter 7. A 21st Century OECD Vision for Europe and the World

by Pier Carlo Padoan, Deputy Secretary-General, OECD

Introduction

"We need a Marshall plan for …" How many times have we heard or perhaps even pronounced a sentence like this when dealing with a complex international issue?

This comes as no surprise. The Marshall Plan has become a synonym for successful international co-operation. Even more than this: an example of successful "international regime building", *i.e.* the establishment of norms, rules, and behaviors that allow for a co-operative and shared management of the international system (Krasner, 1983).

The Marshall Plan provided the trigger for an international regime based on economic progress through integration and liberalization, and the spreading of democracy and democratic governance. It gave life to an architecture of international relations built on the newly established international institutions: the International Monetary Fund (IMF), the World Bank, the General Agreement on Tariffs and Trade (GATT), (then the World Trade Organization, or WTO), and later the OECD.

By so doing the Marshall Plan also created what we would today refer to as a friendly business environment, *i.e.* a policy framework by which business would be stimulated. In Europe, by speeding up postwar reconstruction, supporting an integration space, and setting the base for what would become the European market place. In America, by establishing new channels and opportunities for trade and international investment and setting the base for what would become the most highly integrated economic space in the world: the transatlantic space.

In short, the Marshall Plan demonstrated that, through well designed and implemented policy action, global public goods could be provided and, through them, create opportunities for growth and peace. This is the first, and the most relevant, lesson we draw from that experience.

Today's world is more complex

The world today is much more complicated than the post-World War II one. The number and the diversity of countries has increased manifold. Global integration is progressing not only through trade and finance, but also through migration, in energy matters, through innovation diffusion and technology transfer; global integration is, last but not least, deeply affecting the environment. Each of these issue areas, in turn, is becoming increasingly connected to the others. New tradeoffs appear alongside the old ones. Growth is driven by innovation but this may come at the expense of the environment. Growth is the best strategy to fight poverty but, as it progresses, it appears

to be generating more, not less, inequality both among and within nations. Global public goods such as an open trading system, a sound financial system, sustainable environment, are, at the same time, more in demand and more difficult to supply.

Long-term projections show that, in the medium to long term, new players, the fast growing emerging economies, will significantly increase their share in world gross domestic product (GDP), thus pulling their populations out of poverty while contributing to global growth.

The achievement of such desirable outcomes rests on the persistence and strengthening of a global system of rules and institutions that maximize growth while avoiding or minimizing crises. In short, global growth requires global governance. Yet, this is by no means an inevitable outcome.

Because of rising complexity of the global economy global governance is more difficult and more complex than it was more than half a century ago. One indication of this is that multilateral solutions to global governance problems are becoming harder, and sometimes impossible, to achieve. Demand for governance seems to be increasingly fulfilled through regional or bilateral arrangements. While this not need be undesirable *per se*, failures of multilateralism can be compensated only partially through regional or bilateral solutions.

Regional agreements in trade, investment, financial and monetary management, can be major building blocks of global governance provided they remain open to mutual integration. Bilateral agreements run the risk of providing solutions that, while benefiting the partners involved, may generate negative spillovers on the rest of the system. This risk is high if the way bilateral agreements, which are proliferating at a very high speed, are designed fails to take into account the implications of the relationship with third-world countries or regions.

Bilateral and regional market integration agreements can be stepping stones towards a global and well regulated marketplace. Yet, a global system can only be sustainable if it based on a multilateral perspective of governance. This is one of the reasons why the success of the Doha Development Round is badly needed. Failure to reach an agreement would further weaken the trust and the role of multilateralism and of one of its key institutions, the WTO.

In some cases incentives for regional aggregation come as much from the benefits of integration as from the desire to seek insurance from a possible external threat. This double incentive may turn "open regionalism" into closed (or "aggressive") regionalism if the perception of threats becomes too strong or predominant (Padoan, 2007). So, "Regional Marshall Plans" can be welcome strategies for global governance provided they are, from the beginning, designed as open frameworks and structures and closely connected with the multilateral framework. The latter, in turn, must deliver adequate supply to the demand to provide welfare as well as to protection or insurance from external threats that are at the basis of such agreements.

Multilateral organizations

Another lesson from the Marshall Plan experience is that multilateral organizations are key pillars of multilateral governance. Indeed, the architects of the post-World War II order conceived them as a mutually reinforcing set of institutions, each one with its own mandate, but such as to benefit from the action of the others. After 60 years that

architecture is still in place. However it would be difficult to deny that each one of those institutions is today facing a "maturity crisis" and may be in need of rethinking its mission and the ways to accomplish it.

Irrespective of their specific mission, international organizations share a common feature. They are instruments for consensus building. Co-operative, shared solutions to global governance problems inevitably require a "compromise", *i.e.* a situation by which each party involved is willing to change, at least in part, her perspective, her point of view, her preferences, for the sake of achieving a common goal. This is impossible without a learning process, without the time needed to know about each other, understand others' points of view, learn to predict what the others' response to a new challenge will be. Achieving "high level" compromises is also impossible without a long term perspective, *i.e.* without a time horizon that necessarily goes beyond the short-term interest. This is ever truer today than it was 60 years ago as leadership is more multi-polar and more players have to be involved in defining such compromises. The "value added" of international organizations is largely produced by achieving, or helping to achieve, such compromises. Such a value added depends on the ability to facilitate dialogue but also to offer concrete solutions, thanks to their expertise and to their specific resources. The decision, taken in 2007, to begin negotiations with five countries for OECD membership and to establish enhanced engagement with another five demonstrates this key point.

Governance of what?

What should global governance be about? The increasing complexity of the world economy and society makes answering this question difficult. We can agree that global governance should aim at making the best out of the triad: growth, innovation, and equity. We all agree that high and sustainable growth is an indispensable requisite not only for increasing welfare but also to fight poverty. We all agree that innovation is a key driver of growth. We all agree that growth cannot come at the expense of equity but that, on the contrary, equity and social cohesion should, and indeed can, go hand in hand with growth.

The OECD has been, and continues to be, at the forefront in understanding growth and drawing up policy recommendations on how to achieve it. It is increasingly clear that growth is the result of a complex interaction of economic and social variables, drivers and institutions. As a consequence, raising the growth potential of countries is a target which can largely, if not exclusively, be achieved indirectly, by establishing the best possible environment for growth. Consequently, it is hard to imagine a single policy action or a single policy instrument which can deliver growth. Rather, growth is achieved through strategies linking reforms in different areas and trying to make the best of the synergies among them (OECD, 2007).

To convince ourselves of the fact that this is the right approach, let us discuss what it means to acknowledge that a key driver of growth is innovation. Innovation in a knowledge-based society involves much more than introducing new products. Innovation is a general process involving all aspects of economic activity. It requires changing behaviors of business but also of consumers, and of communities. Information and communication technology (ICT), which we all recognize as a key element of today's innovation environment, as well as a major driver of globalization itself, is a "general purpose technology". Making the best of its potential requires pervasive changes in the

organization of production, distribution and delivery (College of Europe, 2007). Internationally, it leads to changes in the structure of production and comparative advantages often through what has been called the "great unbundling", *i.e.* the fragmentation and relocation of production on a global scale (Baldwin, 2006). The benefits of ICT are maximized by international diffusion which takes place through trade, investment and transfer of knowledge. Intangibles and services increasingly become prominent in defining new production and consumption patterns. If we believe that good public policies can influence innovation and hence growth, we must design strategies and policy packages which contribute to establishing the best environment for these changes to take place, keeping in mind that their effectiveness largely depends on how they interact and generate the right incentives.

