The Marshall Plan was the large-scale American program to aid Europe where the United States gave monetary support to help rebuild European economies after the end of World War II in order to combat the spread of Soviet communism. The plan was in operation for four years beginning in April 1948. The goals of the United States were to rebuild a war-devastated region, remove trade barriers, modernize industry, and make Europe prosperous again.
The **Marshall Plan** was the large-scale American program to aid Europe where the United States gave monetary support to help rebuild European economies after the end of World War II in order to combat the spread of Soviet communism. The plan was in operation for four years beginning in April 1948. The goals of the United States were to rebuild a war-devastated region, remove trade barriers, modernize industry, and make Europe prosperous again. The initiative was named after Secretary of State George Marshall. The plan had bipartisan support in Washington, where the Republicans controlled Congress and the Democrats controlled the White House. The Plan was largely the creation of State Department officials, especially William L. Clayton and George F. Kennan. Marshall spoke of urgent need to help the European recovery in his address at Harvard University in June 1947.

The reconstruction plan, developed at a meeting of the participating European states, was established on June 5, 1947. It offered the same aid to the Soviet Union and its allies, but they did not accept it. During the four years that the plan was operational, US $13 billion in economic and technical assistance was given to help the recovery of the European countries that had joined in the Organization for European Economic Co-operation. This $13 billion was in the context of a U.S. GDP of $258 billion in 1948, and was on top of $12 billion in American aid to Europe between the end of the war and the start of the Plan that is counted separately from the Marshall Plan. The Marshall Plan was replaced by the Mutual Security Plan at the end of 1951.

The ERP addressed each of the obstacles to postwar recovery. The plan looked to the future, and did not focus on the destruction caused by the war. Much more important were efforts to modernize European industrial and business practices using high-efficiency American models, reduce artificial trade barriers, and instill a sense of hope and self-reliance.

By 1952 as the funding ended, the economy of every participant state had surpassed pre-war levels; for all Marshall Plan recipients, output in 1951 was at least 35% higher than in 1938. Over the next two decades, Western Europe enjoyed unprecedented growth and prosperity, but economists are not sure what proportion was due directly to the ERP, what proportion indirectly, and how much would have happened without it. The Marshall Plan was one of the first elements of European integration, as it erased trade barriers and set up institutions to coordinate the economy on a continental level—that is, it stimulated the total political reconstruction of western Europe.

Belgian economic historian Herman Van der Wee concludes the Marshall Plan was a "great success":

"It gave a new impetus to reconstruction in Western Europe and made a decisive contribution to the renewal of the transport system, the modernization of industrial and agricultural equipment, the resumption of normal production, the raising of productivity, and the facilitating of intra-European trade."

### Wartime destruction

By the end of World War II much of Europe was devastated. Sustained aerial bombardment had badly damaged most major cities, and industrial facilities were especially hard-hit. The region's trade flows had been thoroughly disrupted; millions were in refugee camps living on aid from United Nations Relief and Rehabilitation Administration and other agencies. Food shortages were severe, especially in the harsh winter of 1946â€“1947.

Especially damaged was transportation infrastructure, as railways, bridges, and docks had been specifically targeted by air strikes, while much merchant shipping had been sunk. Although most small towns and villages
in Western Europe had not suffered as much damage, the destruction of transportation left them economically isolated. None of these problems could be easily remedied, as most nations engaged in the war had exhausted their treasuries in its execution.

The only major powers whose infrastructure had not been significantly harmed in World War II were the United States and Canada. They were much more prosperous than before the war but exports were a small factor in the American economy. Much of the Marshall Plan aid would be used by the Europeans to buy manufactured goods and raw materials from the United States and Canada.

Slow recovery

Europe's economies were recovering very slowly, as unemployment and food shortages led to strikes and unrest in several nations. In 1947 the European economies were still well below their pre-war levels and were showing few signs of growth. Agricultural production was 83% of 1938 levels, industrial production was 88%, and exports only 59%. In Britain the situation was not as severe. In Germany in 1945-46 housing and food conditions were bad, as the disruption of transport, markets and finances slowed a return to normal. In the West, bombing had destroyed 5,000,000 houses and apartments, and 12,000,000 refugees from the east had crowded in. Food production was only two-thirds of the prewar level in 1946-48, while normal grain and meat shipments no longer arrived from the East. Furthermore the large shipments of food from occupied nations that had sustained Germany during the war ended. Industrial production fell more than half and reached prewar levels only at the end of 1949

During the first three years of occupation of Germany the UK and US vigorously pursued an industrial disarmament program in Germany, partly by removal of equipment but mainly through an import embargo on raw materials and deliberate economic neglect. As a consequence of the industrial disarmament of Germany, whose economy by mid-1947 was deteriorating rapidly, the economic stagnation of Europe became inevitable. By shutting down the German industry the Allies disrupted the intra-European trade, a trade that was vital for European recovery, and they thereby delayed the European economic recovery. Nicholas Balabkins concludes that "as long as German industrial capacity was kept idle the economic recovery of Europe was delayed" and that "To nurse Europe back to economic health the Marshall Plan scrapped the early postwar economic chains of Germany." Vladimir Petrov concludes that as a result of the early punitive occupation of Germany the Allies "delayed by several years the economic reconstruction of the wartorn continent".

By July 1947 Washington realized that economic recovery in Europe could not go forward without the reconstruction of the German industrial base, deciding that that an "orderly, prosperous Europe requires the economic contributions of a stable and productive Germany." Unless West Germany became the engine of growth the economic stagnation of Europe became inevitable.

