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Series : Bretton Woods, the World Bank and the IMF: 70th
anniversary (Part 5)

Why the Marshall Plan ?

- Features -

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As its initial name indicates (International Bank for reconstruction and development), the World Bank (WB) had two main objectives:

- 1. bring financial support to the reconstruction of the countries that had been devastated by the Second World War;**
- 2. grant loans to contribute to the development of backward countries (as developing countries were then called). The US, that call the music at the WB and on the international scene, decided that they would do without the WB for their reconstruction mission in Europe and unilaterally set up a large financial programme intended to restore the European productive apparatus in the countries within their orbit.**

The Marshall Plan replaced the World Bank's intervention since the US came to the conclusion that reconstruction gifts to Europe would be more efficient and cost-effective than loans. This bilateral policy aimed to buttress the capitalist Western block spearheaded by Washington against the Eastern bloc dominated by the USSR.

The US government had learned from the mistakes made in the 1920s and 1930s

At the end of the first World War, the Treaty of Versailles, imposed on Germany the payment of huge compensations for war debt and reparation [1]

. Germany soon found it difficult to pay and this led to social discontent. The Wall Street crash that occurred in 1929 brought on a global economic crisis. The US drastically reduced capital outflow. Germany stopped paying its debt to France, Belgium and Britain, and these countries in turn stopped paying their debts to the United States. The more industrialized world sank into recession and massive unemployment, and international trade plummeted.

To prepare for a different outcome after WWII, Washington decided on policies that would be completely different from those implemented after WWI and until the early 1930s. It set up the Bretton Woods institutions and the United Nations. This was the international institutions approach.

We now analyse this bilateral economic policy developed by the United States.

Give rather than lend money

The US government's major concern at the end of the Second World War was to maintain the full employment that it had achieved thanks to the tremendous war effort. It also wanted to guarantee that there would be a trade surplus in relations between the US and the rest of the world. [2] But the major industrialized countries that could import US commodities were literally penniless. For European countries to be able to buy US goods they had to be provided with lots of dollars. But how? Through grants or through loans?

To put it simply, the US reasoned as follows: if we lend to our European allies the money they need to rebuild their economy, how are they going to pay us back? They will no longer have the dollars we lent them since they used them to buy from us. In all, there were three possibilities.

First possibility, Europe pays back in kind. If this happens European goods will compete with ours on our home market, full employment will be jeopardized and profits will fall. This is not a good solution.

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Second possibility, Europe pays back with dollars. They cannot use the dollars they received on loan to pay us back since they have used them to buy our goods. Consequently, if they are to pay us back, we have to lend them the same amount again, plus interest . The risk of being caught in an infernal cycle of indebtedness (which puts a stop to or slows down the smooth running of business) is added to the risk attached to the first possibility. To reduce their debts towards us the Europeans they will try to sell their goods on our home market. They will thus get some of the dollars they need to pay us back, but this will not be enough to rid them of their debts and it will endanger employment in the US. [3]

We are left with the third possibility: we give Europe the money with which to recover. "rather than lend to Europeans (through the World Bank or otherwise) it seems appropriate to give them the dollars they need to build up their economy within a fairly short time. Europeans will use these dollars to buy goods and services from the US. This will guarantee an outlet for US exports which will help to maintain full employment. Once economic reconstruction is achieved Europeans will not be riddled with debts and will be able to pay for what they buy from us".

The US authorities thus concluded that it would be better to proceed by grants, and therefore launched the Marshall Plan.

The Marshall Plan [4]

The Marshall plan, officially known as *The European Recovery program*, was named after George Marshall the US Secretary of State who first announced the plan.

Between 1948 and 1951 the United States devoted over thirteen billion US dollars (eleven of which were grants) to restore the economy of seventeen European countries in the context of the Organisation for European Economic Cooperation (OEEC, today OECD). The total of US aid amounted to approximately 120 billion of today's US dollars. The United States demanded a number of commitments in exchange for their aid: first, European countries had to coordinate reconstruction expenses within the OEEC. The United States thus contributed to European cooperation, a prelude to the construction of Europe in order to reinforce the Western bloc against the Soviet bloc. Then they demanded that the money received be used to buy US produced goods .