Sustainable growth

Innovation-driven growth must be sustainable, from the point of view of the environment and from the point of view of equity. And it is through innovation that sustainable growth can best be achieved. Strong sustainable growth must, by definition, be consistent with the preservation of global commons. The speed at which climate change is taking place leaves no doubt about the need to take action in this respect. We know what needs to be done. Energy is one area where progress can be made towards more sustainable and environment-friendly growth through innovation and appropriate standards and measures and economic incentives, which encourage the adoption of environment-friendly investment strategies. Improving the energy mix through innovation in production and consumption of energy takes time, but we know, since the oil crisis of the 1970's that significant changes in the energy intensity of production have taken place. Virtuous factor reallocation can happen.

Strong, sustainable growth also has to deal with the challenge of ageing, especially but not only in industrial economies. Ageing is often seen as a cost for societies, it should be transformed into an opportunity, starting from the fact that ageing societies are societies where the quality of life is improving thanks to healthcare and longer lifespan. Healthcare is not just a cost; it can be a source of profitable investment and increasing productivity. Policies of "active ageing" improve the quality and amount of human capital which is a main driver of growth. Innovation in healthcare can lead to significant increases in productivity, which reduces the costs of ageing while raising growth (Dormont *et al.*, 2007).

And growth must be socially sustainable. Globalization is about quality much more than quantity changes. Adapting to new specialization and comparative advantages in a liberalized and competitive environment generates benefits but it also entails costs: for firms, individuals, communities. This may weaken support for open markets and global integration, and can backfire. The current wave of globalization is not the first example of global integration in recent world history. The major globalization wave, which developed about a century ago, eventually met a tremendous retrenchment in terms of social unrest, retrenchment of democracy, war, and destruction as populations began to blame on globalization many of the domestic problems societies were facing. Like then, today we risk facing mounting opposition to globalization, taking the forms of protectionism but also of outright rejection of open markets (Friden, 2007).

Here is where it is useful to consider another, important, lesson from the Marshall Plan: effective governance of the international system, an effective international regime,

will develop to the extent that its architecture is based on incentives that favor compliance of all parties involved, be they governments, markets, civil society. After World War II it was in the mutual interest of the United States and Europe to establish a new partnership that would spark off a new period of peace and welfare. Such a partnership was in the interest of governments on both sides of the Atlantic. It became in the interest of the peoples and societies of the countries involved. It offered new market opportunities for firms, job opportunities for workers, better living standards for families. It was a success because it could count on the consensus of the populations involved. And consensus was granted for a model of governance that could deliver growth and equity.

The role of public support for the global integration process is not a new issue. The very moment in which "globalization" became common language – not so many years ago in fact – "anti-globalization" became just as popular. Globalization today, risks being rejected because it is seen, rightly or wrongly, as associated with rising income distribution inequalities. Good governance requires finding ways, appropriate policies to deal with adjustment costs for weaker segments of society. We know that this not only is possible. But that it is necessary. National best practices show that innovation-driven, high-productivity growth can coexist with social inclusion. More than this. As the experience of a number of European countries shows, social cohesion and knowledge/education-intensive growth mutually reinforce each other. Growth and competitiveness do not imply a "race to the bottom" in social standards. On the contrary they may lead to a "race to the top" (Padoan and Rodano, 2007).

Fighting inequality and supporting growth also requires direct resource transfers, as it was the case of the Marshall Plan and as it is today with development aid. We know however that resource transfer to be effective in fighting poverty and sustaining development efforts must be complemented by good governance and sound institutions on the side of the recipients. Good domestic governance, in turn, must be instrumental to domestic policies targeted towards openness and competition. Trade and aid must complement each other to pull countries out of poverty. Resources must be instrumental to establishing sound governance and, in turn, governance is needed to use resources in the best way in the framework of market opening. It is another lesson of the Marshall Plan.

Instruments of global governance

This brings me to the instruments of global governance. Another key feature of today's environment that makes it different from the one prevailing when the Marshall Plan was launched is that global governance takes place much more "indirectly", by providing and implementing good market regulation, setting standards and by effective surveillance, and somewhat less through "direct" policy intervention (which however can be very effective, in some cases, for instance through well-designed taxation).

This is certainly true when one considers national markets. It is increasingly so for international markets. One example that comes to mind is global financial markets. In a few years the resilience and flexibility of financial markets has become such that much larger financing needs and much larger global imbalances can be sustained than it was possible only a decade ago. While more evidence is needed to support this view it is fair to say that such results can be attributed to the combination of better regulation, including self regulation, standard implementation, and sound macroeconomic policies. The events which have occurred in the summer of 2007 in financial and credit markets confirm that

financial markets are characterized by periods of expansion and euphoria that may lead to excesses and possibly to collapse. This is a recurring pattern that, however, takes on different characteristics in each episode of financial distress. The history of financial crises shows that fundamental lessons tend to be forgotten (and this is what leads first to euphoria and then to panic and collapse). Good global governance and effective international institutions should be, on the contrary, based on the principle that a strong memory of the past is indispensable to build the future.

We know that sound macroeconomic policies are a necessary prerequisite for stable and sustained growth. We know that trade liberalization is a powerful driver of growth and so is accumulation and diffusion of knowledge. We know that, in order to reap the benefits of more open international markets, it is necessary to eliminate barriers to trade but also to eliminate the obstacles to market performance determined by excessive internal regulation (sometimes referred to as "deep integration"). The OECD has been, and continues to be, at the forefront of the production of evidence of the benefits that deregulation can produce for economic performance. It is one of the tenets of OECD analysis that there can be a virtuous interaction between the move towards better and lighter regulation and stabilization-oriented macroeconomic policies (see *e.g.* OECD, 2007). Of course good regulation, "light touch" regulation, does not mean absence of regulation and regulatory instruments. Designing "optimal" or even satisfactory regulatory systems is one of the main challenges of governance. It is an exercise that has to cope with trade-offs (one classical example is protection of intellectual property rights. Too little may dissuade innovation. Too much will prevent knowledge diffusion.) and with differences in national preferences and institutions. Coping with global challenges such as the environment, climate change, energy, require a combination of innovation-friendly regulation, pro-competitive standards and appropriate taxation structures.

Ideally, a global system should rest on global standards and regulations. In practice internationally adopted standards are often initially developed as national standards or, in some cases, as standards adopted by regional groupings such as the European Union (EU). In addition standards are sometimes developed and adopted by the private sector. This may lead to regulatory competition or arbitrage, as well as a possible of lack of transparency in the ways in which standards are implemented. Our understanding of the impact of standards and regulation has increased also thanks to the work of the OECD. However, we need to know more about the ways in which regulatory competition develops, what is the relationship between public and private regulation, why some standards are adopted more widely and rapidly than others, how regulatory reform and standard setting interact with other policy measures. The notion of business environment and of innovation environment offers a good example of the complexity of regulatory policy. Regulations cannot be evaluated in isolation. All efforts must be made to understand how single regulations impact in their interaction with the business environment at large. Building an expertise in regulatory design, therefore, requires knowledge of how the system of rules impacts and interacts. It requires a multidisciplinary approach as well as systemic view of policy design. Both qualities are well present in the OECD.

For regulations and standards to be effective, they must, of course, be implemented and adopted by countries participating in global markets. Designing good regulatory measures requires technical expertise but also the ability to understand different national points of view. Designing and implementing global standards and regulation is one of the areas where the role of international organization like the OECD is essential.