In addition, the power and popularity of indigenous communist parties in several Western European states worried the United States. In both France and Italy, the crisis of the postwar era had provided fuel for their Communist Parties, which had become well organized in the resistance movements of the war. These parties had seen significant electoral success in the postwar elections. Though today many historians feel the possibility of France and Italy falling to the communists was remote, it was regarded as a very real possibility by American policy makers at the time.

The American administration of Harry Truman began to believe this possibility in early March 1946, with the Soviets' violation of the withdrawal deadline in Iran, and Churchill's Iron Curtain speech, given in Truman's presence a few days later. In the administration's view, the United States needed to adopt a definite position on the world scene or fear losing credibility. The emerging doctrine of containment (as opposed to rollback) argued that the United States needed to substantially aid non-communist countries to stop the spread of Soviet influence. There was also some hope that the Eastern European nations would join the plan, and thus be pulled out of the emerging Soviet bloc, but that was not to happen.

In January 1947, Truman appointed retired General George Marshall as Secretary of State, in July 1947 he
scrapped JCS 1067 which had decreed “take no steps looking toward the economic rehabilitation of Germany [or] designed to maintain or strengthen the German economy.” Thereafter, JCS 1067 was supplanted by JCS 1779, stating that “an orderly and prosperous Europe requires the economic contributions of a stable and productive Germany.” The restrictions placed on German heavy industry production were partly ameliorated, permitted steel production levels were raised from 25% of pre-war capacity to a new limit placed at 50% of pre-war capacity.

With a Communist insurgency threatening Greece, and Britain financially unable to continue its aid, the President announced his Truman Doctrine on 12 March 1947, “to support free peoples who are resisting attempted subjugation by armed minorities or by outside pressures”, with an aid request for consideration and decision, concerning Greece and Turkey. Also in March 1947, former U.S. President Herbert Hoover, in one of his reports from Germany, argued for a change in U.S. occupation policy, amongst other things stating:

There is the illusion that the New Germany left after the annexations can be reduced to a ‘pastoral state’. It cannot be done unless we exterminate or move 25,000,000 people out of it.

Hoover further noted that, “The whole economy of Europe is interlinked with German economy through the exchange of raw materials and manufactured goods. The productivity of Europe cannot be restored without the restoration of Germany as a contributor to that productivity.” Hoover’s report led to a realization in Washington that a new policy was needed; “almost any action would be an improvement” on current policy.” In Washington, the Joint Chiefs declared that the “complete revival of Germany industry, particularly coal mining” was now of “primary importance” to American security.

The United States was already spending a great deal to help Europe recover. Over $14 billion was spent or loaned during the postwar period through the end of 1947, and is not counted as part of the Marshall Plan. Much of this aid was designed to restore infrastructure and help refugees. Britain, for example, received an emergency loan of $3.75 billion.

The United Nations also launched a series of humanitarian and relief efforts almost wholly funded by the United States. These efforts had important effects, but they lacked any central organization and planning, and failed to meet many of Europe’s more fundamental needs. Already in 1943, the United Nations Relief and Rehabilitation Administration (UNRRA) was founded to provide relief to areas liberated from Germany. UNRRA provided billions of dollars of rehabilitation aid, and helped about 8 million refugees. It ceased operations in the DP camps of Europe in 1947; many of its functions were transferred to several UN agencies.

Soviet negotiations

After Marshall’s appointment in January 1947, administration officials met with Soviet Foreign Minister Vyacheslav Molotov and others to press for an economically self-sufficient Germany, including a detailed accounting of the industrial plants, goods and infrastructure already removed by the Soviets in their occupied zone. The Soviets took a punitive approach, pressing for a delay rather than an acceleration in economic rehabilitation, demanding unconditional fulfillment of all prior reparation claims, and pressing for progress toward nationwide socioeconomic transformation. After six weeks of negotiations, Molotov rejected all of the American and British proposals. Molotov also rejected the counter-offer to scrap the British-American “Bizonia” and to include the Soviet zone within the newly constructed Germany. Marshall was particularly discouraged after personally meeting with Stalin to explain that the United States could not possibly abandon its position on Germany, while Stalin expressed little interest in a solution to German economic problems.

The speech

After the adjournment of the Moscow conference following six weeks of failed discussions with the Soviets regarding a potential German reconstruction, the United States concluded that a solution could not wait any longer.

To clarify the U.S.’s position, a major address by Secretary of State George Marshall was planned. Marshall gave the address to the graduating class of Harvard University on June 5, 1947. Standing on the steps of Memorial Church in Harvard Yard, he offered American aid to promote European recovery and reconstruction.
The speech described the dysfunction of the European economy and presented a rationale for U.S. aid.

The modern system of the division of labor upon which the exchange of products is based is in danger of breaking down. . . . Aside from the demoralizing effect on the world at large and the possibilities of disturbances arising as a result of the desperation of the people concerned, the consequences to the economy of the United States should be apparent to all. It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health to the world, without which there can be no political stability and no assured peace. Our policy is not directed against any country, but against hunger, poverty, desperation and chaos. Any government that is willing to assist in recovery will find full co-operation on the part of the U.S.A. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist.

Marshall was convinced that economic stability would provide political stability in Europe. He offered aid, but the European countries had to organize the program themselves.

