Marshall Plan

a handbook of the Economic Cooperation Administration

ECA
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PART ONE: HOW IT BEGAN

I. *What Is the ECA?*

"ECA" stands for Economic Cooperation Administration. It is the organization established by an Act of Congress, known as the "Foreign Assistance Act" which was passed on April 2, 1948, to administer the "Marshall Plan."

The public first heard about the plan in a speech made by General George C. Marshall, then Secretary of State, at Harvard University on June 5, 1947. His plan called for a program of mutual help and cooperation on the part of all nations which would share in it. He stressed that the initiative must come from Europe. He said:

> "Our policy is directed not against any country or doctrine, but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist."

In undertaking the European Recovery Program, America abandoned piece-meal attempts to restore Europe's economic health by interim aid, and substituted for mere relief the concept of self-supporting economic recovery.

II. *What Steps Led to Its Establishment?*

(a) The nations of Western Europe met at once to organize, discuss their needs and their resources, and agree on an integrated plan. This organization became permanent, with headquarters in Paris, under the name of the

"Organization for European Economic Cooperation," (OEEC). It was the first time in history that such a long-term economic plan had been worked out on a basis of international cooperation. The initial and basic OEEC report was completed in September, 1947.

(b) From the American standpoint, the matter was considered by several committees of experts, some appointed by the President, some by Congress. Rarely has such a complete background of information been provided for congressional legislation.

(c) After thorough consideration the Foreign Assistance Act was passed with clearly defined goals.

III. *What Are Its Goals?*

To furnish material and financial assistance to the participating countries in such a manner as to aid them, through their own individual and concerted efforts, to become independent of extraordinary outside economic assistance (which is to say gifts and loans) from the U. S. by:

(1) "promoting industrial and agricultural production in the participating countries;

(2) furthering the restoration or maintenance of the soundness of European currencies, budgets, and finances; and

(3) facilitating and stimulating the growth of international trade . . . by appropriate meas-

ures including reduction of barriers which may hamper such trade."

IV. *What Are the Provisions of the Foreign Assistance Act?*

(a) That a separate agency should be set up to administer the Act, with headquarters in Washington.

(b) That there should be an Administrator, appointed by, and responsible to the President; also a Special Representative in Europe who would be charged with the immediate supervision of the ECA operations in all member countries. President Truman appointed Mr. Paul G. Hoffman as Administrator and Ambassador W. Averell Harriman as Special Representative in Europe.

(c) The Act called for a Public Advisory Board of 12 members to be appointed by the President.

(d) A joint committee of the House of Representatives and the Senate was also appointed to concern itself with the administration of the Act.

(e) The Administrator was instructed to work in close cooperation with the Secretary of State, and to develop certain projects with the Secretary of Commerce and with other government departments and agencies directly concerned.

(f) The Administrator was given authority to terminate aid to any country which does not comply with the program of mutual effort as set forth in the OEEC plan.

(g) A system of credits and the establishment of counterpart funds in the member countries was provided.

(h) A program of technical assistance was outlined.

(i) Provision was made for extending loans and investment guaranties.

(j) Provision was made for subsidizing ocean-freight charges on certain kinds of relief shipments to countries receiving ECA grants.

(k) The terminal date for the program was set for no later than June 30, 1952. Congressional approval must be obtained each year.

PART TWO: HOW IT OPERATES

V. *What Is the Basic Plan?*

(a) Each participating country submits its yearly program to the OEEC.

(b) After all country programs have been jointly reviewed, the OEEC makes its recommendations to the ECA. The ECA keeps the program of each participating country under constant review in the light of the overall program.

(c) Foreign business firms or government purchasing agencies do their own buying, using ECA credits, through established channels of private trade.

(d) When the commodities arrive in the purchasing country, individual consumers pay their governments for what they receive *in the currency of their country.*

(e) Each country puts in its "counterpart fund," or matching fund, a dollar's worth of its own currency for each dollar's worth of recovery aid given by the United States through the ECA. There is one in each of the grant-in-aid countries. These funds can only be used for projects which are of benefit to that country as a whole. Each counterpart fund project must be approved by the ECA Administrator.

(f) Five per cent of the counterpart funds may be used to pay the administrative expenses of the ECA in Europe, and for the purchase of critical materials needed by the United States.

