THE COLD WAR IN EUROPE

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Minutes; Lovett tel. to Clayton and Caffery, September 20, 1947, and Clayton and Douglas tel. to Lovett, September 23, 1947, *FRUS, 1947,* 3:442–4, 445–6; Advisory Steering Committee, Minutes of Meetings, September 9, 19, and 25, 1947, RG 353, Lot 122, box 26, folder: ASC Minutes; and Committee on the European Recovery Program, Minutes of Meetings, September 11, 16, and 18, 1947, RG 353, Lot 122, box 26, folder: REP Minutes. See also the documents labeled D-16/4, /7a, /8a, in RG 353, Lot 122, Box 28, folder: REP Documents; ASC D-1, D-3, D-1/1a, in RG 353, Lot 122, box 24, folder: ASC Documents; Snyder undated memorandum for the President, Truman Papers, CF, folder: State Department, 1946–47; and Lovett memorandum for President, September 18, 1947, RG 59, file: Memoranda for the President, box 1.

69. Chairman, CEEC del. to Lovett, October 22, 1947, CEEC del. to the State Department, October 27, 1947, CEEC del. to the Participating Governments, October 31, 1947, Lovett to Chairman, CEEC del., November 3, 1947, and Record of a Meeting between Members of the Advisory Steering Committee and the CEEC Delegation, November 4, 1947, *FRUS, 1947,* 3:446–50, 452–70; Mulliken memorandum to Kotschnig and Rusk, October 23, 1947, RG 59, file: 840.50Recovery/10-2347; Memoranda of Conversations, October 15 and 16, 1947, RG 353, Lot 122, box 28, folder: REP Documents; Memoranda of Conversations, October 21, 22, and 23, 1947, RG 353, Lot 122, box 24, folder: ASC Documents; and Paul Nitze letter to Douglas October 29, 1947, Records of the Foreign Service Posts of the Department of State (Washington National Records Center, Suitland, MD), Record Group 84, London Embassy Records, box 1018, file: 850 Marshall Plan (hereafter cited as RG 84 London Embassy Records, with appropriate box and file designations). For a British account of the Washington talks, see the Foreign Office paper "European Reconstruction: Documents Relating to the Washington Conversations on European Economic Co-operation (6th October–7th November)," FO 371, 62675, UE12282.

70. See the documents cited in note 69. The quotation is from CEEC del. to Participating Governments, October 31, 1947, *FRUS, 1947,* 3:456–61.

71. Van Der Beugel, *From Marshall Aid to Atlantic Partnership,* 93.

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Alan S. Milward

The Reconstruction of Western Europe

Alan Milward, who has been based at the European University Institute in Florence and then the London School of Economics, is a leading economic historian of twentieth-century Europe. He has published several important works concerning the economic effects of in
World War II and the impact of the German occupation. His recent volume, *The Reconstruction of Western Europe, 1945–51* (Berkeley and Los Angeles, University of California Press, 1984) is a fundamental contribution to understanding the economics of European recovery. Together with Michael Hogan's work, excerpted above, it stands as a major analysis of the United States' postwar contribution. The selection included here includes pages 90–113 and 123–125 from *The Reconstruction of Western Europe,* reprinted with the permission of the University of California Press.

Perhaps more easily as a British national, Milward dissents from the usual celebrations of American policy. He stresses the Europeans' own contribution to recovery and tends to assess United States initiatives as repeatedly falling short of their objectives. The original American plan for postwar currency convertibility and multilateral trade, which was formalized at the Bretton Woods Conference of 1944, could not be sustained. Currencies remained a shambles, and postwar trade was conducted by unwieldy barter arrangements. Marshall Plan assistance, in effect, appeared necessary because Bretton Woods multilateralism could never have gotten off the ground without it. But the Marshall Plan in turn, so Milward argues, was not really necessary. Only the rapid tempo of European recovery already under way led to the bottlenecks that were interpreted as so dangerous. As for the integration of Western Europe, the continental countries' own initiatives, especially the Schuman Plan, represented the decisive advance. Milward does not deny that the Marshall Plan brought considerable assistance to Europe, and on other occasions he has praised the ERP as a thoughtful multilateral policy. But he insists on divesting U.S. policy of any retrospective heroic aura.

For a careful explanation of how Marshall Plan transfers and intra-European payments actually functioned, the reader can profitably consult Imanuel Wexler: *The Marshall Plan Revisited: The European Recovery Program in Economic Perspective* (Westport, CT, Greenwood Press, 1983). An interesting set of brief memoirs and analyses was gathered at a thirty-fifth anniversary conference at the Harvard University Center for European Studies and published as *The Marshall Plan: A Retrospective*, Stanley Hoffmann and Charles S. Maier, eds. (Boulder, CO, Westwood Publishers, 1984). An international group of scholars, including Milward, Hogan and others, has contributed to *Germany and the Marshall Plan*, Charles S. Maier, ed. (Oxford: Berg Publishers Limited, 1991).

The European Recovery Programme

The aspect of the economic reconstruction of Europe to which most energy and attention has been given and the one which still seems to awaken the most interest is that of the impact of the ERP on European economic and political life. To what extent is modern Western Europe the creation of the Marshall Plan? Could it have been otherwise? These are questions repeatedly mulled over in conferences and newspapers. At the height of the Cold War American scholars sought to demonstrate that the Marshall Plan was the cause of Western Europe's remarkable economic performance and that it had 'saved' western Europe for democracy.[1] International economists in the United States, whose subject the Marshall Plan had made important to American government policies, wrote more guardedly in much the same vein.[2]

When in reaction a 'revisionist' school of historians appeared in the United States, attributing the Cold War as much to American policies as to those of the Soviet Union, the Marshall Plan came to be seen in an opposite light, as an act of imperialistic foreign policy by the United States.[3] In extending its great power interests to the river Elbe, and even beyond, the United States narrowed the range of economic and political choice for European societies, it was argued, and tried to turn them into political and economic satellites. Marshall Aid was interpreted as a device for furthering American exports and capital investment. Although they might have revised everything else, however, the 'revisionist' historians in no way revised the earlier views of the economic effectiveness and importance of the Marshall Plan. They were simply less pleased by its results.

Until very recently few doubts have been expressed about the overall importance and effectiveness of Marshall Aid in promoting European recovery. In general it has been seen as the indispensable starting-point of Western Europe's remarkable subsequent prosperity.[4] But with the beginnings of a more methodical history of the period the focus of the debate has changed, so that the question now posed is whether Marshall Aid was as important in contributing to the post-war settlement as everyone, Cold War historians and 'revisionists' alike, had assumed.[5] The length of time needed before this debate could be seriously begun is in itself an interesting phenomenon because the earlier works which argued for the central importance of the Marshall Plan certainly did not do so from any profound analysis of the Western European economies at the time, but more from a set of rather glib political and economic assumptions. The main reason for the scepticism about the overall importance of the ERP has been that quantitative measures of its impact on the European economies suggest that its contribution to them was greatly exaggerated by Cold War historians and that it also brought few, if any, of the economic advantages to America which 'revisionist' historians suggested. As a total sum Marshall Aid does not look large in terms of Western Europe's total foreign trade or investment. American exports to Europe did not increase but fell during the European Recovery Programme and American capital exports to Western Europe were at one of their lowest ebbs.

Similarly, many of the dramatic political changes in Western Europe which were once ascribed to American interference and alleged to be the price of Marshall Aid, the departure of the Communist Party from the French government in 1947, for example, or the defeat of the more radical aspirations for economic and social change which were noticeable in Western Europe between 1945 and 1947, have been shown to be part of the course of internal political development in the European countries concerned, rather than the result of American intervention. The ERP and its ideas appealed to powerful sections of political opinion in every Western European country and their influence was much stronger than anything brought to bear from outside. The political and economic influence of the Marshall Plan must in any case be seen as parts of a whole and if it is indeed true that, economically, Marshall Aid was not of major importance to Western European economic recovery, then it must follow that its influence on Western Europe's internal political choices would also be small.