The speech, written by Charles Bohlen, contained virtually no details and no numbers. More a proposal than a plan, it was presented vaguely and made little impact in America. Eight weeks after the Harvard speech, the State Department wrote in a confidential memorandum that "The Marshall Plan has been compared to a flying saucer — nobody knows what it looks like, how big it is, in what direction it is moving, or whether it really exists." The most important element of the speech was the call for the Europeans to meet and create their own plan for rebuilding Europe, and that the United States would then fund this plan. The administration felt that the plan would likely be unpopular among many Americans, and the speech was mainly directed at a European audience. In an attempt to keep the speech out of American papers journalists were not contacted, and on the same day Truman called a press conference to take away headlines. In contrast, Dean Acheson, an Under Secretary of State, was dispatched to contact the European media, especially the British media, and the speech was read in its entirety on the BBC.

Rejection by the Soviets

British Foreign Secretary Ernest Bevin heard Marshall’s radio broadcast speech and immediately contacted French Foreign Minister Georges Bidault to begin preparing a quick European response to (and acceptance of) the offer. The two agreed that it would be necessary to invite the Soviets as the other major allied power. Marshall’s speech had explicitly included an invitation to the Soviets, feeling that excluding them would have been too clear a sign of distrust. State Department officials, however, knew that Stalin would almost certainly not participate, and that any plan that would send large amounts of aid to the Soviets was unlikely to be approved by Congress.

Initial reactions

While the Soviet ambassador in Washington saw the Marshall Plan as means to create an anti-Soviet bloc, Stalin felt that the Soviets should take the offer. Stalin directed that, in negotiations to be held in Paris regarding the aid, countries in the Eastern Bloc must not agree to accepting economic conditions. Stalin changed his outlook when he learned that credits would be extended only on willingness to accept economic cooperation and that Germany would also be extended aid, which he thought would hamper the Soviets’ ability to exercise influence in western Germany.

Initially, Stalin planned to attempt to kill, or at least hamper, the Plan through destructive participation in the Paris talks regarding conditions. However, he quickly realized that this would be impossible when Molotov reported after his July 1947 arrival in Paris that no major modifications were negotiable in accepting the credit. Looming as just as large a concern was the Czechoslovak eagerness to accept the aid, as well as indications of a similar Polish attitude.

Stalin suspected a possibility that these Eastern Bloc countries might defy Soviet directives not to accept the aid, potentially causing a loss of control in the Eastern Bloc. In addition, the most important condition was that every country to join the plan would need to have its economic situation independently assessed, scrutiny to which the Soviets could not agree. Bevin and Bidault also insisted that any aid be accompanied by the
creation of a unified European economy, something incompatible with the strict Soviet command economy.

Soviet Foreign Minister Vyacheslav Molotov left Paris, rejecting the plan. Thereafter, statements were made suggesting a future confrontation with the West, calling the United States both a "fascizing" power and the "center of worldwide reaction and anti-Soviet activity," with all U.S.-aligned countries branded as enemies. The Soviets also then blamed the United States for communist losses in elections in Belgium, France and Italy months earlier, in the spring of 1947. It claimed that "marshallization" must be resisted and prevented by any means, and that French and Italian communist parties were to take maximum efforts to sabotage the implementation of the Plan. In addition, Western embassies in Moscow were isolated, with their personnel being denied contact with Soviet officials.

On July 12, a larger meeting was convened in Paris. Every country of Europe was invited, with the exceptions of Spain (a World War II neutral that had sympathized with Axis powers) and the small states of Andorra, San Marino, Monaco, and Liechtenstein. The Soviet Union was invited with the understanding that it would likely refuse. The states of the future Eastern Bloc were also approached, and Czechoslovakia and Poland agreed to attend. In one of the clearest signs of Soviet control over the region, the Czechoslovakian foreign minister, Jan Masaryk, was summoned to Moscow and berated by Stalin for thinking of joining the Marshall Plan.

Polish Prime minister Josef Cyrankiewicz was rewarded by Stalin for the Polish rejection of the Plan. Russia rewarded Poland with a lucrative five-year trade agreement, the equivalent of 450 million 1948 dollars in credit, 200,000 tons of grain, heavy machinery, and factories.

The Marshall Plan participants were not surprised when the Czechoslovakian and Polish delegations were prevented from attending the Paris meeting. The other Eastern European states immediately rejected the offer. Finland also declined in order to avoid antagonizing the Soviets (see also Finlandization). The Soviet Union's "alternative" to the Marshall plan, which was purported to involve Soviet subsidies and trade with western Europe, became known as the Molotov Plan, and later, the COMECON. In a 1947 speech to the United Nations, Soviet deputy foreign minister Andrei Vyshinsky said that the Marshall Plan violated the principles of the United Nations. He accused the United States of attempting to impose its will on other independent states, while at the same time using economic resources distributed as relief to needy nations as an instrument of political pressure.

Stalin immediately sought to take stronger control over the Eastern Bloc countries, abandoning the prior appearance of democratic institutions. When it appeared that, in spite of heavy pressure, non-communist parties might receive in excess of 40 percent of the vote in the August 1947 Hungarian elections, an all-out repression was instituted to suppress independent political forces. In that same month, total annihilation of the opposition in Bulgaria began on the basis of continuing instructions by Soviet cadres.

Szklarska Poręba meeting

In late September, the Soviet Union called a meeting of nine European Communist parties in southwest Poland. A Communist Party of the Soviet Union (CPSU) report was read at the outset to set the heavily anti-Western tone, stating now that "international politics is dominated by the ruling clique of the American imperialists" which have embarked upon the "enslavement of the weakened capitalist countries of Europe." Parties were to struggle against the U.S. presence in Europe by any means necessary, including sabotage.