Conclusions

By a Marshall Plan for today's global world we should understand an institutional architecture in which governments, international organizations, and markets interact so as to create the best possible environment for economic activities to develop. It has to do with resource transfers, as it was the case after World War II, but also about institution building, good and light regulation, environment- and climate-friendly standards. In an open world without international governance must be based on the contribution and responsibility of all parties involved. The role of an organization like the OECD is key in providing expertise; in anticipating new challenges and understanding how to turn them into opportunities; in helping reach a consensus among the stakeholders in an expanding global system; in contributing to turning the challenges of globalization into opportunities; and to expand as much as possible the distribution of ensuing benefits in an equitable way.

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Chapter 8. The Marshall Plan: Its Relevance for Current Public Policy

by Daniel Daianu

Introduction

The Marshall Plan was a tool of vision and pragmatic US diplomacy after World War II. It did help the restoration of economic wellbeing in the free part of Europe and, also, it did bring closer nations whose history was fraught by mutual distrust and conflict. The European Union (EU), itself, took off on the wings of a Marshall Plan-aided recovery. But Europe's ideological and geopolitical split, in the wake of World War II, deprived its Eastern nations of the Marshall Plan's benefits. EU enlargement can be seen, therefore, in an historical perspective – as continuing the vision of the Marshall Plan.

The Marshall Plan was part and parcel of a global perspective that framed US foreign policy at the time. Well before the end of World War II, American, in particular, and British thinkers worked out plans for an international architecture that should help the world recover economically and politically. Fighting hunger, poverty, desperation and chaos, promoting democracy was the thrust of that policy.

As Pier Carlo Padoan aptly observes in Chapter 7, the Marshall Plan and its wider operational framework (the Bretton Woods System) aimed at providing a functioning *international regime*, which was focused on economic reconstruction and peace, on necessary *global public goods*. The vision of the Marshall Plan continues to be highly relevant since today's world has to tackle massive deprivation and hunger, failing states and disorder. The complexity of mankind at the start of the new century raises the stakes in the attempt to deal with global issues creatively and effectively; climate change, sustainable development (with its social underpinnings), aid and trade, and, not least, averting a *clash of civilizations* are to be approached in a pragmatic, wise manner. I will highlight the lessons of the Marshall Plan for today's public policy. Thus, a plea for pragmatism and open-mindedness in public policy is made. Globalization is interpreted and judged in conjunction with tectonic shifts, underway, in the world economy. The state of the European Union is touched upon together with challenges facing the new accession (post-communist) countries.

Public policy in today's world: a plea for *open-mindedness* and *pragmatism*

A fundamental lesson of the Marshall Plan is that policy has to be pragmatic and open-minded in order to succeed. Harry Dexter White (the main US negotiator in the set up of the Bretton Woods system) and the famous British economist John Maynard Keynes provide a formidable case study in this regard (Eichengreen, 1996,

Chapter 4). I mention these two individuals' work, for Padoan's arguments point in the same direction – when he talks about an international regime that should combine the provision of public goods with the use of incentives so that all parties comply with it. That this is not easy to achieve is another matter for discussion. For the very complexity of today's world and the rising number of actors (states, companies, non-governmental organizations, or NGOs), make the achievement of workable solutions, sometimes, quite impossible.

The past two decades have been suffused with claims that economic policy, in the advanced countries, is bring driven by an emerging new consensus on principles and practice. The sources of this apparent "new" consensus are, arguably, several. One origin could be traced to the ever-longing desire of man to control his environment (nature) and be more efficient. Max Weber's "rationalization of life" referred to rational accounting, rational law, rational technology, which by extrapolation, can be extended to "rational economics". Another famous sociologist, Daniel Bell, upheld the primacy of knowledge and theory-related activities in ordering our life, man's technological and economic ascendancy – which would imply that economic wizards can secure a fool-proof policy. Even the clash between main competing economic paradigms can be seen in the vein of searching for the ultimate piece of wisdom. Another origin of policy amalgamation comes out of the death of communism. Francis Fukuyama's "End of History" was seen by many as a description of a single ideology which was meant to rule the world. Last, but not least, globalization – when seen as a fundamentalist incarnation of unfettered markets and downsizing of government, operating worldwide – also provided an impetus to the vision of an "ideal" type of policy.

At the start of the new century facts are disavowing over-simplifications. There are numerous examples which prove that conflicting ideas matter a lot, that economics continues to be softer than some try to make us believe. How should one relate economic growth to a sense of fairness (justice) in society? In this regard I side with the thesis that growth must be socially sustainable. When central bank governors show disquiet to possible effects of income polarization, our eyes and ears must be pretty open. Free markets are a plus wherever they work well, and property rights should be clearly defined and protected in order to harness entrepreneurship and creativity.[1] But it is also clear that trimming the welfare state and the public sector is not enough in order to achieve expected efficiency gains; this endeavor needs to be accompanied by effective regulations of various markets – financial and energy, primarily. The need for an "optimal design" of regulations is stressed by Padoan in this regard.

The pressure of global competition forces governments to streamline public sectors. But rich countries, in the West, remain welfare states, *par excellence*, albeit in an evolving manner. One can detect here returning Keynesian touches in macroeconomic policy making with a retreat when it comes to social policy. Some wealthy countries' less inspired policies have given renewed high profile to issues such as: *fair vs. free trade*; dealing with abject poverty in the world; protecting the environment as a public good for mankind; a code of conduct for international corporations; how to manage contagion effects in the world economy; policy co-ordination among the leading economies of the world, etc.

Global economic growth implies global governance. A legitimate question here is what structures of global governance do we have and what is the philosophy which underlies it? It is increasingly clear that the international financial institutions (IFIs) need to reinvent themselves and involve more the emerging heavyweights (Brazil, China,

India) in decision making; the key players (states) in the world have to see eye to eye when it comes to tackling major global issues.

The traditional ongoing battle between left and right, within democratic politics, is being shifted, partially, into the international arena. The debate on *global governance* (which institutions and policies) reflects a growing awareness that there are issues which need to be addressed internationally, in a multilateral context and using collaborative approaches (Sachs, 2005). Arguably, the choice between globalization and "managed globalization" is between policy disregard for market failures, where they exist, and their social consequences and trying to construct an *international policy regime*, which should address recurrent co-ordination failures (see Stiglitz, 2006).

Ideology is not dead, and it does shape social and economic policies – although in subtler forms and following cyclical patterns. It may be less felt nationally to the extent the battlefield of ideas expands increasingly beyond national borders. Globalization is likely to reflect ever more the battle of ideas, with traditional politics delving increasingly into the international domain.

Which globalization?

Globalization has triggered enormous controversies. Some see it as a *deus ex machina* for doing away with misery and conflict in the world. Others see it at the roots of mounting tensions in the world.

Facts give conflicting signals. Technological change has reduced transportation and transaction (information) costs and sped up the transfer of know-how, albeit in a highly skewed manner, among regions of the world; the Internet connects hundreds of millions of people instantaneously; world trade has expanded tremendously and broadened the scope of choice for individuals throughout the world. The collapse of communism has expanded the work of market forces and democracy in a large area of the world. And the very dynamic of the EU can be seen as an alter ego of globalization on a regional scale. At the same time, the distribution of wealth in the world seems to be more unequal than 20 years ago. Corporate scandals in the affluent world show that cronyism and bad governance are a more complex phenomenon than is usually assumed and ascribed geographically; financial and currency crises have caused economic and social havoc in not a few countries; social fragmentation and exclusion have been rising in both wealthy and poor countries; there is a sense of disorder and a rising tide of discontent and frustration in many parts of the world; non-conventional threats, the use of weapons of mass destruction in particular, are an increasing threat.

