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U.S. Aid to the Developing World

A Free Market Agenda

5

The Marshall Plan: Myths and Realities

Tyler Cowen

The Marshall Plan revitalized postwar Western Europe, contained Soviet expansion, stopped the spread of communism, helped preserve the European capitalist tradition, powered tremendous economic growth, and helped save the U.S. economy from a postwar depression. Or so conventional wisdom would have it. Winston Churchill once referred to the Marshall Plan as "the most unsordid act in all of history." Few American policies have been treated so reverently by historians.

The Marshall Plan is more than a historical event—it has become a modern myth. As such, it may be mostly true or mostly false, but it exercises a powerful hold over reality. And the perceived success of the Marshall Plan has influenced American foreign aid policy since the late 1940s. Nearly all of the U.S. foreign assistance programs of the 1940s and 1950s, for instance, were conceived with the Marshall Plan explicitly in mind.[1] Since the late 1940s, many Latin American leaders have been calling for a "Marshall Plan for Latin America."[2] President Ronald Reagan's Caribbean Basin Initiative bears the stamp of Marshall Plan influence, and a more comprehensive aid plan for Latin America has been advocated by the Reagan Administration. On March 5, 1983, for example, U.S. Ambassador to the United Nations Jeane Kirkpatrick said that "Washington should initiate a major economic aid program for Central America similar to the Marshall Plan in Europe after World War II."[3]

Perhaps even more important than the Plan's impact on any particular political attitude has been its influence on the general perception of the

[1] See David Gordon, "United States Foreign Aid in Perspective," *Current History*, July-August 1979.

[2] Robert Alexander, "Diminishing U.S. Aid in Latin America," *Current History*, July-August 1979.

[3] *New York Times*, March 6, 1983.

U.S. role in the world as a supplier of foreign aid. Before the 1940s, foreign aid was not a continuing issue in American politics. Since the 1940s, nearly everyone seems to believe that foreign aid can work and that it is up to America to produce the successful formula. The Marshall Plan then is wheeled out as an example of successful foreign aid. While it has become fashionable to admit the Marshall Plan experience cannot be directly applied to the problems of Third World nations,[4] there is still an implicit presumption that the Plan is somehow indirectly relevant. The success of the Marshall Plan is never questioned; the only issue is how to remodel the blueprint in order to suit the needs of the developing world.

The historical reality of the Marshall Plan does not necessarily match the popular myths. As such, serious questions about foreign aid are raised. For if the most highly acclaimed foreign aid program of this century—if not of all Western history-was but a limited success at most, then foreign aid as a concept should be critically reexamined. Because the Marshall Plan has been almost universally treated reverently, it is necessary to examine closely its shortcomings.[5]

The genesis of the Marshall Plan is to be found in Secretary of State George Marshall's famous speech at Harvard University on June 5, 1947, in which Marshall alluded to a comprehensive aid program to spur Europe's recovery.[6] Marshall noted that "Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos."[7] The details of the Marshall Plan—also known as the European Recovery Program (ERP)—were fleshed out the following year in a series of Allied meetings. The concurrent Greek and Turkish crises and the Truman Doctrine influenced the Plan. The ERP became the keystone of American policy toward Europe, being intended to solve

[4] See Robert Packenham, *Liberal America and the Third World* (Princeton, New Jersey: Princeton University Press, 1973).

[5] Little attention is given to the effect of the Marshall Plan on Great Britain, because even the few partisans of American aid claim it did that country much good. The Marshall Plan simply subsidized British socialism and colonialism. Great Britain received more Marshall Plan aid than any other nation but had the lowest postwar growth rate of any nation in the European community.

[6] The following information comes from a number of generally accepted sources. H.B. Price, *The Marshall Plan and its Meaning* (Ithaca, New York: Cornell University Press, 1955) and W.A. Brown and R. Opie, *American Foreign Assistance* (Washington, D.C.: Brookings Institution, 1953) provide the best summaries. Our summary follows the orthodox interpretation—see J. Kolko and G. Kolko, *The Limits of Power: The World and U.S. Foreign Policy, 1945-1954* (New York: Harper and Row, 1972) for a revisionist account.