The report further claimed that "reactionary imperialist elements throughout the world, particularly in the U.S.A., in Britain and France, had put particular hope on Germany and Japan, primarily on Hitlerite Germany â€“ first as a force most capable of striking a blow at the Soviet Union."

Referring to the Eastern Bloc, the report stated that "the Red Army's liberating role was complemented by an upsurge of the freedom-loving peoples' liberation struggle against the fascist predators and their hirelings." It argued that "the bosses of Wall Street" were "taking the place of Germany, Japan and Italy." The Marshall Plan was described as "the American plan for the enslavement of Europe". It described the world now breaking down "into basically two camps â€“ the imperialist and antidemocratic camp on the one hand, and the antiimperialist and democratic camp on the other."

Although the Eastern Bloc countries except Czechoslovakia had immediately rejected Marshall Plan aid, Eastern Bloc communist parties were blamed for permitting even minor influence by non-communists in their
fell short of being tough, Smith that we have lost the peace, that our whole war effort was in vain, Members of the Republican-dominated establishment of a just and honorable peace but—even worse—has actively sought to prevent it. Truman declared. “It is chiefly due to the fact that one nation has not only refused to cooperate in the situation in the world today in not primarily the result of the natural difficulties which follow a great war, Western European countries. Truman’s speech also offered strong criticism of the Soviet Union. “The Economic Cooperation Act (also known as the Marshall Plan), to provide billions in economic assistance to in Eastern Europe, Truman asked Congress to restore a peacetime military draft and to swiftly pass the allocation $12.4 billion in aid over the four years of the plan. A majority of Congress members were committed to free trade and European unity to form a bulwark against communism. The Truman administration, represented by William L. Clayton, promised the Europeans that they would be free to structure the plan themselves, but the administration also reminded the Europeans that implementation depended on the plan’s passage through Congress. A majority of Congress members were skeptical. “In effect, he told the United States Congress, sixteen nations met in Paris to determine what form the American aid would take, and how it would be divided. The negotiations were long and complex, with each nation having its own interests. France’s major concern was that Germany not be rebuilt to its previous threatening power. The Benelux countries, despite also suffering under the Nazis, had long been closely linked to the German economy and felt their prosperity depended on its revival. The Scandinavian nations, especially Sweden, insisted that their long-standing trading relationships with the eastern bloc nations not be disrupted and that their neutrality not be infringed. The United Kingdom insisted on special status, concerned that if it were treated equally with the devastated continental powers it would receive virtually no aid. The Americans were pushing the importance of free trade and European unity to form a bulwark against communism. The Marshall Plan. When they asked Zhdanov if they should prepare for armed revolt when they returned home, he did not answer. In a follow-up conversation with Stalin, he explained that an armed struggle would be impossible and that the struggle against the Marshall Plan was to be waged under the slogan of national independence.

Negotiations

Turning the plan into reality required negotiations among the participating nations, and to get the plan through the United States Congress, sixteen nations met in Paris to determine what form the American aid would take, and how it would be divided. The negotiations were long and complex, with each nation having its own interests. France’s major concern was that Germany not be rebuilt to its previous threatening power. The Benelux countries, despite also suffering under the Nazis, had long been closely linked to the German economy and felt their prosperity depended on its revival. The Scandinavian nations, especially Sweden, insisted that their long-standing trading relationships with the eastern bloc nations not be disrupted and that their neutrality not be infringed. The United Kingdom insisted on special status, concerned that if it were treated equally with the devastated continental powers it would receive virtually no aid. The Americans were pushing the importance of free trade and European unity to form a bulwark against communism. The Marshall Plan. When they asked Zhdanov if they should prepare for armed revolt when they returned home, he did not answer. In a follow-up conversation with Stalin, he explained that an armed struggle would be impossible and that the struggle against the Marshall Plan was to be waged under the slogan of national independence.

Agreement was eventually reached and the Europeans sent a reconstruction plan to Washington. In the document the Europeans asked for $22 billion in aid. Truman cut this to $17 billion in the bill he put to Congress. The plan encountered sharp opposition in Congress, mostly from the portion of the Republican Party led by Robert A. Taft that advocated a more isolationist policy and was weary of massive government spending. The plan also had opponents on the left, notably among them. Wallace saw the plan as a subsidy for American exporters and sure to polarize the world between East and West. Wallace, the former vice president and secretary of agriculture, mockingly called this the “Martial Plan,” arguing that it was just another step towards war. However, opposition against the Marshall Plan was greatly reduced by the shock of the overthrow of the democratic government of Czechoslovakia in February 1948. Soon after, a bill granting an initial $5 billion passed Congress with strong bipartisan support. The Congress would eventually allocate $12.4 billion in aid over the four years of the plan.

On 17 March 1948, President Harry S. Truman addressed European security and condemned the Soviet Union before a hastily convened Joint Session of Congress. Attempting to contain spreading Soviet influence in Eastern Europe, Truman asked Congress to restore a peacetime military draft and to swiftly pass the Economic Cooperation Act (also known as the Marshall Plan), to provide billions in economic assistance to Western European countries. Truman’s speech also offered strong criticism of the Soviet Union. The situation in the world today in not primarily the result of the natural difficulties which follow a great war. Truman declared. It is chiefly due to the fact that one nation has not only refused to cooperate in the establishment of a just and honorable peace but has actively sought to prevent it. Members of the Republican-dominated 80th Congress (1947–1949) were skeptical. In effect, he told the Nation that we have lost the peace, that our whole war effort was in vain, noted Representative Frederick Smith of Ohio. Others thought he had not been forceful enough to contain the USSR. What [Truman] said fell short of being tough, noted Representative Eugene Cox, a Democrat from Georgia. There is no
prospect of ever winning Russian cooperation. Despite its reservations, the 80th Congress implemented Truman’s requests, further escalating the Cold War with the USSR.