The scope of the ERP was so large that these sweeping considerations are not unreasonable, although from a purely national standpoint the importance of Marshall Aid would seem entirely different from one European country to another. At one extreme of the spectrum might be set Austria or the German Federal Republic, where the assumption must be that Marshall Aid made so great a contribution to economic recovery as to make the question at the very least well worth debating, and at the other end Belgium, where Marshall Aid was so small in terms of the Belgian economy that the question hardly seems worth debating at all. The precise effects of the ERP on each Western European economy, how it was used, and the contribution it made, can only be the concern of this book in a very superficial way because what is under discussion here is the impact of the ERP on the reconstruction of Western Europe as a whole. Belgium's recovery and reconstruction depended on that of Western Europe and thus the contribution of Marshall Aid to economies other than Belgium is of serious importance in estimating its importance for Belgium's own economic and political life. With less force a similar statement could be made about the larger economies and this was one basic tenet of the whole programme of action. But that still leaves plenty of scope for debate on a purely national level which can hardly be resolved here and which is likely to continue.

The implication of the book as a whole is that the debate about the economic effectiveness of Marshall Aid at the moment focuses on questions which are too narrow and in certain respects sterile and unanswerable. Marshall Aid's prime importance was that it was one of several contemporary attempts to reconstruct Western Europe's economic and political framework. They were all related to the existence of the ERP, which served as the impulse to them, but their relationship to its economic effectiveness was an extremely complicated one. Most of them, indeed, were intended in one way or another to thwart its economic or political objectives. Historical judgements about the Marshall Plan's effectiveness must be at least as much about its immediate impact on these alternative attempts at economic reconstruction as on the effectiveness of the ERP itself. If the quantitative questions about the ERP's economic importance could be definitively settled, all the further questions about Europe's reconstruction which scholars have ignored in their concentration on Marshall Aid would still remain. Nevertheless, an assessment of the scope of the ERP in quantitative terms must be the starting-point for any attempt at assessing its impact.

The Economic Effects of Marshall Aid

It cannot be argued, except in retrospect, that the Marshall Plan marked an acceptance by the United States that, because its real interests lay in the creation of a multilateral world trading system, it must act consistently as a creditor country and recycle dollars or gold into the international economy. At the time of its inception the ERP was no more than a tardy acceptance of the argument made in 1945 by Europeans that there was a large task of economic reconstruction to be undertaken in Europe which would require extensive American credits before the international economic relationships envisaged by the Bretton Woods agreements could become effectively operational. It replaced a short-term outflow of dollars for relief by a medium-term outflow of dollars for reconstruction. The difference with the period after the First World War was that it did so much earlier, on a more generous scale, but, above all, with the direct commitment of the United States government within a comprehensive plan with specific political and economic objectives.

There was in fact no alternative to direct government involvement even if only the economic objectives are taken into consideration, although these by themselves would not have been enough to commit the United States to such a course of action in 1947. Between 1870 and 1914, when the United Kingdom had functioned as a creditor economy in the international economic system, the average rate of net foreign investment was 5.2 per cent of GNP and, in addition, in almost every year the United Kingdom ran a balance of trade deficit. The United States, by contrast, after 1945 had an outflow of foreign investment which, measured against GNP, was less than half of that proportion and a very large balance of trade surplus. This outflow of sterling, backed up by an outflow of francs which was roughly similar as a proportion of French GNP, had financed the expanding pattern of multilateral trade before 1914. As far as the United Kingdom was concerned almost the whole of this outflow of sterling was private investment. After 1945, however, when the United States economy was booming and the demand for capital there high, and when American investors did not regard investments in western Europe as offering either security or profitability, American private foreign investment was very small, far too small to offset trade surpluses. It mainly consisted of direct investment by United States corporations out of undistributed profits, of which the most noticeable was the reinvestment by oil companies in petrol refining.

Over the period 1946–8 government long- and short-term loans financed 19 per cent of United States exports of goods and services.[6] The most important element in this outflow was the line of credit to

Britain, followed by Export-Import Bank loans and property credits for war surplus equipment. To this should be added the outflow of interest-free dollars, chiefly through UNRRA and the GARIOA programme. The United States contribution to the UNRRA programme itself came to $2817 million by the end of 1947, more than the British drawings on the line of credit by that date and more than the total of Export-Import Bank loans. By the end of 1948 $1929 million had been expended under the GARIOA programme. Therefore grants and credits together over the same period would have financed about 34 per cent of the export of American goods and services.

If all other forms of dollar provision are counted, Interim Aid, military aid to Greece and Turkey, aid to China, the special programme for the Philippines and so on, the net outflow of foreign aid, both loans and grants, from July 1945 to the end of 1946 was $7444 million, in 1947 $5681 million, and in both those periods higher than in any calendar year under the Marshall Plan.[7] On the other hand the proportion of ERP aid provided as grants was very high, 92 per cent in 1949, and the loans were on favourable terms, for thirty-five years at 2.5 per cent interest rate and repayments not having to start until 1952. Marshall Aid systematized the outflow of dollars, reduced the cost to the recipients and concentrated the dollar outflow geographically on Western Europe, but it did not increase the relative size of the dollar outflow compared to the earlier years when the theme was relief rather than recovery.

The outflow of dollars under Marshall Aid represented 2.1 per cent of United States GNP in 1948, rising to 2.4 per cent in 1949 and then falling away to 1.5 per cent. The GNP was much larger than that of the United Kingdom before 1914 and the ratio of American foreign trade to it much smaller.[8] Unilateral transfers, of which the ERP grants were by far the largest part, financed about 32 per cent of the exports of American goods and services in 1949, the peak year of ERP. Loans in that year were only $452 million compared to a total for all unilateral transfers of $5211 million, so that the proportion of the export of goods and services financed was about what it had been before Marshall Aid started. There were no signs before 1950 of an end to international dollar scarcity nor of a return to an equilibrium in international payments sufficient to enable Western European economies to sustain imports from the United States without aid. The vigorous progress made in that direction in that year was at once cancelled by the effects of the Korean war. An equilibrium in world payments and 'viability' between Western Europe and America after the end of Marshall Aid still depended on the United States running a large balance of payments deficit.

At no time was the ERP the sole source of American grants and loans. It overlapped at the beginning of the programme with existing programmes and from summer 1951 became confused with aid for military purposes under the Mutual Defence Assistance Programme. The funds for the ERP were first made available by Congress on 3 April 1948, although they were to be voted, contrary to the administration's wishes, for only one year at a time. From then until 30 June 1951, when what was left of the ERP was merged with the defence programme, the total sum made available for the ERP (including the separate loan programme for Spain) was $12,534.9 million, of which about $12,200 million had been committed by the end of June. It was committed in three principal ways, as grants, loans, and 'conditional' aid. 'Conditional' aid was aid awarded as backing to the intra-Western European payments agreement of 1948 and subsequently extended to further agreements, aid which although provided from the United States in fact financed trade between two Western European countries and so was transferable.[9] Grants accounted for $9199.4 million, loans for $1139.7 million and 'conditional' aid for $1542.9 million.