[7] Hadley Arkes, *Bureaucracy, the Marshall Plan, and the National Interest* (Princeton, New Jersey: Princeton University Press, 1972), p. 3.

several problems simultaneously. Not only would European recovery be encouraged and Soviet influence limited, but the economic resuscitation of Germany would be made possible in a manner acceptable to the other Allied nations.

America offered Marshall Plan aid to all European nations except Spain, but the Soviet Union and Eastern bloc nations refused to participate for reasons that remain somewhat unclear. On April 2, 1948, the Economic Cooperation Act was passed by Congress, implementing the Marshall Plan. The bill outlined a four-year, $1.7 billion system of grants for European nations to buy U.S. products—amounting to aid of unprecedented scope. Assistance was officially given to promote industrial and agricultural production, attain and maintain internal financial stability, and stimulate trade within Europe and with the outside world. The Economic Cooperation Administration (ECA) was created to oversee and direct the aid program.

Myths of the Marshall Plan

There are five myths that have become particularly important parts of the Marshall Plan legend.

Myth No. 1: The Marshall Plan was a significant factor in West European postwar recovery.

Although the Marshall plan has received a tremendous amount of publicity, its actual financial impact was quite small. At no time did Marshall Plan aid ever exceed 5 percent of the gross national product of the recipient nations.[8] And the assistance totals were miniscule compared to the growth that occurred in the 1950s.

More important, the so-called "dollar shortage" was not the critical problem facing Europe at the time; bad economic policy was the true culprit. In nearly every country occupied by Germany during the war, the stringent system of Nazi economic controls was continued even after the country was liberated. And in each case, rapid economic growth occurred only after the controls were lifted and sound economic policy established. This happened irrespective of the timing and extent of Marshall Plan aid. The restoration of liberal regimes, relative monetary and fiscal stability, business confidence, a general willingness to support the postwar rebuilding effort, and the economic integration of the Continent were the primary factors behind the resurgence of the European economies, factors not always encouraged by the Plan. In fact, those countries receiving relatively large amounts of aid per capita, such as Greece and Austria, did not recover economically until U.S. assistance was winding

[8] *Ibid.*

down. Meanwhile, Germany, France, and Italy began their recovery before receiving Marshall Plan funds.[9]

The German economic recovery is both the most miraculous example of European postwar economic growth and the most often cited example of a Marshall Plan success. Thus, it deserves a closer look.

American aid never exceeded 5 percent of West Germany's GNP, even in 1948-1949, at the height of ECA assistance. At the same time, Allied occupation costs and reparations absorbed from 11 to 15 percent of West Germany's GNP.[10] U.S. policies, therefore, caused German resource problems—did not cure them. The net economic transfers out of West Germany loom even larger because throughout the mid-1950s Bonn repaid half of its ECA aid.

The West German suffering during this period resulted primarily from ill-conceived economic policies, not plant dismantlings and reparations. The Allied Control Commission (ACC) continued the Nazi system of economic controls,[11] involving not only price controls and production quotas, but also conscription of resources, including labor. Rent controls seriously exacerbated the housing shortage that had resulted from wartime bombing of German cities and the influx of over five million refugees from the East. The ACC raised taxes by an average of 50 percent.[12] In 1945-1946, Germany was allowed no foreign trade,[13] a prohibition that was only gradually relaxed. Although most of the German populace were consuming food at a rate just slightly above the starvation level, the Allies forced Germany to refuse numerous barter deals, like food for coal and steel, offered by other European nations.[14] In addition, the ACC limited West German industrial output to levels ranging from 10 to 70 percent of those in the mid-1930s.[15] Until mid-1948, the German economy hobbled

[9] See George Hildebrand, *Growth and Structure on the Economy of Modern Italy* (Cambridge, Mass.: Harvard University Press, 1965), and Warren C. Baum, *The French Economy and the State* (Princeton, N.J.: Princeton University Press, 1958), *passim*. These are excellent books on the respective recoveries of Italy and France.