Truman signed the Economic Cooperation Act, the Marshall Plan, into law on April 3, 1948; the Act established the Economic Cooperation Administration (ECA) to administer the program. ECA was headed by economic cooperation administrator Paul G. Hoffman. In the same year, the participating countries (Austria, Belgium, Denmark, France, West Germany, the United Kingdom, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, Turkey, and the United States) signed an accord establishing a master financial-aid-coordinating agency, the Organization for European Economic Cooperation (later called the Organization for Economic Cooperation and Development, OECD), which was headed by Frenchman Robert Marjolin.

Implementation

The first substantial aid went to Greece and Turkey in January 1947, which were seen as the front line of the battle against communist expansion, and were already receiving aid under the Truman Doctrine. Initially Britain had supported the anti-communist factions in those countries, but due to its dire economic condition it decided to pull out and in February 1947 requested the U.S. to continue its efforts. The ECA formally began operation in July 1948.

The ECA's official mission statement was to give a boost to the European economy: to promote European production, to bolster European currency, and to facilitate international trade, especially with the United States, whose economic interest required Europe to become wealthy enough to import U.S. goods. Another unofficial goal of ECA (and of the Marshall Plan) was the containment of growing Soviet influence in Europe, evident especially in the growing strength of communist parties in Czechoslovakia, France, and Italy.

The Marshall Plan money was transferred to the governments of the European nations. The funds were jointly administered by the local governments and the ECA. Each European capital had an ECA envoy, generally a prominent American businessman, who would advise on the process. The cooperative allocation of funds was encouraged, and panels of government, business, and labor leaders were convened to examine the economy and see where aid was needed.

The Marshall Plan aid was mostly used for the purchase of goods from the United States. The European nations had all but exhausted their foreign exchange reserves during the war, and the Marshall Plan aid represented almost their sole means of importing goods from abroad. At the start of the plan these imports were mainly much-needed staples such as food and fuel, but later the purchases turned towards reconstruction needs as was originally intended. In the latter years, under pressure from the United States Congress and with the outbreak of the Korean War, an increasing amount of the aid was spent on rebuilding the military of Western Europe. Of the some $13 billion allotted by mid-1951, $3.4 billion had been spent on imports of raw materials and semi-manufactured products; $3.2 billion on food, feed, and fertilizer; $1.9 billion on machines, vehicles, and equipment; and $1.6 billion on fuel.

Also established were counterpart funds, which used Marshall Plan aid to establish funds in the local currency. According to ECA rules 60% of these funds had to be invested in industry. This was prominent in Germany, where these government-administered funds played a crucial role in lending money to private enterprises which would spend the money rebuilding. These funds played a central role in the reindustrialization of Germany. In 1949–50, for instance, 40% of the investment in the German coal industry was by these funds.

The companies were obligated to repay the loans to the government, and the money would then be lent out to another group of businesses. This process has continued to this day in the guise of the state owned KfW bank. The Special Fund, then supervised by the Federal Economics Ministry, was worth over DM 10 billion in 1971. In 1997 it was worth DM 23 billion. Through the revolving loan system, the Fund had by the
end of 1995 made low-interest loans to German citizens amounting to around DM 140 billion. The other 40% of the counterpart funds were used to pay down the debt, stabilize the currency, or invest in non-industrial projects. France made the most extensive use of counterpart funds, using them to reduce the budget deficit. In France, and most other countries, the counterpart fund money was absorbed into general government revenues, and not recycled as in Germany.

A far less expensive, but also quite effective, ECA initiative was the Technical Assistance Program. This program funded groups of European engineers and industrialists to visit the United States and tour mines, factories, and smelters so that they could then copy the American advances at home. At the same time several hundred American technical advisors were sent to Europe.

German level of industry restrictions

Even while the Marshall Plan was being implemented, the dismantling of German industry continued, and in 1949 Konrad Adenauer wrote to the Allies requesting that it end, citing the inherent contradiction between encouraging industrial growth and removing factories and also the unpopularity of the policy. Support for dismantling was by this time coming predominantly from the French, and the Petersberg Agreement of November 1949 reduced the levels vastly, though dismantling of minor factories continued until 1951. The first "level of industry" plan, signed by the Allies on March 29, 1946, had stated that German heavy industry was to be lowered to 50% of its 1938 levels by the destruction of 1,500 listed manufacturing plants.

In January 1946 the Allied Control Council set the foundation of the future German economy by putting a cap on German steel production—the maximum allowed was set at about 5,800,000 tons of steel a year, equivalent to 25% of the pre-war production level. The UK, in whose occupation zone most of the steel production was located, had argued for a more limited capacity reduction by placing the production ceiling at 12 million tons of steel per year, but had to submit to the will of the U.S., France and the Soviet Union (which had argued for a 3 million ton limit). Steel plants thus made redundant were to be dismantled. Germany was to be reduced to the standard of life it had known at the height of the Great Depression (1932). Consequently, car production was set to 10% of pre-war levels, and the manufacture of other commodities were reduced as well.