The existence of the 'conditional' aid scheme in itself raises serious methodological issues in apportioning the total of ERP aid received by different countries. In terms of the country to which aid was originally allocated the United Kingdom received 23 per cent of the total and France 20.6 per cent. The detailed way in which the allocation of the sums was finally decided will not be known without a full history of the operations of the Economic Co-operation Agency (ECA), but it is not important here because the nature of the crisis which produced Marshall Aid meant that one principle of allocation overrode all others. The gross dimensions of aid allocations to each country were determined by its dollar balance of payments deficits. The European countries were required, first in the CEEC and then in the OEEC, to draw up in one comprehensive programme a statement of their annual requirements in dollar imports and it was against this programme that aid was awarded to cover the imports. The bigger the dollar deficit on foreign trade the larger the share of Marshall Aid. If there was occasional adjustment by ECA according to other principles, in favour perhaps of poorer economies, it must have been very slight. There was more scope for such adjustment in the first round of allocations because that was announced before the OEEC had begun to function as the forum where dollar import needs were first decided and well after the CEEC had broken up, although the report of the CEEC to Congress existed as a public guideline to dollar import needs.

Aid was not therefore allocated in any fixed proportion to national income and in so far as it was correlated in size with any particular indicator it was so, although only very loosely, with the volume of foreign trade. Its impact on national income was thus an indirect one through the foreign trade sector. After the 1948 Agreement for Intra-European Payments and Compensations a certain amount of aid was in fact used directly to finance deficits in intra-European trade rather than dollar deficits only. An attempt at measuring the ratio of aid to national income after it had been redistributed through this intra-European payments mechanism was made by the Bank of International Settlements and the results are shown in table 1. Measured in this way it could hardly be argued that in the first year of the ERP it did not make a significant contribution to the growth in that short period of six countries in particular, Austria, where it contributed an extra 14 per cent to the national income, the Netherlands, where its contribution was 10.8 per cent, Ireland, where the figure was 7.8 per cent, France, where it was 6.5 per cent, Norway, 5.8 per cent and Italy, 5.3 per cent. These are no small sums, and even 2.4 per cent of the British national income, although only at the time about one year's growth of national income, represents a very substantial transfer. Accepting, therefore, that over the period of the ERP as a whole the transfers were by no means so abnormally large in historical perspective as to cause Marshall Aid to be singled out as an exceptional economic phenomenon in the way it was at the time and for twenty years afterwards, an added precision is needed in such a judgement. Over the first year of the programme, from summer 1948 to summer 1949, it was an important addition to national income in all the recipient countries except Belgium and Sweden, which effectively received only 'conditional' aid.

On the other hand, when we ask 'how important?' judgement must ultimately be subjective. The rates of growth of national income in

Table 1. Percentage of national income represented by net ERP aid after operation of drawing rights, 1 July 1948 to 30 June 1949

Austria	14.0
Belgium/Luxembourg*	0.6
France*	6.5
Denmark	3.3
Western Germany (Trizone)	2.9
Iceland	5.0
Ireland	7.8
Italy	5.3
Netherlands*	10.8
Norway	5.8
Sweden	0.3
United Kingdom	2.4

Source: BIS, *19th Annual Report* (Basle, 1949), p. 20.
*Including aid to overseas territories.

Western Europe after 1945 were much higher than in the inter-war period. They averaged, over the period 1945–60, almost 5 per cent in the Netherlands and 4.4 per cent in France. The contribution of the ERP at its peak therefore (when outflows of dollars were at their highest and European national incomes at their lowest), was equivalent to about two years' 'normal' growth of national income in the Netherlands and about one and a half year's 'normal' growth in France. There is only one of the receiving economies, however, namely Belgium, where a case could be made that the rate of growth of national income was showing a tendency to fall in summer 1948, when this sudden accretion to national income became available, and it did not become available in any significant size to Belgium. One result of Marshall Aid was thus to give a further sharp upward thrust from summer 1948 for one year to growth rates which were already high.

Over the whole period of the ERP its addition to European national incomes was, of course, less significant. Table 2 pursues the same type of analysis, for the main beneficiaries of Marshall Aid, as that attempted by the Bank of International Settlements. It should, however, be noted that before the general European devaluations against the dollar in 1949, the variations in exchange rates for some countries are such as to make such calculations only valuable as gross orders of magnitude. In fact the complexities of Austrian exchange rates were such as to make the calculation so hypothetical as to be meaningless and it has accordingly been omitted. In this respect it should also be noted that the precise basis on which the Bank of International Settlements' calculations are made is not specified; however the results in tables 15 and 16 are not in disaccord.

The Netherlands, and presumably Austria, must be singled out by this method as benefiting from the ERP on a different scale from the others. The total monetized contribution of ERP to the Netherlands economy was between three and a half and four and a half years of prevailing rates of growth of total output of the economy. For France it represents between two and two and a half years' growth, for Italy and the United Kingdom approximately two and for West Germany about half a year. But the growth of GNP is not a function of simple monetary transfers but of how the national product is used. It would therefore be more correct to say that what was transferred to the Netherlands by the ERP was the potential to increase the growth of its GNP by the equivalent of roughly four years of the prevailing rate of growth. Accepting therefore that Marshall Aid had only a marginal effect on the potential for growth of total economic output in Belgium, Denmark, Sweden and West Germany, the question must be how well did the other economies utilize the much greater potential which it gave them?

To answer this question we must confront the first economic pur-

Table 2. Total net ERP aid after utilization of drawing rights as a percentage of 1949 GNP

	(A) At pre-September 1949 exchange rates	(B) At post-September 1949 exchange rates
France	9.9	11.5
Italy	8.8	9.6
Netherlands	16.1	23.1
United Kingdom*	5.2	7.5
West Germany†	4.7	5.9

Source: Values of ERP aid calculated to include total allotments to countries in question by 30 June 1951 plus 'defence support' aid from then to 30 December 1951. Data from US, *Statistical Abstract of the United States,* 1954 and W.L. Brown Jnr and R. Opie, *American Foreign Assistance* (Washington DC, 1953), pp. 222, 246 ff. Effect of drawing rights calculated from W. Diebold Jnr, *Trade and Payments in Western Europe* (New York, 1952), pp. 40, 45. The exchange rates used in column (A) for France and Italy are, for France the average of the registered exchange rate in 1948 and the median import exchange rate for the first three quarters of 1949, for Italy the IMF par rate (which was not officially altered).
*GDP †1950

poses of the ERP in 1947. The value of Marshall Aid to Western European countries primarily consisted in the fact that it allowed them to continue to maintain a high level of investment and imports and avoid the deflations or the further increase in trade controls which were the only other possible responses to the crisis of 1947, and in particular it permitted them to maintain a flow of dollar imports. These purposes became less clear-cut after 1948. That was a year of social stability and undisputed economic advance in Western Europe and as American political anxieties were allayed the longer-term goal of Marshall Aid, to enable western Europe to eliminate its payments deficit with the United States by 1952, came into the forefront. With it came the idea, pushed into the background in 1947, that over-investment and inflation were the main barriers to reaching this goal. Inflation could also be presented as inimical to social and political stability. It is often suggested that through Marshall Aid the United States exercised a malign influence on European recovery by demanding less inflationary policies and by insisting on reductions in the levels of income and consumption at which governments were aiming.[10]

It is certainly true that reducing the rate of inflation did become a priority of American policy in 1948 and remained so. In this it was supported by the pressures of several Western European governments in OEEC. The 'Interim Report' of OEEC at the end of 1948 insisted on

balanced budgets as a condition of the European Recovery Programme.[11] But the Interim Report was a last-minute, face-saving substitute for the coherent, long-term West European common programme which OEEC had been unable to produce and thus, as far as European governments were concerned, was simply an agreement to disagree and had no policy-making force. The pressures exerted were mainly against France and by the end of 1948 the French government itself had become concerned to slow down the rate of inflation there too. At no time was it an objective of ECA policy to produce deflationary policies in Europe. The country most severely criticized publicly by ECA was Italy, precisely because of its deflationary policies, whereas for all the attempts to persuade the French government to reduce inflation ECA gave almost unquestioning backing to the high level of investment in the French economy. Objectives did become more complex after 1947 but the central objective of that year remained central. In 1949 the United States government based its requests to Congress for ERP funds on the assumption that levels of capital formation in Western Europe should still be at about 20 per cent of GNP. Marshall Aid remained throughout a device to permit expansion in Western Europe. The most tangible expression of this was the imports which it was not necessary to forego.