[10] Karl Hardach, *The Political Economy of Germany in the Twentieth Century* (Berkeley, California: University of California Press, 1963), p. 163. Both Hardach (p. 101) and John Gimbel, *The Origins of the Marshall Plan* (Stanford, Calif.: Stanford University Press, 1976), p. 175, have claimed that German reparations figures have been underestimated.

[11] Nicholas Balabkins, *Germany Under Direct Controls* (New Brunswick, New Jersey: Rutgers University Press, 1964), p. 169.

[12] *Ibid.*, p. 185.

[13] Ludwig Erhard, *Germany's Comeback in the World Market* (London: George Allen and Unwin, 1954), p. 51.

[14] Balabkins, *op. cit.*, pp. 124-125.

[15] Gustav Stolper, Karl Hauser, and Knut Borchardt, *The German Economy: 1870 to the Present,* (New York: Harcourt, Brace and World, 1967), p. 183.

along at a near subsistence level, sustained only by black markets and private scavenging.

West Germany's upturn really began on June 20, 1948, when the Allies instituted currency reform, effectively "tenthing" the money supply, that is, bringing the money supply to one-tenth its initial level. The old Reichsmark became a Deutsche-mark in one of the most drastic deflations ever. Since prices had been controlled since 1936 throughout a period of rampant increase in the money supply, currency reform was desperately needed. The average German standard of living shot up within hours of the currency reform,[16] as people became fully willing to accept currency in return for goods and services.

Less than one month later, Ludwig Erhard, German economic director of Bizonia (the postwar American-British occupation zone), pushed the German economy further onto the right track. One Sunday, when everyone else had left their offices, Erhard defied orders and issued an edict abolishing most of the Allied economic controls. When Erhard was called on the carpet the next day, legend has it that the following dialogue took place:

> One U.S. Army colonel demanded: "How dare you relax our rationing system when there is a widespread food shortage!"
>
> Erhard replied: "But Herr Oberst, I have not relaxed rationing; I have abolished it! Henceforth, the only rationing ticket the people will need will be the deutschemark. And they will work hard to get these deutschemarks, just wait and see . . ."
>
> General Lucius Clay: "Herr Erhard, my advisors tell me you are making a terrible mistake."
>
> Erhard: "Don't listen to them, General, my advisors tell me the same."[17]

Erhard's free market philosophy worked well. Monthly production indices rose at rates that exceeded many later yearly increases. The West German economic miracle was underway. Several months later, Marshall Plan aid began to arrive. The West German miracle was sustained through a combination of sound monetary policy, supply-side fiscal policy, and a relatively free market.[18]

The Belgian experience contrasts that of Germany. In October 1944, only one month after liberation, the Belgian government froze all note issues, devalued the currency, and embarked upon a deflationary fiscal

[16] Edwin Hartrich, *The Fourth and Richest Reich* (New York: MacMillan, 1980), p. 131.

[17] See Hartrich, *op. cit.*, p. 13; Hardach, *op. cit.*, p. 145.

[18] See Erhard, Stolper, Henry Wallich, *Mainsprings of the German Revival* (New Haven, Conn.: Yale University Press, 1955), and Egon Sohman, "Competition and Growth: The Lesson of West Germany," *American Economic Review,* 1959, on German economic growth after the war.

policy designed to soak up "excess" cash balances.[19] This policy was designed to counteract the rampant wartime monetary expansion that the Nazis had forced upon occupied Belgium. The new policy was a success—by June 1946 the total money supply was growing at a quarterly rate of only 2.2 percent,[20] a remarkably low figure for that period. This tight money policy was combined with liberal import practices and conservative fiscal policy.[21]

Price controls, especially on rents, were kept to a minimum.[22] As a result, Belgium never experienced the severe shortages of food and housing that plagued most of the Continent.[23] In fact, the Belgian economy was so resilient that the country was a significant creditor to the rest of Europe throughout the late 1940s and early 1950s. A study by Twentieth Century Fund[24] noted that Belgium recovered the fastest from the war and placed the greatest immediate reliance upon capitalism. The Belgian recovery thus was due to sound economic policy and predated U.S. aid.