The first "German level of industry" plan was subsequently followed by a number of new ones, the last signed in 1949. By 1950, after the virtual completion of the by then much watered-out "level of industry" plans, equipment had been removed from 706 manufacturing plants in western Germany and steel production capacity had been reduced by 6,700,000 tons. Vladimir Petrov concludes that the Allies "delayed by several years the economic reconstruction of the war-torn continent, a reconstruction which subsequently cost the United States billions of dollars." In 1951 West Germany agreed to join the European Coal and Steel Community (ECSC) the following year. This meant that some of the economic restrictions on production capacity and on actual production that were imposed by the International Authority for the Ruhr were lifted, and that its role was taken over by the ECSC.

Expenditures

The Marshall Plan aid was divided amongst the participant states on a roughly per capita basis. A larger amount was given to the major industrial powers, as the prevailing opinion was that their resuscitation was essential for general European revival. Somewhat more aid per capita was also directed towards the Allied nations, with less for those that had been part of the Axis or remained neutral. The table below shows Marshall Plan aid by country and year (in millions of dollars) from The Marshall Plan Fifty Years Later. There is no clear consensus on exact amounts, as different scholars differ on exactly what elements of American aid during this period were part of the Marshall Plan.

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<th>Country</th>
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Loans and Grants

The Marshall Plan, just as GARIOA, consisted of aid both in the form of grants and in the form of loans. Out of the total, 1.2 billion USD were loan-aid.

Ireland which received 146.2 million USD though the Marshall plan, received 128.2 million USD as loans, and the remaining 18 million USD as grants. By 1969 the Irish Marshal plan debt, which was still being repaid, amounted to 31 million pounds, out of a total Irish foreign debt of 50 million pounds.

The UK received 385 million USD of its Marshall plan aid in the form of loans. Unconnected to the Marshall plan the UK also received direct loans from the US amounting to 4.6 billion USD. The proportion of Marshall plan loans versus Marshall plan grants was roughly 15% to 85% for both the UK and France.

Germany, which up until the 1953 Debt agreement had to work on the assumption that all the Marshall plan aid was to be repaid, spent its funds very carefully. Payment for Marshall plan goods, “counterpart funds”, were administered by the Reconstruction Credit Institute, which used the funds for loans inside Germany. In the 1953 Debt agreement the amount of Marshall plan aid that Germany was to repay was reduced to less than 1 billion USD. This made the proportion of loans versus grants to Germany similar to that of France and the UK. The final German loan repayment was made in 1971. Since Germany chose to repay the aid debt out of the German Federal budget, leaving the German ERP fund intact, the fund was able to continue its reconstruction work, by 1996 it had accumulated a value of 23 billion Deutsche Mark.

Effects and legacy

The Marshall Plan was originally scheduled to end in 1953. Any effort to extend it was halted by the growing cost of the Korean War and rearmament. American Republicans hostile to the plan had also gained seats in the 1950 Congressional elections, and conservative opposition to the plan was revived. Thus the plan ended in 1951, though various other forms of American aid to Europe continued afterwards.

The years 1948 to 1952 saw the fastest period of growth in European history. Industrial production increased by 35%. Agricultural production substantially surpassed pre-war levels. The poverty and starvation of the immediate postwar years disappeared, and Western Europe embarked upon an unprecedented two decades of growth that saw standards of living increase dramatically. There is some debate among historians over how much this should be credited to the Marshall Plan. Most reject the idea that it alone miraculously revived Europe, as evidence shows that a general
recovery was already underway. Most believe that the Marshall Plan sped this recovery, but did not initiate it. The United States worked to direct the Marshall Plan towards children and an increase of nutritional material for all citizens within Western Europe so as to shed a positive light on its goals as it worked to effectively defeat communist threats. One effect of the plan was that it subtly Americanized countries, especially Austria, who embraced United States' assistance, through popular culture, such as Hollywood movies and rock n' roll (Bischof, Pelinka and Stiefel 174-175).

The political effects of the Marshall Plan may have been just as important as the economic ones. Marshall Plan aid allowed the nations of Western Europe to relax austerity measures and rationing, reducing discontent and bringing political stability. The communist influence on Western Europe was greatly reduced, and throughout the region communist parties faded in popularity in the years after the Marshall Plan. The trade relations fostered by the Marshall Plan helped forge the North Atlantic alliance that would persist throughout the Cold War. At the same time, the nonparticipation of the states of Eastern Europe was one of the first clear signs that the continent was now divided.

The Marshall Plan also played an important role in European integration. Both the Americans and many of the European leaders felt that European integration was necessary to secure the peace and prosperity of Europe, and thus used Marshall Plan guidelines to foster integration. In some ways this effort failed, as the OEEC never grew to be more than an agent of economic cooperation. Rather it was the separate European Coal and Steel Community, which notably excluded Britain, that would eventually grow into the European Union. However, the OEEC served as both a testing and training ground for the structures and bureaucrats that would later be used by the European Economic Community. The Marshall Plan, linked into the Bretton Woods system, also mandated free trade throughout the region.

While some historians today feel some of the praise for the Marshall Plan is exaggerated, it is still viewed favorably and many thus feel that a similar project would help other areas of the world. After the fall of communism several proposed a "Marshall Plan for Eastern Europe" that would help revive that region. Others have proposed a Marshall Plan for Africa to help that continent, and U.S. vice president Al Gore suggested a Global Marshall Plan. "Marshall Plan" has become a metaphor for any very large scale government program that is designed to solve a specific social problem. It is usually used when calling for federal spending to correct a perceived failure of the private sector.