The most striking example of the overall contribution of American aid to imports was that of West Germany, although in that case ERP was only a contributory factor. Between 1945 and 1948 about two-thirds of all imports into the western occupation zones of Germany were financed by American aid. In 1949 the proportion was about 39 per cent, about 22 per cent financed under the GARIOA programme. So low was the level of food supply in West Germany and the population so much more rapidly increasing than elsewhere in Western Europe that it is obvious that the main contribution of Marshall Aid in this case was in helping the other aid programmes to provide the necessary imports to keep the population alive and able to work. In that sense Marshall Aid was for its first two years in Germany primarily a supplementation of relief in spite of its more far-reaching objectives. By the end of 1949 procurement authorizations for commodity shipments to Germany under the ERP programme amounted to $723.3 million of which as much as $569.3 million was food and agricultural commodities.[12] This was a special case, not fairly representing the overall objectives of ERP before the end of 1949, and, as Gimbel argues, some action of this kind would have been unavoidable in Germany even had there been no Marshall Plan.[13] Harris's calculations, derived from those of the State Department, suggest that the dollar earnings of the Bizone over the first fifteen months of ERP were not thought likely to be more than 10 per cent of its dollar receipts.[14]

Those of France were estimated to be no more than 19 per cent of its likely dollar receipts over the same period, but France, nevertheless, serves as a more central case, because, in spite of its propensity to run large balance of trade deficits and soak up Marshall Aid to pay for them, the imports were much more geared to reconstruction than relief. Imports covered by Marshall Aid payments amounted to 20.6 per cent of all imports in 1949 and in 1950 to 14.8 per cent. The Modernization Plan has been based from its beginnings on the assumption that American aid was indispensable if planning targets were to be achieved and in fact it had begun its life as a one-year import programme from the United States.[15] To retreat into a closed economy would have been to throw over the very intentions of the Plan by abandoning its central concept of modernization of capital equipment and as long as the Modernization Plan was the basis of French reconstruction a high level of imports from the United States was inevitable. But that, of course, is not to argue that recovery and reconstruction in France were impossible through any other policy, although they would have been very difficult, nor that a sufficient level of imports from America would have been unattainable without Marshall Aid.

It was in the United Kingdom, rather than in France, that the threat of an almost total independence from dollar trade as a policy choice was more frequently allowed to surface. If the fears in the United States that this would happen were greater than the force behind the threat, the existence of the sterling area certainly gave the threat more force than any similar threat France could have made. Imports funded by Marshall Aid were only 11.3 per cent of British imports in 1949 and 7.5 per cent in 1950. The quantity of imports provided by ERP aid was obviously not indispensable to reconstruction in the United Kingdom, although that is not to argue that it was not important to achieving reconstruction along the lines that the majority of the British government wished. A major shift in the British import programme away from the dollar zone in 1947 would have meant cuts in the food rations to a level lower than that during the Second World War, a grim political prospect even for a government with so large a majority.

Treasury calculations were that, if aid was refused and the likely import surplus over the financial year 1948/9 financed out of the reserves, there would still be reserves of about £270 million at the end of the year. This would be less than half the level they had fallen to during the convertibility crisis in August 1947. The Treasury view was that the lowest level of safety was £500 million. Preventing the reserves falling below that level and doing without dollar aid was possible, but only by the most drastic import restrictions. These would mean no more imports of food and tobacco from the dollar zone, except for Canadian wheat, a sharp reduction in oil imports and a general cut of 12 per cent in the level of raw material imports. This would in turn mean a reduction in the basic rations of tea, sugar, butter, bacon and cheese and a level of calorific intake for the population about 10 per cent below the average of the pre-war period. There would have to be further widespread restrictions on consumer goods and there would be as many as one and a half million unemployed. The Chancellor reported to the cabinet:

> These readjustments to the balance of payments would administer a number of violent shocks to the home economy at a number of separate points. The results to the structure of output, exports, investments, consumption and employment are extremely difficult to assess. We should be faced with an abrupt transition from a partially suppressed inflation to something not unlike a slump.[16]

Two days after hearing that forecast the cabinet decided to sign the Marshall Aid agreement.

The issue is not resolved by estimating the value of ERP-financed imports as a proportion of total imports. It is necessary to ask what the commodities imported under ERP were, for they might well have had a greater importance to the importing economy than their overall statistical contribution to total imports might suggest. Over the programme as a whole almost a third of ERP imports consisted of agricultural products which, except in the case of Denmark, were made up almost entirely of food. Of the raw material imports one, cotton, was responsible for 14 per cent of the value of all shipments. Nevertheless it also appears that capital goods continued to play an unusually important role in imports from the United States. There were exceptions to this. One was those countries where food was in shortest supply. Austria and Germany (table 3). The other was the United Kingdom and Ireland. In the United Kingdom food imports were 40 per cent of all imports, and machinery, steel and vehicle imports in general a very small proportion of the total. So large a proportion of total ERP-financed imports went to Britain, however (about 23 per cent), that the British propensity to import food and raw materials causes the general breakdown of ERP-financed imports in table 3 to be seriously misleading, especially when it is also taken into account that ERP-financed shipments to Germany were essentially for relief. As table 4 shows, imports of machinery, vehicles, iron and steel, and iron and steel products were more than 20 per cent of all Marshall Aid imports in Belgium, France, Italy, the Netherlands, Norway, Portugal and Sweden.[17] If these proportions are compared to the proportion of the same commodities in all imports (table 5), it can be seen that over Western Europe as a whole the Marshall Plan continued to finance that increase in capital goods im-

Table 3. Value and composition of all ERP-financed shipments 3 April 1948 to 31 December 1951 (million dollars)

	Total value	*% of total*
Food, feed, fertilizer	3,209.5	32.1
Fuel	1,552.4	15.5
Cotton	1,397.8	14.0
Other raw materials and semi-finished products	1,883.1	18.8
Tobacco	444.5	4.4
Machinery and vehicles	1,428.1	14.3
Other	88.9	.9
Total	10,004.3	

Source: US, *Statistical Abstract of the United States, 1952,* pp. 836–7.

ports from the United States which had provoked the payments crisis of 1947, and so enabled Western European countries to continue those policies while preserving some elements of a co-operative international payments system.

The clearest demonstration of this is the case of France, the second biggest importer of Marshall Aid commodities, where (table 5) the proportion of these commodities represented by foodstuffs was very much lower than the proportion of food in all imports. Conversely the proportion of machinery and vehicles in Marshall Aid imports was very much higher than in all imports; it accounted for 38.8 per cent of Marshall Aid imports in 1950 but only 10.5 per cent of imports in general. By the time Marshall Aid began to flow the proportion of state investment specifically directed towards the tasks identified in the Monnet Plan as 'equipment and modernization' was higher than that for repair of war damage and the restoration of public services, in 1949 more than a half of total state investment.[18] Marshall Aid was of very much greater significance in maintaining the flow of capital goods imports which sustained the Modernization Plan than it was as a contribution to French imports in general.