Arguably, to make sense of facts is to look at the conceptual underpinnings of globalization. And here there is an interpretation of globalization which is pretty much overloaded ideologically. The last couple of decades have been dominated by a paradigm which extols the virtues of unbridled markets, privatization and extreme downsizing of the public sector – this is what some call market fundamentalism. The way emerging economies were pushed into opening their capital accounts during the 1990s is a glamorous illustration of this approach. Another example is the way energy markets were "liberalized" in emerging economies without proper regulations.

But globalization can be understood in a different vein, which looks at the functioning of actual markets and which takes into account insights of modern economic theory: information asymmetries, increasing returns, agglomeration effects (*clusters*), multiple

(bad) equilibria, etc. Thence inferences can be easily drawn: the need for effective regulation of markets; the role of institutions (structures of governance); the need of public goods in the world economy; the importance of *variety* and policy ownership in policy making.[2] To some, this interpretation of globalization may sow seeds of confusion. But, in this way, one can dispel a biased interpretation. Moreover, globalization would no longer be assigned an ideological mantra and one-sided policy implications. Instead, it becomes an open-ended concept, which purports to define the mutual opening of societies, under the impetus of technological change and the manifold quest for economic progress. Consequently, national public policies should be fairly pragmatic and varied (not succumbing to fundamentalism), and geared towards the traditional goals of economic growth, price stability and social justice. Markets would have to be properly regulated and the state would have to provide essential public goods, which crowd in private output. Good public policies can make a difference – as Padoan implies.

The international economy indicates problems that need adequate answers. One of Keynes' intellectual legacies, enshrined in the Bretton Woods arrangements (that highly volatile capital flows are inimical to trade and prosperity), has not lost relevance. Those who say that it is hard to fetter capital movements in our times make a very strong point, but do not solve the issue. In addition, financial innovation, the growing use of complex derivatives, have reduced the transparency of global financial markets; this, unavoidably,, undermines *trust* – without which financial systems are crippled. Some argue that self-regulation is better than regulation (a hot topic here is the case of hedge funds). But is self-regulation the right answer under any circumstances? I have my doubts (by the way, is the Sarbanes-Qxley Act redundant?).

Padoan remarks that global governance relies increasingly on indirect tools, for various reasons. But I wonder whether the under-supply of essential public goods by national governments would not put pressure on structures of global governance (not an "international government") to step in, one way or another.

Free trade cannot benefit poor countries when rich economies heavily subsidize agriculture and use trade barriers whenever they feel "injured"; double talk and hypocrisy make a mockery of the virtues of free trade. Likewise, diminishing aid to very poor countries is hard to justify when acknowledging the huge asymmetries in the world. One has to fight corruption and improve public governance, but aid has a role to play in assisting poor countries. This is a major lesson of the Marshall Plan – its magnanimity, combined with pragmatism and clairvoyance at a time when Europe was in terrible economic distress.

A keen sense of urgency and a pragmatic vision would demand a different policy in order to deal with the threats of spreading epidemics, massive illegal migration, abject poverty and environmental damage – not to mention the scourge of international terrorism. All these challenges make up an agenda which can be assumed by an enlightened interpretation of globalization.[3] The United States and the EU have a key role to play in setting and implementing this agenda.

Shifting tectonic plates in the world economy

Usually, the less benign side of global free trade is ascribed to effects on countries that either cannot make good use of their comparative advantages, or face stiff protectionism from wealthy economies – for example in the case of farm products. In

general, such economies are to be found in the developing world, which are afflicted by poor governance and the inability to absorb new technologies.

Recent years, however, have witnessed a rising choir of disquiet in advanced countries as to the impact of global trade on their economies. How does it happen that advanced economies, which have traditionally been staunch supporters of free trade, seem to have second thoughts and resurrect a new brand of economic nationalism which some would call patriotism?

Arguments which stress the virtues of free trade form the basis for rationalizing commercial exchanges between countries; nonetheless, these arguments lose some of their appeal when the distribution of gains is largely asymmetric and dynamic competitive advantages dominate. One can posit that the rise of Asian economies (and most impressively of China, in the last couple of decades) is to be judged through such policy lenses; namely, strategic trade policy, which was embedded in a development policy by intelligent use of market forces.

A couple of decades ago, global competition was defined in a triangular formation: United States-EU-Japan (Thurow, 1993). The picture today cannot be seen so simply. I would recall here the famous book by the late French essayist, J.J S. Schreiber, "*Le défi américain*" (The American Challenge), in 1968, that triggered a whole debate on the ability of European firms to compete with American (multinational) companies. One can conjecture that this competition has prodded, constantly, top European politicians to push ahead with the EU economic and political project. But there were also bouts of Euro-optimism over decades that induced fears in reverse across the Atlantic. A while ago, some American pundits viewed the *continental model* (Albert, 1993) as an interesting alternative to the *Anglo-Saxon model*; that fear was encapsulated in the term "Fortress Europe". At the end of the day, however, world competition was viewed within a triangle: United States, EU, and Japan (as an exception to the Western world) and nothing more. Therefore, one could think that there is nothing new under the sun, for cycles are an unavoidable pattern in economic life,[4] in human history. But this reading of modern history and practice of forward looking would be misleadingly simplistic and intellectually defective. For there have been deep currents at work in European societies and in the world in the last couple of decades that beg for another approach and other policy answers. These currents motivated A. Giddens (1998, 2006) to look beyond conventional theoretical and policy responses.[5]

Nowadays, the new information and communication technologies (ICTs) bring about great opportunities for those developing economies which benefit from well-educated populations and proper policies (again, Asian countries fare quite well in this respect). In the global economic game what drives industrial relocation is the existence of substantial wage and cost differentials between countries and regions; these differentials induce globally-oriented companies to shift operations to areas which combine cheaper inputs with adequate technologies. The intensity of this process depends on how great the wage and cost differentials are, the quality of production factors and the emergence of industrial *clusters*.

Mainstream trade economists would argue that advanced economies have little to fear since they are increasingly specializing in higher value-added products and services; and that all countries will be better off in the end. This train of thought was disputed by the Nobel Prize winner P. Samuelson from the Massachusetts Institute of Technology (MIT). He says that "sometimes a productivity gain in one country can benefit that country alone, while permanently hurting the other country by reducing the gains from trade that are

possible between the two countries." He also says that "post-2000 outsourcing is just what ought to have been predictable as far back as 1950", in the sense of other economies in the world assimilating advanced technologies and catching up with the US economy, more or less. Samuelson's argument finds underpinning in empirical research done by L. Freeman from Harvard. Freeman estimates that the entry of China, India and countries from the former Soviet bloc into the world economy resulted in a doubling of the number of workers, to almost 3 billion (Brittan, 2006). Consequently, the ratio of capital to labor fell to 60% of what it would otherwise have been. Moreover, the newcomers have good technical skills and much lower wages than their western counterparts. This exerts a downward pressure on wages in Western economies. L. Summers uses a similar reasoning: "middle-class workers and their employers – whether they live in the American Midwest, the Ruhr valley, Latin America, or Eastern Europe – are left out" in a competitive global environment that rewards the combination of low wages and diffusible technologies, and the ability to access global product and financial markets.

Against the backdrop of the new ICTs and considerable wage differentials between economies in the world, significant shifts in the global distribution of industrial and services activities looks unavoidable. At the same time, public budgets are increasingly under strain due to population ageing. These factors produce the fear of outsourcing and off-shoring. One can easily understand this fear in Western European countries, where wages are significantly higher than what well-educated workers in Eastern and Central Europe earn. The Lisbon Agenda sprang out of this fear, albeit framed in global (and not continental) terms. The big EU member countries most fear Asian countries and the US economy and regard the Lisbon Agenda as a competitiveness policy response.