**Repayment**

The Organization for European Economic Cooperation took the leading role in allocating funds, and the ECA arranged for the transfer of the goods. The American supplier was paid in dollars, which were credited against the appropriate European Recovery Program funds. The European recipient, however, was not given the goods as a gift, but had to pay for them (usually on credit) in local currency. These payments were kept by the European government involved in a special counterpart fund. This counterpart money, in turn, could be used by the government for further investment projects. 5% of the counterpart money was paid to the U.S. to cover the administrative costs of the ERAP.

The Marshall Plan money was in the form of grants that did not have to be repaid. In addition to ERP grants, the Export-Import Bank (an agency of the U.S. government) at the same time made long-term loans at low interest rates to finance major purchases in the U.S., all of which were repaid.

In the case of Germany there also were 16 billion marks of debts from the 1920s which had defaulted in the 1930s, but which Germany decided to repay to restore its reputation. This money was owed to government and private banks in the U.S., France and Britain. Another 16 billion marks represented postwar loans by the U.S. Under the London Debts Agreement of 1953, the repayable amount was reduced by 50% to about 15 billion marks and stretched out over 30 years, and compared to the fast-growing German economy were of minor impact.

**Areas without the Plan**

Large parts of the world devastated by World War II did not benefit from the Marshall Plan. The only major
Western European nation excluded was Francisco Franco's Spain, which did not overtly participate in World War II. After the war, it pursued a policy of self-sufficiency, currency controls, and quotas, with little success. With the escalation of the Cold War, the United States reconsidered its position, and in 1951 embraced Spain as an ally, encouraged by Franco's aggressive anti-communist policies. Over the next decade, a considerable amount of American aid would go to Spain, but less than its neighbors had received under the Marshall Plan.

While the western portion of the Soviet Union had been as badly affected as any part of the world by the war, the eastern portion of the country was largely untouched and had seen a rapid industrialization during the war. The Soviets also imposed large reparations payments on the Axis allies that were in its sphere of influence. Austria, Finland, Hungary, Romania, and especially East Germany were forced to pay vast sums and ship large amounts of supplies to the USSR. These reparations meant the Soviet Union received about the same itself as 16 European countries received in total from Marshall Plan aid.

In accordance with the agreements with the USSR shipment of dismantled German industrial installations from the west began on March 31, 1946. Under the terms of the agreement the Soviet Union would in return ship raw materials such as food and timber to the western zones. In view of the Soviet failure to do so, the U.S. temporarily halted shipments east (although they were never resumed). It was later shown that although used for cold war propaganda reasons, the main reason for halting shipments east was not the behavior of the USSR but rather the recalcitrant behavior of France. Examples of material received by the USSR were equipment from the Kugel-Fischer ballbearing plant at Schweinfurt, the Daimler-Benz underground aircraft-engine plant at Obrigheim, the Deschimag shipyards at Bremen-Weser, and the Gendorf powerplant.

Eastern Europe saw no Marshall Plan money, as their Moscow-controlled governments rejected joining the program, and moreover received little help from the Soviets. The Soviets did establish COMECON as a riposte to the Marshall Plan. The members of Comecon looked to the Soviet Union for oil; in turn, they provided machinery, equipment, agricultural goods, industrial goods, and consumer goods to the Soviet Union. Economic recovery in the east was much slower than in the west, and the economies never fully recovered in the communist period, resulting in the formation of the shortage economies and a gap in wealth between East and West. Finland, which did not join the Marshall Plan and which was required to give large reparations to the USSR, saw its economy recover to pre-war levels in 1947. France, which received billions of dollars through the Marshall Plan, similarly saw its average income per person return to almost pre-war level by 1949. By mid-1948 industrial production in Poland, Hungary, Bulgaria, and Czechoslovakia had recovered to a level somewhat above pre-war level.

Aid to Asia

From the end of the war to the end of 1953, the U.S. provided grants and credits amounting to $5.9 billion to Asian countries, especially China/Taiwan ($1.051 billion), India ($255 million), Indonesia ($215 million), Japan ($2.44 billion), South Korea ($894 million), Pakistan ($98 million) and the Philippines ($803 million). In addition, another $282 million went to Israel and $196 million to the rest of the Middle East. All this aid was separate from the Marshall Plan.

Canada

Canada, like the United States, was little damaged by the war and in 1945 was one of the world's largest economies. It operated its own aid program. In 1948, the U.S. allowed ERP aid to be used in purchasing goods from Canada. Canada made over a billion dollars in sales in the first two years of operation.

World total

The total of American grants and loans to the world, 1945–53, came to $44.3 billion.

Early criticism

Initial criticism of the Marshall Plan came from a number of economists. Wilhelm Röpke, who influenced German Minister for Economy Ludwig Erhard in his economic recovery program, believed recovery would be found in eliminating central planning and restoring a market economy in Europe, especially in those countries which had adopted more fascist and corporatist economic policies. Röpke criticized the Marshall plan for forestalling the transition to the free market by subsidizing the current, failing systems. Erhard put Röpke's theory into practice and would later credit Röpke's influence for West Germany's preeminent success. Henry
Hazlitt criticized the Marshall Plan in his 1947 book *Will Dollars Save the World?*, arguing that economic recovery comes through savings, capital accumulation and private enterprise, and not through large cash subsidies. Ludwig von Mises also criticized the Marshall Plan in 1951, believing that “the American subsidies make it possible for [Europe’s] governments to conceal partially the disastrous effects of the various socialist measures they have adopted”.