Although this pattern is seen most strikingly in the case of France table 5 also indicates that in all the countries which would come into consideration in this respect, except Norway, machinery and vehicles were a much higher proportion of ERP-financed imports than they were of all imports. In a general sense it is true that the United Kingdom used its Marshall Aid for food imports, these being much the largest single category of ERP-financed imports. But even in Britain they were

Table 4. Imports of machinery, vehicles, iron and steel, and iron and steel products* as a proportion (%) of all ERP-financed shipments

Austria	11.3
Belgium/Luxembourg	36.8
Denmark	19.8
France	23.4
Iceland	41.8
Ireland	8.9
Italy	20.6
Netherlands	24.2
Norway	25.7
Portugal	22.2
Sweden	25.5
United Kingdom	8.8
West Germany	3.3

Source: US, *Statistical Abstract of the United States, 1952,* pp. 836–7.
*Includes ferro-alloys.

a significantly smaller proportion of Marshall Aid imports than of all imports, whereas a much greater proportion of Marshall Aid imports than of all imports consisted of machinery and vehicles. Furthermore table 5 also shows a decisive swing in Western Europe from importing food with Marshall Aid in 1949 to importing capital goods in 1950. Italy, for example, received 6.9 per cent of its ERP shipments as machinery and vehicles in 1949 and almost 30 percent in 1950. Both there and in Austria, as the worst of the food shortages were relieved, the dollars were used, as they were already being used elsewhere in Western Europe, to sustain the capital goods imports from the United States on which the high levels of domestic capital formation depended.

But, accepting that once ERP imports are disaggregated in this way, their importance to the reconstruction of Western European economies appears much greater than when they are grossed as a part of all imports, was the process of reconstruction actually dependent on them? A definitive answer to this question is impossible without a series of detailed national studies of how gold and dollars were allocated to imports from hard currency areas. When the ECA authorized imports under the ERP it effectively extended the quantity of dollars which could be nationally allocated, by whatever system prevailed, for imports from the dollar zone. Had no ERP dollars been available for imports 1949 and 1950, what would have been the consequence?

Food was the principal category of all imports from the United States

Table 5. Composition of shipments under the European Recovery Programme compared to all imports, 1949 and 1950

	As a % of 1949 ERP shipments	*As a % of all 1949 imports*	*As a % of 1950 ERP shipments*	*As a % of all 1950 imports*
Austria				
Food	77.7	26.2	42.9	21.9
Coal and related fuels	4.5	14.4	0	15.6
Machinery and vehicles	11.9	6.8	21.0	10.5
Denmark				
Food	16.7	8.6	13.0	8.5
Coal and related fuels	0.3	10.1	0	10.0
Machinery and vehicles	21.9	12.9	20.1	11.2
France				
Food	12.5	24.0	0.3	24.6
Coal and related fuels	8.8	10.1	0.4	5.0
Machinery and vehicles	21.1	9.1	38.8	10.5
Italy				
Food	35.2	27.0	8.8	17.4
Coal and related fuels	10.5	11.5	0.1	8.8
Machinery and vehicles	6.9	1.1	29.7	3.1
Netherlands				
Food	23.1	15.2	36.6	15.8
Coal and related fuels	1.8	3.6	0.4	3.0
Machinery and vehicles	22.5	11.5	26.8	9.3
Norway				
Food	18.8	10.3	48.2	13.1
Coal and related fuels	0	3.9	0	3.8
Machinery and vehicles	6.0	36.4	22.0	33.1

Table 5. (Continued)

	As a % of 1949 ERP shipments	*As a % of all 1949 imports*	*As a % of 1950 ERP shipments*	*As a % of all 1950 imports*
United Kingdom				
Food	32.5	42.7	34.0	37.9
Machinery and vehicles	8.3	0.4	12.2	0.3
West Germany				
Food	48.6	43.6	34.5	40.1
Machinery and vehicles	3.5	1.6	4.2	2.6

Source: UN, *Yearbook of International Trade Statistics;* US, *Statistical Abstract of the United States, 1950, 1951.*

for Western Europe as a whole under Marshall Aid. Let us assume as a working hypothesis that if there had been no ERP European importers would have still had enough hard currency to obtain half the value of the food imports from the dollar zone which they actually obtained in 1949 as Marshall Aid shipments. They would then, had they wished as a group to maintain the same overall level of food imports, have had to obtain from the non-dollar zone a value of imports 12 per cent greater than their actual non-dollar zone food imports in that year. The assumption in this hypothesis is that the food supply would have been equitably distributed between the Western European nations. It would have been extremely difficult to have achieved such an increase in non-dollar zone food exports in 1949, it may have been difficult to pay for them, and, even had it been achieved it would have meant major shifts in the pattern of food consumption in Western Europe.

But would it have been necessary to maintain the same overall level of food imports had there been no Marshall Aid? The increase in the estimated calorific value of daily *per capita* food consumption in Western Europe between crop year 1946/7 and crop year 1948/9 was 20.5 per cent.[19] Assuming the calorific value of equal proportions of imports, however constituted, to be equal, the reduction in calorific intake in 1949 caused by forfeiting half of the food imports obtained through ERP would have been roughly 10 per cent. The population would therefore still have been 10 per cent better fed in 1949 than in 1947. By keeping the level of food supply to the Western European population at the level of calorific intake of 1947 there would theoretically have been no need to expend Marshall Aid or other dollars on food imports.

Would European countries in that case have had enough dollars to maintain the same level of capital goods imports from the United States as they maintained under the ERP? If we look at the value of capital goods imports under ERP authorizations in the six leading Western European importers of capital goods[20] in 1949 we find that in four cases the value could have been covered by the value of exports to the United States and Canada in that year, but that in two others, France and the Netherlands, it could not have been. The shortfall in the case of France is especially notable. Capital goods imports into France under the ERP were more than twice the value of exports to the United States and Canada. In 1950 they could have been covered in five cases, although only very narrowly in the Italian case, and once again French imports could not have been covered. Had the six major Western European importers of capital goods had no dollars other than those earned by exports, only the two with the most ambitious reconstruction plans, France and the Netherlands, would have had to reduce capital goods imports from the dollar zone, providing all were prepared to maintain the same level of food consumption as in 1947.

This, however, is to make so low an estimate of the availability of dollars had there been no ERP aid as to be unrealistic. Let us therefore revert once more to the first working hypothesis, that had there been no Marshall Aid European countries would have been able to obtain only half the value of dollar imports that they actually did obtain under the ERP. Using this hypothesis shows how much more dependent Western Europe was on Marshall Aid for capital goods than for food. In the case of machinery and vehicles, confining ourselves again to the six leading importers, this would still have meant a fall in machinery and vehicle imports from the dollar zone in 1949 equivalent to a 34 per cent increase in the total of imports of those commodities from other sources in the same year. For 1950 the percentage increase in imports from other sources would have had to be 30 per cent. In this case, unlike the case of food, 'other sources' would have had to be the Western European countries themselves, so this would have meant in 1949 an increase of more than a third in Western European exports of machinery and vehicles. This was clearly not possible, especially as an attempt to achieve it would have increased the demand for other categories of imports, of which a large proportion were actually obtained under ERP financing. Precisely the same objection would apply to the alternative solution, an equivalent increase of domestic output of machinery and vehicles in each of the countries concerned.

But it is clear from the preceding calculations based purely on the capacity of dollar earnings to purchase the same imports of capital goods as those obtained under the ERP that the inability of Western European capital goods suppliers to increase their exports to western Europe by the requisite third would have penalized two countries, France and the Netherlands. The question therefore is whether France and the Netherlands would have been able to maintain the same inputs of capital goods even under this more favourable hypothesis. The value of French and Dutch capital goods imports from the United States and Canada above the level of their exports to the same countries in 1949 was $104.1 million. To have obtained this value of capital goods imports in intra-Western European trade would still have required an increase of 11 per cent in the value of that trade in that year. It does not seem possible therefore that France and the Netherlands could have acquired the same level of capital goods either from increased domestic output or from shifts in the pattern of foreign trade. For them the absence of a European recovery programme would have altered the speed and rhythm of reconstruction. The mechanism by which it would have done so would have been by preventing them obtaining the level of capital goods necessary to sustain the French Modernization Plan and the Dutch Industrialization Plan.