The fear of outsourcing and off-shoring is analogous with the anguish surrounding the transformation depression of the last decade in post-communist economies. There was a dramatic reduction in output because resource reallocation – at the new market clearing prices – could not happen rapidly enough. Similar pains can be detected nowadays among some groups of workers in rich economies, who cannot compete in the new global economy.

The bottom line is that countries which have skilled people, which invest in education and have forward-looking public policies, are more likely to enjoy the fruits of the global dissemination of technology.

The evolving global economy brings with it new major competitors and a change of competitive hierarchies. Unless governments and companies are clairvoyant and adjust to trends by investing more in research and development (R&D) and education, painful corrections are likely to be in store.

"The shrinking of the West", economically and demographically, will have very serious geopolitical consequences and for the governance of global issues.[6]

The EU at "midlife": cause for celebration, but guarded optimism

The European Union celebrates its 50th anniversary at a time of vastly enhanced significance; it is a time of serious challenges[7] that demand a new policy thrust. To paraphrase Padoan, the Union faces growing complexity, brought on in part by the successive rounds of enlargement. At the same time, its social model is heavily strained by the need to make markets more flexible and demographics.

Managing increasing complexity means dealing with a number of thorny issues. Should tax and fiscal policies be made more convergent, in order to prevent a "race to the bottom"? When factors of production are increasingly mobile, who or what should be taxed? How should the Union deal with economic nationalism? Implementing the Lisbon Agenda requires major reforms in education, energy, R&D and agricultural policy, but how should these changes be brought about? Variable geometry, a rising variety of socioeconomic conditions (with geographic positions leading to different neighborhood policy inclinations) and diverging views among member countries can bring policy co-ordination to a standstill.

In part because of global competition, the EU is under pressure to become more flexible, loosen its bureaucratic entanglements and reform the welfare state. At the same time, market fundamentalism is on the retreat, and there is a strong impetus to bring social and environmental concerns into mainstream policy making. Meanwhile, failures in financial and other markets during the past decade have fueled a demand for more effective regulations. It is not becoming any easier to balance these contradictory forces. One key to doing so lies in education policy. Placing more emphasis on such subjects as engineering, math, physics and computer science would help build a competitive edge based on technological advances, higher value-added products and services. Attaining such an edge would relieve some of the pressures pushing against the European social model.

Certainly, continued efforts to streamline the welfare state will be needed. But the difficulties involved should not be underestimated, as they involve a basic redefinition of the social contract. Would wage earners accept a slower rise in their incomes (or even a cut) and would capital-owners accept lower dividends for the sake of greater public and private productive investment? Such possibilities might be conceivable if all parties were governed by ethical imperatives and a sense of responsibility. However, there is much to suggest this is not the case. Recent years have seen an astonishing rise in the incomes of chief executive officers (CEOs) at a time of modest or even stagnant wages, when income polarization has increased in almost all Western societies and the middle class has frequently lost out. The corporate world has been hit by a succession of scandals, eroding trust in its ability to self-regulate. In such an environment, is it reasonable to expect employees to become altruistic? The need in the EU to cope with the pressures of globalization, of demography (including the reform of the welfare state) is not a reason to underplay morality and the need for mutual respect. In order for citizens to accept painful reforms, to enter a new social contract nothing would be more counterproductive than telling them that they have to give up what has made their lives more dignified; that they have to accept CEOs' rise in salaries and bonuses while the performances of the companies those individuals run stagnate, or even go down.

In the enlarged Europe we need a capitalism that performs economically and socially. For this to happen the liberty of markets to function has to be accompanied by the rule of law, which should punish those who are careless about and disrespectful of public interest. Market fundamentalism is inimical to a decent capitalism, to capitalism with a soul.[8] I would recall that Adam Smith wrote also "The Theory of Moral Sentiments", that Max Weber, connected hard work and moral values (ethics) with the advance of capitalism in the Western world. Public policy has to try to correct malign parts of the functioning of markets; it has to deal with the social fallout of unlimited greed, lack of honesty, cynicism, selfishness, etc. Decent capitalism (that respects the dignity of man, to use Amartya Sen's words) needs an effective public policy, aside from virtues to be found

in individual beings' pursuits of happiness and material rewards. Bill Gates' capitalism is clearly superior to the one practiced by a Michael Milken, Ivan Boesky, or Kenneth Lay.

Balancing social and economic imperatives imply ethical values: honesty and trustworthiness, honor and respect, loyalty, hard work, education, family, community, altruism and compassion. I suggest that the OECD should pay more attention to such aspects.

Ethical questions impact international politics as well. Issues such as environmental protection, securing drinkable water, and combating disease and poverty constitute an urgent agenda. Failures in this area can ultimately have security implications, as global divisions become amplified and militant ideologies find a receptive audience among the excluded. The EU (and the United States, too) has been charged, not unfairly, with not practicing what it preaches when it comes to developing economies – the collapse of the Doha trade round is a signature example here. This issue, in turn, is connected to the way the Union operates. EU Commissioners often have a difficult time resisting the pressures exerted by the bloc's heavyweights. This is not necessarily surprising but should not be overlooked.

EU policy making will have to evolve somehow if it is to meet increasingly complex challenges. The steps ahead may be less so, but this does not diminish their importance. Enlargement fatigue is a reality, but so is the need to show vision and statesmanship. If the *Bloc* hopes to act as a guidance rod and a beacon of hope for the rest of the world (and not be seen as a form of "closed regionalism" as Padoan warns), it will need to demonstrate the ability to handle seemingly intractable problems on its own turf – including the Western Balkans.

Post-communist Europe: why have domestic politics stumbled?

How is it that after EU accession, domestic politics have stumbled in Central Europe; fragile and stalemated governments and coalitions that bring together strange bedfellows (with political philosophies quite apart) have puzzled those who have expected a consolidation of democratic politics?

It pays to remember that these economies are part of the dynamic area of Europe, with annual economic growth rates far higher than those registered in the hard core of the EU (5-6% as opposed to 1-2%). Moreover, their economies seem to be well embedded in higher value-added European industrial networks, as against other post-communist economies. These networks, therefore, should provide more optimism regarding the chances of these countries to sustain rapid economic growth over the longer term.

Wherever economic growth is high there is a reasonable likelihood that social stability and sound politics result. To be more specific in the case of Central Europe, a logical inference would be that owing to significant economic growth in this decade, a large part of the population would enjoy tangible economic fruits and, therefore, support the ruling coalitions. Moreover, EU accession has been presumed to consolidate the solid underpinning of these young liberal democracies and further enhance democratic politics. And, as opposed to the citizens of most of the EU-15 (discounting Spain and Portugal due to the decades of authoritarian rule under Franco and Salazar), most of the post-communist countries' citizens have personal experience of the communist command system. Therefore, a fair assumption might be that they are immune to the erosion of

basic constituent parts of orderly democratic life, and be better able to detect fake democrats and cheap populism, be it on the right or the left.

When it comes to economic growth, post-communist *Mitteleuropa* glaringly shows that high growth rates are not sufficient for securing tranquility in social and political life. Among economists there is an ongoing debate on the fundamentals of economic growth and on the relationship between democracy and prosperity. Some would argue that what matters most of all is economic growth, even if that may inevitably mean substantial social inequity. Another line of reasoning, which I have alluded to already, suggests that economic growth should rely on social cohesion – which implies an adequate production of public goods. The debate involves the importance of good practices in both the public and the private sector and how corruption can be effectively combated. Arguably, wherever numerous citizens in Central and Eastern Europe have lost out in the economic race, or they have been marginalized (that is, excluded from the fruits of economic growth) their frustration is likely to be captured by extremist parties and more center-oriented parties risk losing political ground.