Myth No. 2: The Marshall Plan encouraged the development of free enterprise and sound economic policy.

Proponents of the Marshall Plan have argued that American economic influence pushed Western Europe in the direction of free trade and a market economy. Leftist critics of the Marshall Plan, such as Joyce and Gabriel Kolko, have helped cement this myth by alleging that the ECA "forced" capitalism upon an otherwise recalcitrant Europe.

The truth is that those directing postwar U.S. foreign economic policy had strong interventionist sympathies; when faced with any problem, their instinct was to seek a governmental solution. Furthermore, the very structure of the Marshall Plan encouraged state planning. As Harry Bayard Price observed:

> ...administration of the aid program influenced governments in many cases to increase economic planning and controls. To demonstrate their economic needs and how they proposed to bring about recovery, they expanded the apparatus for central supervision of their economies.[25]

[19] See Leon Dupriez, *Monetary Reconstruction in Belgium* (New York: King's Crown Press, 1947), and Snelling Brainard, *Some Lessons from Belgian Monetary Experience Following World Wars I and II*, Harvard thesis, 1949, for a detailed description of this effort and the resulting success.
[20] Dupriez, *op. cit*, p. 70.
[21] See Melchoir Palyi, *The Dollar Dilemma: Perpetual Aid to Europe?* (Chicago: Henry Regnery Co., 1954), p. 89.
[22] See Brainard, *op. cit.*, p. 57; Palyi, *op. cit.*, p. 85.
[23] See Palyi, *op. cit.*, p. 85; Dupriez, *op. cit.*, Chapter VI.
[24] *Europe's Needs and Resources* (New York: Twentieth Century Fund, 1951), p. 754.
[25] Price, *op. cit.*, p. 318. This book is usually considered the definitive study of the Marshall Plan.

U.S. aid, for instance, is widely regarded as a driving force behind economic centralism in France. Richard Kuisel has noted that "The United States supplied the first [Monnet] plan with equipment and materials, credits, and its expansionist economic philosophy... even the idea of how a planning unit should function owed much to Anglo-American advice."[26]

Italy, moreover, seemed to be seeking market solutions for some of its economic problems but was actively hindered by ECA administrators. The Americans in charge of the ECA in Italy continually were expressing concern about the Italian governments's "excessive" attention to balancing budgets and controlling monetary expansion. U.S. advisors urged Italy to undertake a coordinated public investment program and extensive Keynesian aggregate demand management policies.[27] In 1949-1950, American officials finished a study of the Italian economy without mentioning stringent migration controls across municipalities and rent controls, perhaps Italy's two worst pieces of economic legislation. Once again, the recommendations involved Keynesian macroeconomic policies.[28]

State intervention was built into the Marshall Plan in other ways as well. Example: for every dollar that the ECA gave a foreign government, that government had to set aside an equivalent amount of domestic currency to be used for public works, public investments, and similar state projects.[29] As a result, every U.S. dollar sent to a foreign government caused that government to take another from its own private sector.

The Marshall plan also subsidized the extensive postwar monetary and fiscal policies that caused enormous problems for many West European governments. Government-to-government transfers make it easier for governments to live beyond their means and to postpone needed belt tightening. In the case of France, ECA appropriations allowed Paris to continue expending resources to retain France's colonial empire.[30] Nearly all of the Marshall Plan aid to France in 1949-1950 was offset by French military expenditures in territories abroad, primarily in Indochina. By 1953, France was spending 373.6 billion francs a year in Indochina and 42.4 billion francs in North Africa, figures that include neither the costs of air and naval operations nor equipment.[31]