If Western European countries, therefore, were to eat as well as they did in 1949 they would not have been able to maintain the same level of capital goods imports as they did, had there been no Marshall Aid. The rate of increase of output would have slowed down and so would the rate of increase of productivity. This in turn might have slowed the growth in real income, and the rhythm of expanding output, increasing productivity and increasing incomes which spanned the transition from reconstruction to the consumer boom of the 1950s might not have been high enough to effect the transition. On the other hand, had they eaten at the level of 1947 they could all have avoided these consequences except France and the Netherlands. Norway could have got by, but of the three countries with the most ambitious domestic plans for reconstruction two would not have been able to achieve them at the rate they did without Marshall Aid. This conclusion rests on a number of hypotheses which may be unacceptable. But even to those who find them so it has a heuristic value, it illustrates once more that Marshall Aid was designed to permit domestic economic policies far more ambitious than those of the inter-war period to continue in Western Europe.

Because capital formation was so high after 1947, even if we assume that the whole of Marshall Aid went into capital formation it would represent in most countries only a small part of the total. In 1949 it would have theoretically amounted to about a third of gross domestic capital formation in Italy, about a fifth in West Germany, and a little more than a tenth in the United Kingdom and France.[21] What proportion of Marshall Aid funds did actually contribute to capital formation cannot be determined, because all of them could theoretically have had the effect, no matter how it was deployed within the economy, of releasing other funds for investment.

Nevertheless there was one device of particular relevance incorporated into the programme, the counterpart funds. The equivalent in national currency of the value of imports financed under ERP grants was deposited in special accounts in the importing country. The use of these funds was dependent on ECA approval, but, providing governments were prepared to get American approval for each project, counterpart funds could be used to supplement domestic sources of capital. The minimum contribution to gross domestic capital formation of ERP funds could thus be set as the proportion used to finance imports of capital goods plus the total of counterpart funds used for investment purposes. Above that it is only possible to guess at the other parameter by, for example, in the case of the United Kingdom assuming what contribution the use of dollar aid to reduce government debt made to the availability of funds for internal investment. Wherever the second parameter is set, the overall proportional contribution of Marshall Aid to capital formation outside Italy and West Germany must have been small.

In fact only France, Germany and Italy used their counterpart funds almost exclusively for investment purposes. Austria utilized about half of its counterpart in this way, the Netherlands 38 per cent and Denmark 17 per cent. Elsewhere it was either left unused or used for other purposes of which the main one was debt retirement. The United Kingdom and Norway chose to utilize the whole of their counterpart for debt retirement. Neither, perhaps, was prepared to accept any degree of American responsibility in the selection of investment projects, or they conceived it as an anti-inflationary device.

But this judgement is to assume a state of perfection in national capital markets which was far from being the case after 1945. If we look at the extreme example of this, the German Federal Republic, self-finance (the reinvestment of profits) and short-term bank credits were the sources of three-quarters of all investment from June 1948 to 1949, of 65 per cent in the second half of 1949 and 53 per cent in 1950. The capital market and government together were responsible in the first year after the currency reform in June 1948 for only 21 per cent of investment and even in 1950 for only 34 per cent.[22] Over the period 1948–52 in the Netherlands self-finance accounted for two-thirds of total investment.[23] In the first place this meant that the counterpart funds available for investment were, in one year, 1950, as much as a third of the total of long-term investment finance available in Germany from government sources, although after that their significance dropped away. More importantly, in the second place, it meant that Marshall Aid was directly of much more value to certain basic industries which were unable to attract private long-term capital investment for reconstruction or to finance their own investment. This was especially the case in infrastructural development, such as electricity, gas and transport, in coal-mining and in the steel industry.

The area of investment which attracted the largest sum in direct counterpart fund investment in Western Europe was electricity, gas and power supply, followed by transport and communications, including shipping. Mining, however, principally coal-mining, received $449.9 million of counterpart fund investment over the whole ERP programme. The pattern of counterpart fund investment reflects the pattern of government investment before the Marshall Plan. It supported the last surge of government investment in immediate reconstruction tasks, rebuilding the railways and transport systems and repairing and modernizing the public utilities, and then moved on either to financing the expansion of capacity in what were called, in the terminology of the Monnet Plan, the 'basic' sectors, those which needed to expand before the rest of the economy could (as in France, Germany or Austria), a mixture of these and agriculture (as in Italy), or the agricultural sector itself (as in the Netherlands).[24]

Table 6. Investment of ERP counterpart funds by sector (million dollars)

Sector	*Total**	*Austria*	*France*	*Germany*	*Italy and Trieste*	*Netherlands*
Electricity, gas and power	956.0	50.6	724.5	166.6	0	0
Transport, communications, shipping	781.3	96.9	281.3	56.1	269.9	13.7
Agriculture	623.9	44.1	203.9	70.5	99.5	138.9
Coal mining, mining and quarrying	452.4	17.3	340.2	82.4	0	0
Primary metals, chemicals, strategic materials	332.8	38.4	105.1	52.6	20.6	21.9
Machinery	164.2	9.4	10.4	61.0	83.2	0
Light industry	64.7	28.7	10.8	24.0	0	0
Petroleum and coal products	22.0	0	11.7	10.3	0	0
Technical assistance	20.3	0.5	0	4.6	5.6	0.1
Other and undistributed	452.1	14.9	157.4	101.3	113.1	5.9
Total	3869.7	300.8	1845.3	629.4	591.9	180.5

Source: W.A. Brown Jr and R. Opie, *American Foreign Assistance* (Washington DC, Brookings Institution, 1953), p. 237.
*Including Greece and Turkey.

Roughly half the total counterpart fund investment in Western Europe was in France. The deployment of these funds was the subject of a tense struggle within the French government. The private capital market was unable to respond to the demands of the Modernization Plan and the hold of the Planning Commissariat on public funds was very tenuous, even the publicly controlled banks were unwilling to provide investment finance to the basic sectors chosen by the Modernization Plan.[25] The creation of the Fonds de Modernisation et d'Equipement in January 1948 as a separate Treasury account for the Modernization Plan would not by itself have solved this problem had not the government allowed the counterpart funds to be part of this account and in so doing allowed that part to escape from the incessant, variable, short-term, political pressures, as well as the delays, of budgetary control by parliament. Not only therefore did the counterpart funds represent a greater proportion of the investment in the sectors singled out by the Modernization Plan than in the rest of the economy, but they also made the Modernization Plan politically easier to achieve provided the Planning Commissariat and the Ministry of Finance remained in agreement. The counterpart funds amounted to a third of the total investment undertaken by the Fonds de Modernisation et d'Equipement in 1948, a half in 1949 and 30 per cent in 1950.[26]

In the Federal Republic the counterpart was deployed through a special bank, the Kreditanstalt für Wiederaufbau, which had already been created to use aid for reconstruction in the Bizone. Its constitution, finally agreed in summer 1948 after much argument, only allowed it to supplement investment from other private banks. The Kreditanstalt could also use GARIOA funds and was linked by a Joint Secretariat to the Staatliche Erfassungsstelle für öffentliche Güter (StEG) which handled the proceeds from the sale of army surplus stores.[27] The investment projects which it undertook were selected by an inter-ministerial committee. The first of them were credits to the basic industries in the public sector which were governed by price controls and had little possibility of self-finance. By February, when the Allies agreed to its 'Sofortprogramm', a plan of public investment had emerged which, although on a much more modest scale, had some resemblances to the Monnet Plan in its priorities, the main differences being the inclusion of housing as one of the priority sectors and, for obvious reasons of political uncertainty, the omission of steel. The other sectors chosen were electricity, coal-mining, transport, 'other industries', projects in west Berlin, and agriculture.[28] These priorities did not greatly change as the ERP funds flowed in, except that specific allocations were made to smaller firms and the preponderance of energy and coal-mining grew, rather at the expense of other targets.