VI. What Is the ECA Financing Procedure?

The ECA does not buy or sell. It provides dollar credits for participating countries, and supervises the way in which the funds are used. The European importers make their purchases through normal trade channels and pay the American seller with checks drawn on American credit institutions.

1. Outright Grants.

   Outright grants are authorized to pay the cost and freight of essential commodities and services. The country receiving such an outright grant deposits in a special account an amount of its own currency equal to the full dollar cost of the goods and commodities furnished. These local currency funds, also known as counterpart funds, are in turn used for internal recovery projects determined by agreement between the participating country and ECA.

2. Conditional Grants.
Not all the grants ECA makes to Western European countries are outright gifts. A large number of grants have been made on condition that the receiving countries set aside an equal amount of their own currency so that other participating countries can buy their export goods. These conditional grants have been a powerful spur to trade between European countries.

3. Loans.
Loans are authorized for the purchase of commodities or services approved as essential by ECA. Loans bear interest of 2.5 per cent starting in 1952, and mature up to 35 years from Dec. 31, 1948, with principal repayments starting no later than 1956.

4. Technical Assistance.
A special fund is created to finance expenses of experts or teams of experts in connection with visits either in the United States or abroad. The purpose of this aid is to provide and exchange technical "know-how." It may be used only on projects contributing directly to increased production and stability. In most

cases, countries receiving such aid must also deposit counterpart equivalent to the dollar expenses involved in each project.

VII. *How Does the Dollar Do Double Duty?*

First: Credits in dollars are made available by ECA.

Second: Goods, services and raw materials for private enterprise are then made available to and paid for by the consumer in the currency of his country.

Third: These payments go into a national fund, known as the counterpart fund, in each of the Marshall Plan countries receiving grants-in-aid.

Fourth: These funds are spent on projects approved by ECA which are of overall benefit to those countries.

VIII. *How Are Counterpart Funds Used?*

The following are some of the projects approved (and a number are already completed): building of hydro-electric plants; rebuilding of roads and ports; building bridges and construction of airports; reclamation of land; development of irrigation systems; large scale housing projects.

PART THREE: HOW IT AFFECTS EUROPE

IX. *Which Nations Are Eligible For Assistance?*

All European nations were invited to qualify by becoming members of the OECC. Russia withdrew from the initial conference and refused to allow any of her satellite countries to participate in the Marshall Plan.

Countries participating in the Marshall Plan today total 18, with a population of approximately 250 million people.

Thirteen have received either a combination of grants and loans or loans only: Belgium, Luxembourg, Denmark, France, Iceland, Italy, The Netherlands, Norway, the United Kingdom, Ireland, Sweden, Portugal and Turkey.

Four have received grants only: Austria, Greece, the Free Territory of Trieste, and the German Federal Republic.

One has received no aid: Switzerland.

ECA has special missions working with each of the Marshall Plan countries.

X. *Does It Give Us a Voice In European Affairs?*

The United States does not seek to impose on other countries any special economic pattern. The degree to which these countries find it desirable to impose economic controls is a matter for them to decide. Only when such controls impede the recovery effort, does the ECA recommend that they be removed.

XI. *What Proportion of European Recovery Comes From Us?*

Contrary to the usual belief, American aid is less than 5 per cent of the gross national income of all Marshall Plan countries, and only a small percentage of most projects is a direct contribution of ECA. But because it provides the goods and services most needed for reconstruction, an average of $4 to $5 billion of American aid per year in the last two years has helped Europeans to expand production by some $30 billion per year, it is estimated.

XII. *Is American Aid Appreciated Abroad?*

As the Marshall Plan becomes better understood and its benefits more generally apparent, the appreciation is constantly growing. Communist propaganda has sown distrust of American aid and delayed understanding of it. Furthermore, the fact that the individual consumer pays for what he receives, tends, naturally, to prevent his feeling particularly beholden to the United States. But gradually, he is becoming aware of the many benefits which accrue to him and his family through the counterpart funds, and the related advantages of an improved standard of living made possible by the Marshall Plan.

By and large, the recognition of improvement due to Marshall Plan aid was becoming general in Europe by the end of the first year. Families realized that the improvement in the bread ration was due to wheat supplied under the Marshall Plan, that the necessary medicines and drugs came from America, and that industrial jobs existed because of the machinery and material available through American aid.