[26] Richard Kuisel, *Capitalism and the State in Modern France* (New York: Cambridge University Press, 1981), p. 224. Also see Baum, *op. cit.*, pp. 21-22.
[27] Hildebrand, *op. cit.*, pp. 36-37.
[28] *Ibid.*, p. 37.
[29] See Paul Hoffman, *Peace Can Be Won* (Garden City, New York: Doubleday and Co., 1951), pp. 91-92 for a description of this procedure. Five percent of this money went to the ECA to cover administrative costs.
[30] J. Carre, P. Dubois, and E. Malinvaud, *French Economic Growth* (Stanford, Calif.: Stanford University Press, 1975), p. 290.
[31] Baum, *op. cit.*, p. 121.

Foreign assistance always effectively subsidizes the most objectionable practices of the recipient government, because earmarking the funds does no good. If the money is sent, say, for bread, the old "bread funds" will be shifted to the objectionable activity.

For its first two years, the Marshall Plan also was closely linked to a complicated system of intra-European credits and debits ostensibly designed to clear payment balances across nations and help restore trade relations. Under this system, countries that ran high deficits were granted additional drawing rights which effectively amounted to claims on the resources of their neighbors, particularly those running trade surpluses or low deficits.[32] Countries avoiding serious trade deficits, such as Germany, Holland, Switzerland, and Belgium, thus were penalized; their less prudent neighbors, such as France, Greece, Norway, and Austria, were subsidized. Ludwig Erhard claims that Belgium lost 80 percent of its U.S. aid through this system.[33] Thus, instead of curing the "dollar gap," the Marshall Plan redistributed the shortages of different nations in a way that created counterproductive incentives for both exporters and importers. Erhard, for example, claimed that many creditors actually cut back their exports to debtor nations for fear that future drawing rights would be granted to the importer.[34]

A frequently cited Marshall Plan benefit is that it increased the trade contacts between members of the Atlantic community. While there is truth to this, the Marshall Plan disrupted other trade relationships. For instance, on March 11, 1949, the *New York Times* reported that "United States tractor exporters with the support of ECA missions are successfully persuading the French and other Western governments not to shift purchases from United States products to Italian." More significantly, Marshall Plan exports of tobacco, primarily to West Germany, seriously damaged the Greek tobacco industry. Prior to the war, tobacco accounted for 50 percent of all Greek export earnings and was a critical source of foreign exchange.[35] By 1947, Greek tobacco sales had fallen to 35 percent of their prewar level, but still amounted to the respectable figure of 17,300 tons per year. The first year of the Marshall Plan, however, funded the export of 40,000 tons of American tobacco to Europe.[36] Greek tobacco exports fell to 2,500 tons a year[37] and never recovered. Turkey, Rhodesia, and Algeria also found their tobacco exports diminished by ECA allocations.

[32] See Erhard, *op. cit.*, p. 100, for a discussion of the perverse incentives created.
[33] *Ibid.*, p. 101.
[34] *Ibid.*, p. 102
[35] L. S. Stavrianos, *Greece: American Dilemma and Opportunity* (Chicago: Henry Regnery, 1952), p. 194.
[36] Kolko and Kolko, *op. cit.*, p. 445.
[37] Stavrianos, *op. cit.*, p. 194.

The Marshall Plan significantly affected the volume of trade between East and West Europe as well. All of the countries participating in the Marshall Plan were required to accept American export licensing regulations regarding Eastern Europe. Among other things, this meant that "military related" items could not be sold to the East bloc.[38] "Military related" was defined in such a manner as to include most machinery, chemicals, medicines, and even typewriters.