If a detailed breakdown of the investment of counterpart funds in the Federal Republic is made, the importance of investment in coal-mining appears yet more clearly. Over the Marshall Plan period as a whole, to the end of 1952, the electricity industry received DM967.3 million out of counterpart funds and coal-mining appears as the second most important investment target with DM581 million.[29] In the two years 1949 and 1950 ERP funds accounted for 43.5 per cent of the total investment in coal-mining, a far higher proportion than in any other sector. Although, for example, the electricity industry was the biggest recipient of counterpart funds, ERP funds over the same period represented only 29 per cent of the total investment in that sector. Beyond these two sectors the biggest proportional contribution was made to the iron and steel industry where counterpart funds represented 16 per cent of total investment over the years 1950 and 1951.[30]

This high proportion of counterpart fund investment in coal-mining must, furthermore, be seen in the context that Marshall Aid was not the most important source of American aid to the Federal Republic. From the start of 1948 to the end of 1951 ERP aid to the Federal Republic amounted to $1317 million, $1382 including drawing right gains; aid from other sources to about $1500 million. Of these the most important by far was the GARIOA fund whose deployment was linked through the inter-ministerial committee and the same liaison channel with the American government to the activities of the Kreditanstalt für Wiederaufbau. The renewed shortage of coal, coke and steel in the last two months of 1950 showed the deficiencies of self-finance and of the private capital market. The outcome, after a tense political struggle over the way to finance such a programme, was another special programme of investment for coal-mining, steel, electricity and gas.[31] This programme was run through a special account in the Industriekreditbank, but the Kreditanstalt was again involved in all those areas where it was already providing finance.

Public enterprise and coal-mining in West Germany thus depended heavily on investment from ERP funds. That these sectors were a bottleneck to increasing production was amply demonstrated by the way the great surge of output in the German economy in 1950 produced energy blackouts and coal shortages in winter 1950/1 reminiscent of 1948. Yet it cannot be argued that American aid was indispensable to the breaking of this bottleneck, because there was always the possibility, even after the currency reform, of pursuing policies less favourable to self-finance and more favourable to public investment. What Marshall Aid did do, just as in France, was to permit the continuation of the existing economic policies, albeit in a more ironical way. It provided a cushion of funds for public investment whose deployment allowed the

Federal government to persist in fiscal policies and income distribution policies designed to put the utmost possible emphasis on private investment.

Investment of the counterpart of ERP aid was manifestly not as important to European reconstruction as the flow of imports. But the aid, just as in the case of imports, was of relatively greater importance to those sectors which bore the main weight of reconstruction in both France and Germany. This does not mean, however, that these were the sectors whose output increased the most even though there was a marked shift in the pattern of Western Europe's industrial output over the period 1945–51, compared to pre-war, in favour of capital goods and the infrastructural public service industries. In France and Germany Marshall Aid was used to circumvent the weaknesses of the private capital market and the difficulties posed by controls over government finance to help to break what governments perceived as bottlenecks in the recovery process. There are indications that policy was the same in Italy and Austria. In Austria, for example, there was a major shift in the allocation of counterpart funds from the transport sector to the basic industries at the end of 1949.[32] A similar shift can be observed in the general pattern of government investment for reconstruction throughout Western Europe at an earlier date. Counterpart funds were thus a useful, but by no means indispensable, aid to government recovery policies and one whose use, far from distorting those policies allowed them to be continued. This was as true for the planned economy of France as for the 'social market economy' in the Federal Republic. In either case Marshall Aid made easier policies which would otherwise have run into severe difficulties and had to be modified, it served to defend both governments, in spite of the differences between them from the standpoint of economic policy, against domestic political pressures.

The first obvious conclusion to draw is that it would be entirely wrong to consider that there was any equality in the effects of the ERP on the separate nation states. But that viewpoint was expressly rejected by the American administration which proceeded from the assumption that Western Europe's economic problem was common, and that therefore the entirely marginal impact of Marshall Aid on the Belgian or Danish economies was as important for Europe, and therefore for Belgium and Denmark, as the important role played by ERP in the development of the Austrian, Dutch or French economies in the same years. If we express the value of Marshall Aid as a financial transfer to the national product of the receiving countries it becomes clear that the current trend to play down its importance should not be taken too far. In the first year of its operation the ERP meant a large increase in national income for the majority of the recipients, especially for Austria and the Netherlands. Over the whole course of the ERP the principal gainers, by the same measurement, were the Netherlands, France, Italy and, although the calculation has not been made, presumably Austria. Marshall Aid permitted a level of imports from the United States of investment goods appreciably higher than could otherwise have been the case. If we ask whether the same level of imports could have been achieved without the existence of the ERP, we must conclude that in the case of two economies, France and the Netherlands, it could not. Whether the American administration was correct in choosing to judge the need for and success of the ERP in a global context, rather than by its purely national impact, depends on the extent to which the continued vigorous growth of the western European economies in this period would have been slowed down by a slower rate of growth of output in those two countries. Although the impact of Marshall Aid on levels of investment and capital formation in Western Europe cannot be finally measured there is no reason to suppose that it was of sufficient importance to modify these conclusions. It did, however, help the governments to widen bottlenecks in the recovery process, where this was dependent on public investment or might otherwise have suffered from the imperfections of post-war capital markets.

The purpose of Marshall Aid was, through furthering the process of economic recovery in Western Europe, to develop a bloc of states which would share similar political, social, economic and cultural values to those which the United States itself publicly valued and claimed to uphold. Any exact enquiry into what these values might be and into the degree of similarity that might have been acceptable, while it would provide ample scope for cynicism, would be beside the point, firstly, because for the strategic purpose the definition 'sufficiently similar to be an ally of the United States' was workable, and secondly, because the question of what values the ERP should propagate was answered as much by the fashions of the time in the United States as by deeper and longer-run traditions. Thus the ECA propagated energetically, and from 1950 by a special programme financed from ERP funds, the values of so-called 'free enterprise', of entrepreneurship, of efficiency, of technical expertise, and of competition. These were all brought together in the concept of productivity. Increasing the productivity of European labour and capital to the levels which the United States had attained in the Second World War could be presented as not merely economically desirable, in the sense that by increasing Europe's exports it would diminish the dollar gap, but also as politically neutral. It was of course no such thing, for it involved trying to impose a set of particular human and economic values on the societies in question. When parties of British industrialists were taken around marginally more productive American factories this was a useful and sensible technical exercise whose political and social implications were at a very low level. When the ECA subsidized the productivity train to tour southern Italy with a barrage of propaganda about the advantages of the American economic system, the political intent was overwhelming, even if the means of achieving it were rather ludicrous.