Another explanation is the disappearance of the EU accession anchor. This anchor has allowed politicians, irrespective of their political persuasion, to rally citizens behind the banner of EU accession as a "return to Europe". Not a few of these citizens had assumed that the "return to Europe" would bring them into a social nirvana, with immediate considerable economic benefits. These people have seen that there has been no such dramatic change since May 2004. On the contrary, some additional pains have been brought about by the rigors of complying with EU regulations. A confrontation with reality was thus unavoidable. This confrontation concerns the resurrection of "economic patriotism" in major EU member countries (like France, Germany, Spain, etc.) as well. In order to join the EU, Eastern European countries have diligently observed the intellectual and operational matrix of the Union; for instance, the total opening of markets (for the sake of a single market), including those for financial services and public utilities. As a matter of fact, in these sectors, Eastern Europeans have been more liberal (in the European sense) than their Western counterparts. It is easy then to comprehend the frustration in some political circles in Central Europe when EU heavyweights preach what they do not practice. This is also an explanation (amongst others) for the revival of economic nationalism in the East as well, a tendency that can be amplified by other issues.

Collective memory does not seem to be an effective protective tool due to its selectivity. There seems to be an asymmetry at play here: people enjoy political liberties and like to voice their satisfaction or frustration; but, at the same time, they seem to have forgotten the period when those liberties were non-existent and what that implied in their lives. Likewise, the generations of young people who do not have a personal experience with communism lack this insight. Although perhaps far fetched, the mentioned asymmetry is arguably similar to the sense of disconnection some people in Western countries express about the ravages and atrocities of World War II.

A fourth explanatory argument would be that real life is quite distant from textbook democracy. Actual democracy essentially means the functioning, for better or worse, of checks and balances; it refers to the morality and the sense of accountability of political rulers, which might be quite dismaying under certain conditions. The actual state of democracy does have an impact on the mythology created after the fall of communism; numerous myths and clichés are fading away in the "New Europe" and individual and group psychologies react one way or another.

Eastern European societies are much less prosperous than their Western EU counterparts. At the same time they are facing similar structural challenges: ageing, the crisis of the welfare system, social (income) polarization, identity-related confusion, and the rising pressure of immigration. High economic growth is not a panacea where governments are incapable of dealing with the social challenges that accompany modernization, against the background of globalization. And high economic growth may not be durable if wages keep rising rapidly because of catch-up dynamics inside the Union. There are no easy solutions in this regard. Nonetheless, what is certain is that national politicians will be severely tested in the years to come; what they do would influence domestic politics and their countries' economies greatly. What is happening in Central Europe is a lesson and a harbinger to other post-communist countries as well.

Conclusions

The world needs a better (more effective) international institutional architecture, which should deal with global challenges and take care of *global commons*.

The United States and the EU have a key role to play – whether one refers to reinventing the IMF and the World Bank, enhancing the role of the emerging economic giants into the running of IFIs, and not least, in reversing the tendency of erosion of multilateralism of recent years. In this context repairing the transatlantic relationship is urgent in view of the challenges ahead. To paraphrase former US Secretary of State, Madeleine Albright, this is to be seen as an indispensable relationship.

The evolving global economy, the rise of Asia, bring with them new major competitors and a change of competitive hierarchies. Countries which have skilled people, which invest in education and have forward-looking public policies, are more likely to enjoy the fruits of the global dissemination of technology. The talk about a *knowledge-based economy* is not a temporary fad.

Those who believe that only non-zero games prevail in the world need a "wake-up call". The tectonic shifts in the world economy open up the possibility for co-operative relationships, but also for sharpened tensions. Consider, for instance, the growing need for energy and basic commodities in Asia, the unsolved or deepened geopolitical crises in various parts of the world (in the Middle East in particular), nuclear proliferation, and the visible and hidden aspects of the struggle against terrorism.

Revisiting the lessons of the Marshall Plan is very useful in a world which stays highly complicated and complex, in spite of the fall of the Iron Curtain – in a world that has to avert a *clash of civilizations*.

True statesmanship is as much in demand nowadays as it was more than half a century ago.

Notes

1. For the case of poor countries, see de Soto (1989) and Easterly (2006).

2. See Rodrik (1998) on why policy has to be pragmatic and draw on various strands of knowledge.

3. Frieden (2007) calls for a legitimate political governance of globalization and appropriate domestic policies.

4. I refer to possible cycles in overall productivity dynamics, which can change hierarchies in terms of income per capital. These cycles can be linked with business cycles and longer term/secular cycles.

5. Bavarez (2003), Sapir (2003, 2005), Sinn (2004), Rifkin (2004), Bofinger (2005), Fitousssi (2005) and others have joined this debate.

6. Nicole Gnesotto (2007) believes that Europe and the United States must learn to share power in order to retain it.

7. For a clear and analytical description of these challenges, see Alesina and Giavazzi (2006).

8. Those who argue that business scandals are caused by "insufficient capitalism" (by too many regulations) are laughable. It is like telling Asians that the financial crises of the past decade were due to a too slow opening of the capital account, which is nonsensical.

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Chapter 9. Commemorating the 60th Anniversary of the Marshall Plan

by R. Nicholas Burns

I am honored to address this important conference and what better place to do so than at the *Hôtel de Talleyrand*. First I want to thank Ambassador Connie Morella, who has done so much along with her US OECD team to organize this symposium, and of course Ambassadors Craig Stapleton and Louise Oliver for joining us today. I would also like to express my gratitude to Dr. Eliot Sorel of George Washington University, who selected and organized the scholarly contributions to the Marshall symposium, here today. And, of course, I must say "thank you" to Brian Shaw and Bob James of the George C. Marshall Foundation, and their team, for their crucial support for this symposium. I would also like to thank the many generous contributors to the restoration of the George C. Marshall Center here at the Talleyrand. Without your support, this important project would have been impossible.

This magnificent hotel is a part of French history and also part of the history of our strong alliance. As the private residence of Prince Talleyrand, it was here that he received Czar Alexander I and the Duke of Wellington, among others, in 1814 to negotiate peace in Europe. This was the place Victor Hugo wrote about when he said of Talleyrand, "into his palace, as a spider into its web, he enticed and captured, one by one, heroes, thinkers, conquerors, princes, emperors." And, of course, it was from here, more than 130 years later, that the Marshall Plan was administered, serving once again the cause of peace after a terrible war. We have celebrated many important anniversaries this year – the 63rd anniversary of D-Day, and the 60th anniversary of the Truman Doctrine.

There is perhaps no more important anniversary to celebrate than the launching of the Marshall Plan 60 years ago on 5 June. It is a great honor for me to be here in Paris to pay tribute to George Catlett Marshall, the architect of our Allied victory in World War II, a superb Secretary of State, a man of great wisdom and vision. A man of peace. Marshall was a brilliant officer, serving as Chief of Operations for General Jack Pershing's American Expeditionary Force on the western front during World War I. Twenty years later, during World War II, he became the indispensable advisor to President Franklin Roosevelt in Washington. From his desk at the Pentagon, Marshall directed our war effort in the Pacific and European theaters. As a five-star General and Army Chief of Staff, Marshall was the brilliant and creative organizer of the greatest military build-up in history. He took a small, ill-trained army of 200,000 in 1939 to 12 million men and women in uniform by 1945.

Marshall also harnessed America's awesome military-industrial expansion, which provided tanks, planes and guns for not only our armed forces but for those of Britain and the Soviet Union, as well. Marshall was a principal architect of the D-Day Invasion of June 1944. Roosevelt wanted Marshall to command all allied armies on the drive to Berlin but reconsidered when it became clear that Marshall – and Marshall alone – was irreplaceable in Washington as our overall director in the most terrible war of all time.