PART FOUR: HOW IT AFFECTS US

XIII. *How Will the United States Benefit?*

In embarking on this program, the American people recognized that they had an enormous stake in helping to restore the free nations of Europe to economic health and to maintain their political freedom The Foreign Assistance Act was designed to give those nations the margin of help and time with which they could work out their own salvation. Desperate men take desperate actions. Too often in our time, nations in the face of poverty and bankruptcy have turned to totalitarianism. Such choices are not made by free men in a free and stable society, and it is to the organization of such a society that the ECA is dedicated.

America's stake in Europe is not only political but also economic. The European countries have been by tradition our best customers and are vital to the function of world commerce. If conditions in Europe had continued to deteriorate, all American business would have suffered. Our export trade has been an important part of our national economy; therefore it is distinctly to our advantage to recreate a strong and healthy Europe, which in turn, will mean a larger market for American goods.

Further, we have a commitment to the United Nations to support the freedom and independence of our fellow members in the world organization.

XIV. *What Will Be the Cost?*

The Foreign Assistance Act provides that the Congress must review the program every year and vote on the appropriation for the year to come.

Because the program began in April 1948, an additional sum was later appropriated, covering three months, in order to bring the program in line with the government fiscal year.

Funds available to date are as follows:

From April 1948 to April 1949 . ..	$5,013,000,000
From April 1949 to July 1949	1,074,000,000
From July 1949 to July 1950	3,778,380,000

XV. *How Will Our Economy Be Affected?*

The Act provides that:

(a) No assistance may be given which would seriously impair the economic stability of the United States. Procurement must be effected in such a way as to minimize the drain upon the resources of the United States. No commodity that is in short supply here will be shipped abroad under the Marshall Plan.

(b) Participating countries will develop and make available for our stockpiling essential materials needed in the United States.

c) Goods financed under the Marshall Plan must go, at least to the extent of 50 percent, in American ships.

(d) By raising the living standards and increasing consumer capacity in the participating countries we are enlarging our foreign market.

(e) The restoration of confidence and the stimulation of free enterprise in Europe will provide a strong economic as well as political bulwark for America.

XVI. *Will Harmful Competition Develop?*

In 1948, national income of the United States amounted to approximately 250 billion dollars. Imports from Western Europe amounted to only $930,000,000, or about four-tenths of one percent of our total national income.

So even if this amount were doubled it would still be less than one percent of our total income.

In 1929, when the United States income was only 100 billion dollars, European imports amounted to just about one percent of United States national income. Yet, though this ratio is three times as high as the current one, the impact on American domestic economy was negligible.

XVII. *What About Small Business?*

In its 1949 amendment to the Foreign Assistance Act, Congress took heed of the special interest of small business by declaring:

> "Insofar as practicable and to the maximum extent consistent with the accomplishment of the purposes of this title, the Administrator shall assist American small business to participate equitably in the furnishing of commodities and services financed with funds authorized under this title . . ."

To carry out this program the ECA has formed an Office of Small Business. The office conducts a counselling and information service in its Washington headquarters; it has also established a nationwide field-counselling service under which several hundred banks, chambers of commerce and other business service institutions inform businessmen how to get orders under ECA. To keep small business constantly informed, the office publishes periodical circulars on future purchases in the participating countries. It is also currently distributing a directory of European importers. A similar directory listing American exporters, to be distributed abroad, is now being printed with counterpart funds in London.

XVIII. *Do Tourist Dollars Help?*

Tourism ranks among Europe's greatest industries. So dollars spent by American travellers abroad are a great help to the Marshall Plan, and were so recognized by Congress in the Foreign Assistance Act, which said:

> "In cooperation with the Secretary of Commerce, the Administrator shall facilitate and encourage through private and public travel, transport and other agencies, the promotion and development of travel by citizens of the United States to and within participating countries."

Although this was modified by an amendment in 1949 that ECA dollars could not be spent in the United States for advertising foreign products or for advertising foreign travel, there is no lessening of the recognition that American tourists give substantial help by the dollars they spend in Europe, and the stimulus they provide directly and indirectly to European trade and industry.