The intention was that values would follow aid, rather as in previous centuries trade had been thought to follow the flag, and that these values would deeply influence the political development of the European countries in a favourable direction. Improvements in productivity would bring a higher level of wealth and income, and thus weaken and eventually eliminate the social and political tensions which had been so obvious in 1946 and 1947 and on which communism in particular was thought to thrive. In so far as consistently high rates of growth of national product in Western European countries after the war did eventually reduce in most countries the tensions of political argument, or at least reduce those arguments to a narrower range for most participants, this idea proved to have a certain rough and ready force. The question of the way in which these higher rates of growth were attributable to improvements in productivity is a much more controversial one. The even more searching questions, whether such a process would permanently still the disputes over the grossly unequal distribution of the increasing wealth and how long high rates of growth of GNP in the western world could last, were not only scarcely heard but they were not to be loudly voiced for another twenty years. The set of political values which became associated with the concept of productivity received, therefore, a less questioning acceptance then than it would do now and could thus be taken up by a relatively wide range of political opinion. This was essential, for if productivity were the key to growth and growth the key to political stability, investment was the key to productivity (or so it was thought), and if investors were to feel sufficient confidence in the Western European future to invest, they must be faced with political systems sufficiently broadly based to guarantee the future security and value of their investments. Around the concepts of productivity and growth coagulated a possible political and economic programme for politicians of several different persuasions whose political aims and values coincided with those of the ECA. Marshall Aid became their support and through its technical operations the ECA was in fact pursuing complex political and social goals in European countries.

On the other hand the forces within those countries pursuing the same goals were usually much stronger and had much much effective weapons to hand than the ECA. The 'politics of productivity', to use Maier's phase,[33] were every bit as useful to European politicians hoping to back a central political position with a suitable economic programme

which could be presented as quite neutral. One reason why the idea of European integration, for instance, had been taken up in the United States so avidly was because it seemed to fit so well into this set of values. If the argument were accepted that a larger market brought automatic gains in productivity, or indeed that Europe could not achieve these productivity gains without creating a larger integrated market, European integration appeared as no more than following through the inherent economic logic of Europe's economic development. But it was also thought of in exactly the same way by various groups of opinion in Western Europe, as indeed it still is, and they were eager to use American foreign economic policy as a lever to achieve their own ultimate objectives. To them it seemed at times that they were the just men long oppressed into the hands of whose deliverer God had put invincible might. In the event this proved not to be the case and the distance from the centres of power at which many of the most ardent European integrationists were held showed that the leverage which Marshall Aid gave to the United States in matters of grand policy was small unless it were coupled to genuinely powerful political forces in Europe.

About so complex and varied a set of politico-economic relationships it seems vain to generalize. Yet it can certainly be said that the idea that the United States sought no extra political or economic gain in return for Marshall Aid is nonsense, that the idea that the gains achieved were so large as to have shaped the politico-economic future of Western Europe is nonsense also, that the gains made by the United States can only be judged in relation to specific issues and specific countries, and that the limitations to the exercise of American power and influence through the ERP were subtle, complicated, but always present and often narrow. In the end it is, at least as far as Western Europe is concerned, for the story might be very different in Greece, those limitations that are the most striking aspect of the story. They emerge as the story is told.

Endnotes

1. The most typical of the genre is H. B. Price, *The Marshall Plan and Its Meaning* (Ithaca, 1955).

2. H. S. Ellis, *The Economics of Freedom* (New York, 1950) could serve as an example.

3. J. and G. Kolko, *The Limits of Power. The World and United States Foreign Policy 1945–54* (New York, 1972) has proved the most interesting and the most discussed.

4. 'At the vantage point of twenty years' distance it seems fair to say that the Marshall Plan was Europe's "great leap forward", . . . With investment aid, fertilizers, machines and machine-tools, productivity programmes and planned growth, it laid the foundations of later prosperity.' R. Mayne, *The Recovery of Europe* (London, 1970), p. 107.

5. C. Maier, 'The two postwar eras and the conditions for stability', *American Historical Review*, 96 (2), 1981; S. Schuker, *ibid.*

6. G. Patterson, *Survey of United States International Finance, 1949* (Princeton, 1950), p. 65. Over the period 1906–13, when net foreign investment averaged about 8.5 percent of GNP, it would have amounted to a total sufficient to finance 43.4 percent of Britain's total export trade. (Data on net foreign investment from C. Feinstein, *National Income, Expenditure and Output of the United Kingdom 1855–1965* (Cambridge, 1972).)

7. US, *Statistical Abstract of the United States, 1952*, pp. 830ff.

8. Gross exports were 5.3 percent of GNP in 1948.

9. For a fuller description see pp. 271–8.

10. 'The ECA, in its general financial policy, introduced strict bankers' criteria of balanced budgets, stable currencies, high profits to entice investment, and low wages to discourage consumption.' J. and G. Kolko, *Limits of Power*, p. 429.

11. OEEC *Interim Report on the European Recovery Programme* (Paris, December 1948), vol. 1.

12. US, Dept. of Commerce, *Statistical Abstract of the United States, 1950*, p. 836.

13. J. Gimbel, *The Origins of the Marshall Plan* (New York, 1955).

14. S. E. Harris, *The European Recovery Program* (Cambridge, Mass., 1948), p. 169.

15. F. M. B. Lynch, 'The political and economic reconstruction of France 1944–1947: in the international context' (PhD thesis, University of Manchester, 1981), pp. 276 ff.

16. CAB 129/28, CP (48) 161, Economic consequences of receiving no European recovery aid, 23 June 1948.

17. Only in the case of Belgium/Luxembourg were cars a significant item in vehicle imports from the United States. Otherwise it refers to lorries, buses and other items of public transport equipment.

18. INSEE, *Mouvement économique en France de 1944 à 1957* (Paris, 1958), p. 90.

19. UNRRA, Operational Analysis Paper No. 41, April 1947; UN, FAO, *Yearbook of Food and Agricultural Statistics, Production*, 1952, p. 175.

20. Belgium/Luxembourg, France, Italy, the Netherlands, the United Kingdom, and West Germany.

21. Maier, 'The two postwar eras'.

22. Bundesverband der Deutschen Industrie, *Geschäftsbericht 1950* (Cologne, 1951).

23. W. Brakel, *De Industrialisatie in Nederland gedurende de periode der Marshall-Hulp* (Leiden, 1954), p. 92.

24. The Monnet Plan had singled out agriculture as a 'basic' sector for investment.

25. R. F. Kuisel, *Capitalism and the State in Modern France* (Cambridge, 1981), p. 240. The Crédit Lyonnais refused in 1948 to finance one of the two major investment projects in the steel industry, the continuous strip mill at Sérémange.

26. Commissariat au Plan, *Rapport Annuel, 1952* (Paris, 1953), pp. 78, 84.

27. K. Magnus, *Eine Million Tonnen Kriegsmaterial für den Frieden. Die Geschichte der StEG* (Munich, 1954).

28. M. Pohl, *Wiederaufbau, Kunst und Technik der Finanzierung 1947–1953. Die ersten Jahre der Kreditanstalt für Wiederaufbau* (Frankfurt-a-M, 1973), pp. 48ff.

29. There are more detailed quantitative breakdowns in W. W. Kretzschmar, *Auslandshilfe als Mittel der Aussenwirtschafts- und Aussenpolitik* (Munich, 1964).

30. E. Baumgart, *Investition und ERP-Finanzierung* (DIW Sonderhefte, N.F. 56, Berlin, 1961), p. 122ff.

31. H. R. Adamsen, *Investitionshilfe für die Ruhr. Wiederaufbau, Verbände und Soziale Marktwirtschaft 1948–1952* (Wuppertal, 1981).

32. Austria, Bundeskanzleramt, Sektion für wirtschaftliche Koordination, *Zehn Jahre ERP in Österreich 1948/58, Wirtschaftshilfe im Dienste der Völkerverständigung* (Vienna, 1959), pp. 72/3.

33. C. Maier, 'The politics of productivity: foundations of American international economic policy after World War II', in P. Katzenstein (ed.) *Between Power and Plenty: The Foreign Economic Policies of Advanced Industrial States* (Madison, 1978).