The experience of Greece, where American advisors exercised considerable control over the economy, further demonstrates the Marshall Plan's problematic influence on European economic policy.[39] In addition to its civil war, Greece was burdened with an economy paralyzed by a rigid system of economic controls and the resulting corruption and lawlessness that resulted from it.[40] Throughout the late 1940s and early 1950s, the Greek economy was wracked with huge import and foreign exchange scandals resulting from government restraints on trade.[41] Yet the American members of the Greek Foreign Trade Administration pushed for tighter price and exchange controls instead of a move toward freer markets.[42] As more American aid was funneled through the Greek government, graft and corruption increased. Major scandals were being uncovered monthly.[43] It was only in 1953 that Greece began to recover—the year when U.S. aid was cut to $25 million. This was the first postwar year when the Greek government balanced its budget.[44] Few partisans of the Marshall Plan remind us that the American experiment in Greece was originally dubbed the "mini-Marshall Plan" because it was considered a microcosm of the larger effort.

Austria fared considerably better during this period in spite of the ECA. At the end of the war, the Austrian economy was probably the most desperate in Western Europe. Hence, the Austrians received large quantities of American aid. During the first year of the Marshall Plan, Austria was given $280 million, the largest sum per capita in Europe.[45] Yet the Austrian economy failed to recover, not only because the Nazi system of economic controls remained basically intact, but because of flawed monetary and fiscal policies and the ECA's discouragement of trade with Eastern Europe.[46]

[38] Price, *op. cit.*, p. 169.
[39] Palyi, *op cit.*, p. 58.
[40] *Ibid.*, p. 57; Stavrianos, *op. cit.*, p. 195.
[41] Stavrianos, *op cit.*, p. 195.
[42] *Ibid.*
[43] *Ibid.*, p. 214.
[44] Palyi, *op cit.*, p. 59.
[45] K. W. Rothschild, *The Austrian Economy Since 1945*, Royal Institute for International Affairs, 1950, p. 67.
[46] *Ibid.*, p. 14, 58, 71.

From 1951-1953, however, Marshall Plan aid to Vienna was cut drastically, from $127.6 million to $91.4 million to $38.5 million.[47] At the same time, the Austrian economy started to improve, as the government changed monetary and fiscal policies. Even Marshall Plan supporter Franz Nemschak admitted that "The radical cuts in foreign aid in the last year of the Marshall Plan and the stabilization tendencies in the world economy forced Austria to make a basic change in economic policy."[48] Due to an extremely tough anti-inflation policy, prices were actually falling by the end of 1952, while the economy continued to grow.[49] Savings jumped from 77 million schillings yearly to 1,000 million schillings yearly. In 1953, chronic debtor Austria had a dollar surplus of $70 million[50] and was well on her way to continued rapid economic growth throughout the rest of the decade.

Myth No. 3: The Marshall Plan boosted the American economy.

Many observers argue that the Marshall Plan restored prosperity in Western Europe and that this spurred additional economic growth for the U.S.

It also is said that the Marshall Plan prevented the recurrence of the depression by stimulating European demand for the output of U.S. businesses. This claim is increasingly being disputed. The "underconsumption" theory of depressions is now held in low repute and is being displaced by theories emphasizing monetary and fiscal disruptions as the cause of business downturns. In addition, the $17 billion given to the Marshall Plan resulted in the loss of $17 billion worth of goods and services to the U.S. domestic economy.

Myth No. 4: The operation of the Marshall Plan was not strongly influenced by domestic U.S. special interests.

While it is commonly acknowledged that such foreign trade and investment programs as the Export-Import Bank and the Commodity Credit Corporation often serve the interests of particular U.S. businesses and banks, the Marshall Plan usually has been considered beyond reproach. Both popular and scholarly opinion depicts the Marshall Plan as a near ideal pluralistic and humanitarian foreign aid program whose aims were not corrupted by the operation of pressure groups and special interests. However, reality is entirely different.