PART FIVE: HOW IT HAS PROGRESSED

XIX. *What are the Stages in the Recovery Program?*

Western Europe's recovery involves two major operations:

1. Rehabilitation.
2. The development of new patterns of European trade and exchange to make better use of Europe's resources and enable the participating countries to compete and prosper in the modern world with a higher standard of living.

XX. *What Has Been Accomplished?*

By the end of 1949, production was averaging 18% above 1938. This achievement is particularly impressive when reviewed against the threatened collapse of Europe in 1947.

The high production level was reflected, for instance, in the output of coal, which approached ample supply near the close of 1949.

Despite drought and other unfavorable conditions, agricultural production for 1949-50 was estimated at about 98 percent of prewar level and about 20 percent above 1947. Food availability was virtually equal to prewar from the caloric standpoint, and its distribution among various classes of the population was more equitable than before the war, with resultant improvement in general physical well-being, especially among the children.

The inflation of the immediate post-war years has been brought under control, and though the need for currency devaluation became apparent by the summer of 1949, financial conditions remained remarkably stable.

There is more efficient use of manpower in Marshall Plan countries than before the war, along with a growing recognition that more mechanical aids and electric power, a regular flow of materials, and better plant layouts are necessary to greater production. Higher productivity is essential to lower costs, greater exports, and a higher standard of living.

XXI. *Is the Program On Schedule?*

The Marshall Plan is ahead of schedule. But that does not mean that our task is yet done. It means that the *first* phase of the recovery has largely been accomplished. Europe is, economically, a going concern once more. The job of getting its existing productive plants back into operation is well advanced, and the people of Western Europe are now working and eating. But those already existing plants are not yet good enough, and their productivity is not yet high enough to enable Europe to survive in the modern world.

PART SIX: HOW MUCH REMAINS TO BE DONE?

XXII. *What Is Europe's Part?*

Before Western Europe can become independent of U. S. aid, she must reach a point where her dollar earnings will be substantially in line with her expenditures.

To accomplish this, not only the volume but the nature of European output must be improved. New merchandising methods and organizations must be developed. Competition must be restored. Costs of production must be lowered. New trade patterns must be found. New incentives for exporters must be provided.

Furthermore, there must be easier access to the whole Western European market for all its producers, just as in the United States there is free trade among the 48 states. Our population is now 150 million, but the population of Western Europe is approximately 250 million; so the potentialities of a single, non-compartmentalized European market are great.

It is a slow and difficult process to bring about economic integration between nations separated by centuries of nationalism, but, under the pressure of great urgency, progress is now being made by the participating countries to achieve this vital objective of the Marshall Plan.

But even with her whole market fully developed, Europe *must* export to the dollar areas in order to purchase the commodities and services which are vital to her. Only in this way can the balance of trade be restored.

XXIII. What Is Our Part?

Our part is primarily to assume our new responsibilities as the leading creditor nation in the world. We must recognize that our own economic position in the world has changed. We entered World War I as a debtor and emerged as a creditor, and ever since, we have had to extend increasingly large credits to the world. So there is nothing new in the "dollar gap" (the difference between the amount we sell and the amount we buy); it has been growing steadily for thirty years, but it is only now that we are beginning to realize its dangerous implications.

In 1948 we exported 6 *billion dollars more goods and services than we imported.* How is this difference made up? Mainly through subsidies in the form of grants and loans from the United States. The American taxpayer, who is carrying this burden, has therefore a direct interest in closing the dollar gap as soon as possible.

Aside from a larger flow of American private investment abroad, under Point IV, there are two ways in which we can deal with this problem:

(a) We can close the gap by letting our exports sink to the level of our imports. It is obvious that the resulting loss of billions of foreign trade would seriously damage our entire economy.

OR

(b) We can close the gap by adopting policies that will permit greatly increased purchases of goods and services from the participating countries, from their dependences and from other areas.

It is not a question of buying from abroad things that we do not want. It is rather a question of stimulating other countries to exert strong efforts to produce and sell us the things we want; and it is a further question on our part of not maintaining or raising barriers to prevent these countries from earning their way by selling desirable goods and services in our market.

Expanded sales in the United States are the main solution to the dollar gap problem. They will provide the dollars to maintain our own export markets. They will help build our stockpiles of essential raw materials and, over a wider field, retard the depletion of our own natural resources. But to accomplish this we must remember that in order to sell, we must also buy.

"Trade is a two-way street"