Table of expenses involved in the Marshall plan

Economic assistance from 3 April 1948 to 30 June 1952 (in millions of USD of the time)

Countries	Total	Grants	Loans
Total for all countries	\$13,325.8	\$11,820.7	\$1,505.1
Austria	677.8	677.8	â€"
Belgium-Luxembourg	559.3	491.3	68.0 a
Denmark	273.0	239.7	33.3
France	2,713.6	2,488.0	225.6
Germany (FR)	1,390.6	1,173.7	216.9
Greece	706.7	706.7	â€"
Iceland	29.3	24.0	5.3

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Ireland	147.5	19.3	128.2
Italy (including Trieste)	1,508.8	1,413.2	95.6
Netherlands (*Indonesia) b	1,083.5	916.8	166.7
Norway	255.3	216.1	39.2
Portugal	51.2	15.1	36.1
Sweden	107.3	86.9	20.4
Turkey	225.1	140.1	85.0
United Kingdom	3,189.8	2,805	384.8
Regions c	407.0	407.0	â€”

Notes:

- a. The loan included 65 million for Belgium and 3 million for Luxembourg.
- b. Marshall plan support to the Dutch East Indies (Indonesia) was transferred to the Netherlands after the former became independent on 30 December 1949.
- c. Included the US contribution to the European Payments Union (EPU), a European social fund: \$361.4 million.

Such financial bounty was primarily intended to support those trade unions that resisted the communist influence.

To those grants in the framework of the Marshall Plan we must add the partial cancellation of France's debt to the US in 1946 (2 bn USD were written off). Similarly Belgium benefited from a reduction of its debt to the US as compensation for the uranium provided to make the first two atomic bombs which were dropped on the Japanese cities of Hiroshima and Nagasaki causing the first nuclear holocaust. The uranium had been extracted from the mine of Shinkolobwé (near Likasi, then Jadotville) located in the province of Katanga in the Belgian Congo. In the first instance: Belgium was granted debt cancellation thanks to the natural resources from its colony, which it lavishly exploited. Then: some fifteen years later, Belgium transferred, to the newly independent Congo, the debts it had incurred in order to exploit those natural resources as well as its population (see "Odious loans to colonial powers" <http://cadtm.org/The-World-Bank-assists-the>).

Conclusion :

From the end of the second World War until today major powers have refused to implement a Marshall plan for developing countries (with two exceptions, South Korea and Taiwan, see below). Loans with interest have been the main instrument used to allegedly finance the Third World's development. Such refusal shows that creditors do not really want these countries to develop and be rid of their debts. Creditors consider that it is in their better interest to maintain developing countries in a permanent state of indebtedness so as to draw maximum revenues in the form of debt reimbursement, but also to enforce policies that serve their interests and to make sure that they remain loyal partners within the international institutions.

What the United States had done through the Marshall Plan for industrialized countries that had been ravaged by war they exceptionally repeated towards South Korea and Taiwan, two allied developing countries at strategic locations on the outskirts of the Soviet Union and China. As from the 1950s these two countries received significant aid, that largely

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contributed to their economic success.

From 1954 to 1961, for example, South Korea received more grants from the United States than the WB lent to all independent Third World countries (India, Pakistan, Mexico, Brazil and Nigeria included), put together, over \$2,500 millions against \$2,323 millions. Because it was strategically located in relation to China and the USSR, a small farming country like South Korea benefited from US largesse. During the same period Taiwan received about \$800 million. [5] The WB and the United States were tolerant towards economic policies in Korea and Taiwan that they deemed unacceptable in Brazil or Mexico. This was developed in a study on South Korea between 1945 and the 1990s (see Eric Toussaint, "South Korea : the miracle unmasked", published in 2006, <http://cadtm.org/South-Korea-the-miracle-unmasked>).

[Cadtm](#)

[1] John Maynard Keynes, who worked for the British Treasury, had participated in the negotiations leading to the Treaty of Versailles (1919), the peace settlement that was signed after World War One ended. As he was against demanding such heavy compensations from Germany, he resigned from the British delegation and subsequently published *The Economic Consequences of the Peace* (Keynes, 1919). See:

<http://www.gutenberg.org/files/15776/15776-h/15776-h.htm>

[2] This is indeed what happened: the US trade balance, which used to be in deficit, showed surpluses until 1971. In other words the US exported more than they imported.

[3] "Repayment in the form of imports has been traditionally opposed in this country on the ground that it causes competition for domestic producers and contributes to unemployment" Randolph E. Paul. 1947. *Taxation for Prosperity*, Bobbs-Merrill, Indianapolis, quoted by PAYER, Cheryl. 1991, *Lent and Lost, Foreign Credit and Third World Development*, Zed Books, London, p.20.

[4] Information and table taken from the French page of Wikipedia:

http://fr.wikipedia.org/wiki/Plan_Marshall

[5] The author's computation. Sources: 1) WB's annual reports 1954-1961, 2) US Overseas Loans and Grants (Greenbook)

<http://qesdb.cdie.org/gbk/index.html>