Some critics and Congressmen at the time believed that America was giving too much aid to Europe. America had already given Europe $9 billion in other forms of help in previous years. The Marshall Plan gave another $13 billion which is equivalent to about $100 billion in today’s economy. Critics did not think that it was necessary for Americans to be using so much money to help nations they had already assisted in many ways before.

Modern criticism

Criticism of the Marshall Plan became prominent among historians of the revisionist school, such as Walter LaFeber, during the 1960s and 1970s. They argued that the plan was American economic imperialism, and that it was an attempt to gain control over Western Europe just as the Soviets controlled Eastern Europe. In a review of West Germany’s economy from 1945 to 1951, German analyst Werner Abelshauser concluded that “foreign aid was not crucial in starting the recovery or in keeping it going”. The economic recoveries of France, Italy, and Belgium, Cowen found, also predated the flow of U.S. aid. Belgium, the country that relied earliest and most heavily on free market economic policies after its liberation in 1944, experienced the fastest recovery and avoided the severe housing and food shortages seen in the rest of continental Europe.

Former U.S. Chairman of the Federal Reserve Bank Alan Greenspan gives most credit to Ludwig Erhard for Europe’s economic recovery. Greenspan writes in his memoir *The Age of Turbulence* that Erhard’s economic policies were the most important aspect of postwar Western Europe recovery, far outweighing the contributions of the Marshall Plan. He states that it was Erhard’s reductions in economic regulations that permitted Germany’s miraculous recovery, and that these policies also contributed to the recoveries of many other European countries. Japan’s recovery is also used as a counter-example, since it experienced rapid growth without any aid whatsoever. Its recovery is attributed to traditional economic stimuli, such as increases in investment, fueled by a high savings rate and low taxes. Japan saw a large infusion of US investment during the Korean War. U.S. President George W. Bush told his Argentine counterpart Néstor Kirchner during a summit in Mexico, upon being told a “Marshall Plan” would be a solution for Latin America problems, that the “Marshall Plan is a crazy idea of the Democrats.”

Criticism of the Marshall Plan also aims at showing that it began a legacy of disastrous foreign aid programs. Since the 1990s, economic scholarship has been more hostile to the idea of foreign aid. For example, Alberto Alesina and Beatrice Weder, summing up economic literature on foreign aid and corruption, find that aid is primarily used wastefully and self-servingly by government officials, and ends up increasing governmental corruption. This policy of promoting corrupt government is then attributed back to the initial impetus of the Marshall Plan.

Noam Chomsky wrote that the amount of American dollars given to France and the Netherlands equaled the funds these countries used to finance their military forces in southeast Asia. The Marshall Plan was said to have “set the stage for large amounts of private U.S. investment in Europe, establishing the basis for modern transnational corporations”. Other criticism of the Marshall Plan stemmed from reports that the Netherlands used a significant portion of the aid it received to re-conquer Indonesia in the Indonesian National Revolution and was forced into joining the Korean War in 1950 after threats the project would end if it did not comply.

In popular culture

Alfred Friendly, press aide to the U.S. Secretary of Commerce W. Averell Harriman, wrote a humorous operetta about the Marshall Plan during its first year; one of the lines in the operetta was: “Wines for Sale; will you swap / A little bit of steel for Chateau Neuf du Pape?”

Further reading


Röpke, Wilhelm. *Humane Economist*,


Wallich, Henry Christopher. *Mainsprings of the German Revival* (1955)


Zmirak, John, Wilhelm Röpke: Swiss Localist, Global Economist (ISI Books, 2001)

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### External links

- [George C. Marshall Foundation](#)
- [The German Marshall Fund of the United States](#)
- [The Marshall Plan documents collection at MCE](#)
- [Marshall Plan from the National Archives](#)
- [Excerpts from book by Allen W. Dulles](#)
- [http://usa.usembassy.de/etexts/ga4-460906.htm](http://usa.usembassy.de/etexts/ga4-460906.htm)
- [United States Secretary of State James F. Byrnes famous Stuttgart speech, September 6, 1946] The speech marked the turning point away from the Morgenthau Plan philosophy of economic dismantlement of Germany and towards a policy of economic reconstruction.
- [Marshall Plan Commemorative Section: Lessons of the Plan: Looking Forward to the Next Century](#)
- [U.S. Economic Policy Towards defeated countries April, 1946.](#)
- "Pas de Pagaille", *Time* magazine July 28, 1947
- [Luis García Berlanga's critique of the Marshall Plan in a classic Spanish film: Welcome Mr. Marshall!](#)
- [Marshall Plan Still Working, 60 Years Later](#)
- [Cincinnati Enquirer December 10, 2006](#)
- [Economist Tyler Cowen questions the conventional wisdom surrounding the Plan](#)
- [Truman Presidential Library online collection of original Marshal Plan documents from the year 1946 onwards](#)
Marshall Plan, 1948. In the immediate post-World War II period, Europe remained ravaged by war and thus susceptible to exploitation by an internal and external Communist threat. In a June 5, 1947, speech to the graduating class at Harvard University, Secretary of State George C. Marshall issued a call for a comprehensive program to rebuild Europe. The Marshall Plan generated a resurgence of European industrialization and brought extensive investment into the region. The Marshall Plan—the costly and ambitious initiative to revive western Europe after World War II—marked the true beginning of the Cold War, argues Benn Steil. The Marshall Plan promised a continuing energetic U.S. presence, underwritten by a reindustrialized capitalist western Germany at the heart of an integrated, capitalist western Europe, Steil explains.