After the war, Marshall served as President Truman's special emissary to mediate the Chinese Civil War. And, of course, Marshall served as both Secretary of State and Secretary of Defense. Marshall was one of the founders of NATO (North Atlantic Treaty Organization), a winner of the Nobel Peace Prize and especially, the architect of the Marshall Plan that helped to rebuild a ravaged Europe after World War II.

The Marshall Plan was the founding and defining event of our present transatlantic relationship, and the significance of George Marshall's vision becomes clear when we review the implementation of the plan itself. Unlike nearly every other conqueror in recorded history, his instinct when America was unusually and supremely powerful in the late 1940s was not to vanquish his former foes and dominate his friends, but to stretch out a helping hand to both so that they might rejoin the community of free and democratic nations. And that, in essence, was the Marshall Plan – a USD 13 billion lifeline to a sinking Europe at a time when many countries could easily have fallen to communism. Winston Churchill called the Marshall Plan "the most unsordid act in history." The Dutch Foreign Minister at the time, Dirk Stikker, remarked that "Churchill's words won the war, while Marshall's words won the peace." From every perspective, the Marshall Plan saved most of Western Europe from hunger, destitution, war and dictatorship. As it rebuilt economies, stabilized currencies and gave people hope again, in many ways the Marshall Plan was the first step toward the united Europe we see today.

In Greece, the American Mission for Aid to Greece delivered roughly USD 5 billion in emergency assistance. It resettled 670,000 displaced villagers; created a new, national electrical system; cleared and rebuilt the Corinth Canal; constructed new roads all over the county; wiped out malaria; resuscitated the agricultural system; and rehabilitated the Greek drachma. The Marshall Plan began as an emergency program, but its sustained contributions to agriculture and finance succeeded in laying the foundation for the Greek economic miracle of the 1950s. In Germany, through Marshall Plan aid, instead of further punishing a past enemy, the United States contributed well over USD 1.3 billion dollars to restoring Germany's economic viability, and planting the seeds of freedom in a future ally. In the Netherlands, the Marshall Plan helped to contain rampaging inflation, underwrite a program to reclaim land, and provided low cost housing for industrial workers. This and other assistance totaled over USD 1 billion. Here in France, where leaders supported the Monnet Plan for industrial modernization, Marshall funds totaling some USD 2.7 billion provided resources for the Usinor steel mills and the Genissiat hydroelectric project.

From the perspective of our own time, the Marshall Plan stands as one of the truly visionary and successful government efforts in American history. Its impact was simply extraordinary: it saved Europe from communism, it gave ordinary people the hope that they could rebuild their economies and their lives and look once more to the future with a sense of optimism. In all these places, and in 11 other countries, George C. Marshall, our Secretary of State at the time, laid the basis of this co-operation 60 years ago last week when he called on Europeans to work among themselves on a plan for the recovery of their war-ravaged continent, and pledged that if they did that, the United States would fund their project.

The Marshall Plan institutions engendered many of the European and Euro-Atlantic institutions we have with us to this day. The Organisation for European Economic Co-operation, created to administer the plan, developed into today's OECD. From there it was but a logical step to jointly administer other economic assets, and Robert Schuman proposed that France, Germany, Italy and the Benelux countries pool their coal and steel

industries, leading to today's European Union. The North Atlantic Treaty Organization, created in 1949, also owes its birth to the spirit of co-operation that came into being as a result of the Marshall Plan. Marshall, in that sense, can be seen as the grandfather of the OECD and NATO. In some ways, he is the American who did the most to encourage the creation of the European Union.

And so it is that today we remember the paramount lesson of the Marshall Plan – that the United States and Europe working together can build peace and a better future. If the United States and Europe continue to work together – galvanized by our shared core values of freedom, democracy, market economics, and the rule of law – we can overcome the greatest of challenges that we face in our time – global climate change, trafficking in women and children, international drug and criminal cartels, terrorism, and weapons of mass destruction. Working together, we can help to nurture, expand throughout the world, freedom of speech, religion, press and assembly; the rule of law; private property rights; and a system where political parties compete in free and fair elections. These are the fundamental elements of all democracies that President Bush outlined in his speech in Prague last week; the rights and institutions that, as he put it, are the foundation of human dignity.

These lessons also speak to America's alliance with France. We share a long history of friendship, dating to the founding of our republic some 230 years ago. Like all the best friendships, it was one forged in the trenches. In the American Revolution, France's aid to General Washington's troops and to our fledgling democracy was decisive. You signed a treaty with us when no one else was willing to take that risk, and thus are now our oldest ally. The basis of our unique partnership also rests on ideas, on how much one side has influenced the other intellectually, from the works of Voltaire and Jefferson, the wisdom of de Toqueville, Montesquieu, Franklin, Adams, and many others. It was renewed again with Truman, de Gaulle and, of course, George Marshall. This strong alliance continued through both world wars last century, when we fought for democracy against the forces of darkness which threatened to overwhelm Europe – and the world. And we were together also during the Cold War, when we affirmed the primacy of democratic values. Secretary Rice declared during her speech at Sciences Po in February 2005, "The history of the United States and that of France are intertwined. Our history is a history of shared values, of shared sacrifice and of shared successes. So too will be our shared future." What are these values? They are an abiding commitment to democracy; pluralism; freedom of speech; equality of our citizens – regardless of race, religion or ethnicity. France believes, like the United States, in a patriotism not based just on blood and soil, but in one of shared commitment to the ideals we cherish. Thank you.

Annex A. Monograph Authors' Brief Biographies

Volker R. Berghahn is Seth Low Professor of History at Columbia University (New York City). He is an internationally recognized expert on Germany, modern Europe, and European-American relations during the Cold War. In 2006, he was awarded the Helmut Schmidt Prize of the Zeit Foundation for his work on European business history. Among his publications are *The Americanization of West Germany Industry, 1945-1973*, and, most recently, a study of the *Ford Foundation in Europe* during the early postwar decades.

Gerard Bossuat is Professor and Chairman of Contemporary History and the Director of the Master's Program on European and International Studies, specializing in European projects and strategies, at the University of Cergy-Pontoise (Val d'Oise) France. He is an internationally renowned expert on 20th century French history, the history of international relations, history of European unity, and transatlantic relations. Among his recent publications are *The Founders of United Europe*; *The American Economic and Military Aid to France, 1938-1960*; and *The Marshall Plan and European Unity, 1944-1952.*

R. Nicholas Burns is the Under Secretary of State for Political Affairs, the Department of State's third ranking official. As Under Secretary, he overseas US Policy in each region of the world and serves in the senior career Foreign Service position at the Department. Prior to his current assignment, Ambassador Burns was the United States Permanent Representative to the North Atlantic Treaty Organization. From 1997 to 2001, Ambassador Burns was the US Ambassador to Greece. During his tenure as Ambassador, the United States expanded the military and law enforcement co-operation with Greece, strengthened partnerships in the Balkans, increased trade and investment and people-to-people programs.

Bertrand Collomb is the Honorary Chairman of Lafarge Company, a worldwide leader in the production of building materials. He is a graduate of the *Ecole Polytechnique* and *Ecole des Mines* (Paris). He also holds a French law degree and a degree in management (University of Texas). Mr. Collomb is the Chairman of the *Association Française des Entreprises Privées* (AFEP), and Chairman of the French Institute of International Relations (IFRI). A world business leader in sustainable development and the role of health therein, he is Vice Chairman of the Global Business Coalition against HIV/AIDS, and a former chairman of the Business Council for Sustainable Development. He is a member of the "*Institut de France*" (*Academie des Sciences Morales et Politiques*).

Daniel Daianu is a member of the European Parliament as of December 2007 and Professor of Economics, School of Political and Administrative Studies in Bucharest (Romania). He chairs the Romanian Economic Society, and the Romanian Center for Global Studies. He is a member of the Romanian Academy and of the Board of the European Association for Comparative Economic Studies. A former Finance Minister and

Chief Economist of the National Bank of Romania, he chaired, in 2001, the Organization for Security and Cooperation in Europe, Economic Forum. Among his recent publications are *What Will Romania Be in the European Union* and *Ethical Boundaries of Capitalism*.

Bronislaw Geremek (1932-2008) was the President of the Jean Monnet Foundation for Europe, a member of the European Parliament, and a founding member of the Solidarity movement in Poland. He was a Professor of European Civilization at the College of Europe – Natolin. Among the leading European intellectuals, Professor Geremek has been honored with the Legion D'Honneur, the Grand Prix de la Francophonie, the Grand Croix de L'Ordre de Leopold II, and the W. Averill Harriman Democracy Award, among many honors. His recent publications include *L'Historien et le Politique*; *Noir Sur Blanc*; and *La Democrazia in Europa*. Professor Geremek passed away as this publication was going to print.

John R. Killick, Lecturer in Economic History at Leeds University (Leeds, United Kingdom), is an internationally recognized expert in American economic history, American economic foreign relations, and international economic history. Among his publications are *Atlantic Economy, 1783-2000*; *The Emergence of the Atlantic Economy in the Early 19th Century*; *The Transformation of the Atlantic Economy in the Late 19th Century*; and *The United States and European Reconstruction, 1945-1960*. He has also served on the editorial board of the *Journal of American Studies.*

Barry Machado is the former Director of Research for the Marshall Undergraduate Scholarship Program at the George C. Marshall Research Library and a retired Professor of History at the Washington and Lee University, in Lexington, Virginia. He is an expert in the Cold War and American Business Abroad. Among his publications are *In Search of a Usable Past: The Marshall Plan and Postwar Reconstruction Today*; "History, Memory, and the Holes in the Wall," in *The Most Dangerous Years: The Cold War, 1953-1975*; and "The Kennedy Tapes: Inside the White House During the Cuban Missile Crisis". He also served on the editorial advisory board of the *Journal of Military History*.

Pier Carlo Padoan is the Deputy Secretary-General of the Organisation for Economic Co-operation and Development (OECD). An internationally reputable economist, Professor Padoan has served as Executive Director of the International Monetary Fund in Washington, DC, as economic advisor to the Italian Prime Minister, in charge of international economic policies, and has been a Professor of Economics at the University of Rome, *La Sapienza* since 1991. He also served as Director of Economic Studies and visiting Professor at the College of Europe (Bruges, Belgium). Among his recent publications are *The Lisbon Agenda and the European Social Model* and *Political Economy of New Regionalism and Global Governance*.

Eliot Sorel is an internationally recognized educator and physician leader, Chairman and Founder of the Conflict Management and Conflict Resolution Section, World Psychiatric Association. He holds professorial appointments in the School of Medicine and Health Sciences, and in the School of Public Health and Health Services of the George Washington University (Washington, DC). In 2004, he was awarded the *Star of Romania, Order of Commander* for his cultural and scientific contributions to Romania. He recently conceived, initiated, and led the program entitled *The Marshall Plan: French and American Perspectives on Lessons Learned Applicable to the 21st Century*, at the Elliott School for International Affairs of the George Washington University. His most recent publication is *Democracy Bridge Building: Arabs, Central and East European Democrats*.

Marshall Plan Chronology

By Gérard Bossuat and Barry Machado
June 2008

June 5	1947	Secretary George Marshall's speech, Harvard University
June 27-July 2	1947	Anglo-French- Soviet conference (Paris) , answer to the Marshall speech , breakdown with the Soviets
July 12-September 22	1947	Economic Cooperation conference of Paris, report by the sixteenth European countries on the Aid program, 22 billions $ during 4 years asked
October 5	1947	Creation of the Kominform
November 6	1947	Harriman Report is issued
December 17	1947	Signature of the interim Aid program Act to Europe, $509 millions for France, Italy and Austria
March 17	1948	Brussels pact between Belgium, Netherlands, Luxemburg, France en Greta-Britain
March 21	1948	Signature of the protocol for a custom Union by France and Italy
April 3	1948	Signature by Truman of the Foreign Aid Act of 1948 , first year of the Marshall Aid (April 1948 to June 1949)
April 16	1948	Creation of OEEC, Robert Marjolin general secretary
June 23	1948	Berlin crisis: blockade of the western zone in Berlin
June 28	1948	Signature of the French and American agreement upon the Marshall Aid. Each country member of the Marshall plan has to sign such an agreement
October 16	1948	Creation of the first European multilateral payment system by the OEEC
October 22	1948	Zhdanov calls on Communists to undermine Marshall Plan
January 7	1949	Resignation of Secretary G. Marshall, Dean Acheson in charge
March 3	1949	Attempt of French an British for building a European Long Term Plan in order to reconstruct the European economy. Failure
April 4	1949	Signature of the North Atlantic Treaty at Washington
August	1949	Coming into force of the Embargo lists against Communist countries
October 31	1949	ECA Administrator Paul Hoffman's Speech to OEEC (Paris) on Western European integration
December 29	1949	Liberalization of 50% of the inter-European private trade
June 23	1950	Korean war
September 19	1950	Creation of the European Payment Union (EPU)
February 1st	1951	Liberalization of 75% of the inter-European private trade
October 10	1951	Approval by President Truman of the Mutual Security Act ending of the Marshall plan and creating the Mutual Security Program
December 31	1951	Marshall Plan officially ends

OECD PUBLICATIONS, 2, rue André-Pascal, 75775 PARIS CEDEX 16
PRINTED IN FRANCE
(01 2008 09 1 P) ISBN 978-92-64-04424-1 – No. 56081 2008

The Marshall Plan

Lessons Learned for the 21st Century

There are not many of us left who served through the Marshall Plan from its beginning, and fewer still who served time in the Hotel Talleyrand in Paris, the site of the anniversary celebration, in June 2007, of Secretary George C. Marshall's 1947 commencement address launching the European Recovery Program. There are, though, scholars who can address those times and evaluate them so that the experience can live on.

The dedication of the Hotel de Talleyrand as a memorial to that unique enterprise provided the opportunity; and the analyses and evaluations in this splendid volume, ***The Marshall Plan: Lessons Learned for the 21st Century***, reflect the excitement, as well as the accomplishments, of an economic enterprise that produced the infrastructure of NATO and the European Union. Long live the spirit of Marshall's vision!

Thomas C. Schelling, Marshall Plan alumnus, Washington,
Copenhagen, Paris, Washington, '48-'53, Nobel Prize in Economics 2005

A historical event is and remains crucial when it interacts with others in such a way as to contribute to a deep and positive change in the course of history. In this sense, the Marshall Plan made an outstanding and lasting contribution. It was instrumental to overcoming the temptation of isolationism in the US, to reviving our badly needed economic recovery and gave a decisive input to coordinating our national efforts, thus paving the way to our future European integration.

When I think of the world as it would have been without the Marshall Plan, I am encouraged to conclude that even in our challenging times, another, better world is possible. This collection of well written contributions and analyses, ***The Marshall Plan: Lessons Learned for the 21st Century***, further strengthens my convictions.

Giuliano Amato, Former Prime Minister, Italy
Former Vice President, European Constitutional Assembly

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ISBN 978-92-64-04424-1
01 2008 09 1 P

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