The very conception of the Marshall Plan implied that it was partially designed to serve special business interests. Before the ECA went into

[47] Franz Nemschak, *Ten Years of Austrian Economic Development: 1945-1955* (Vienna: Association of Austrian Industrialists, 1955), p. 28.
[48] *Ibid.*, p. 13.
[49] *Ibid.*, pp. 13-14.
[50] *Ibid.*

operation, a sizable share of U.S. aid was administered through the United Nations. The U.N. did not stipulate, of course, that U.S.-provided dollars be used to purchase American goods, nor did it earmark specific commodities to be purchased. In contrast, all of the aid channeled through the ECA was linked to purchases of particular U.S. goods and services. In this regard, the Marshall Plan subsidized some U.S. businesses at the expense of the U.S. taxpayer.[51] The original Marshall Plan legislation, for instance, required that at least half of all U.S.-financed ECA goods be shipped in vessels of American registry with American insurance. Even Paul Hoffman, head of the ECA, admitted that this stipulation cost "millions of dollars,"[52] because American vessels were not always the cheapest available. Another requirement was that one-quarter of the wheat shipped had to be in the form of flour, a more expensive commodity.

The Virginia tobacco manufacturers were particularly influential at ECA. In the early years of the Marshall Plan, Europe was desperate for farm equipment and had put in a number of urgent requests for tractors and other kinds of farm machinery. Yet, as of June 30, 1949, the ECA had shipped only $40 million of farm equipment,[53] while managing to send $111 million (or 40,000 tons) worth of tobacco.[54] Meanwhile, in 1948, per capita ECA exports of dried fruit to the Bizonia zone were 2½ times the U.S. per capita consumption of dried fruit.[55] The same year, more than 175 million pounds of expensive, inferior-quality spaghetti were shipped to Italy.[56] This period also saw the shipment of 65,000 trucks to Europe, despite the dreadful condition of Western Europe's roads and the serious gas shortage.[57]

The influence of special interests was described by Colonel Andrews, Chief of Food Procurement for the U.S. Army Civilian Supply Program in Germany.[58] He noted that, because the U.S. was producing more peanuts than could be profitably sold in the U.S., the Department of Agriculture was pushing peanut sales for Marshall Plan funds. The result:

[51] Philip Burch, *Elites in American History* (New York: Holmes and Meier, 1980), Vol. III, p. 100. As Burch notes, this does not necessarily imply that each of these figures participated in order to reap direct pecuniary rewards. It only means that the Marshall Plan had a general "pro-business" (as opposed to pro-free enterprise) outlook.
[52] Hoffman, *op. cit.*, p. 59.
[53] ECA, *Paid Shipments*, June 30, 1949.
[54] *Ibid.*
[55] U.S. Department of Commerce, *Foreign Trade Report, FT 410*, 1948.
[56] Kolko and Kolko, *op. cit.*, p. 445.
[57] *Ibid.*
[58] Foreign Aid Appropriations Bill for 1950, hearings cited, pp. 914-915. Reproduced in Perlo, *op. cit.*, pp. 150-151.

hundreds of millions of pounds of peanuts were shipped to Western Europe instead of the lard that Andrews had requested.

U.S. oil companies also benefited from the Marshall Plan. Washington discouraged the use of coal and the building of independent oil refineries in Western Europe[59] and encouraged the importation of American oil from the Mideast. As a result, oil shipments were an important feature of Marshall Plan aid, accounting for 11 percent of ECA shipments.[60] This policy was partially the result of earlier U.S. policies that had strongly encouraged American oil companies to expand Mideast production.

When U.S. companies started selling Mideast oil through the ECA, it was sold at the higher price of Texas Gulf oil plus the transport price of shipping the oil from the Texas Gulf across the Atlantic. For more than two years, the average price of oil sold to Western Europe fluctuated between $3.50 and $4.00 a barrel.[61] This figure was well over the cost of production.[62] The same Mideast oil was being shipped back to the Americas in increasing quantities at a lower price than it was sold for in Europe. If the Europeans tried to buy their oil elsewhere—and some did—they would lose the ECA subsidy that picked up the entire bill.

Myth No. 5: American postwar foreign economic policy was one of free trade and the "Open Door."

The Marshall Plan was directed at solving an important problem—the so-called dollar shortage of Western Europe. Yet this problem could have been alleviated far more efficiently by reducing trade barriers between the U.S. and Western Europe.

In fact, during this time, only 55 percent of U.S. imports were duty-free, and most of the tariffs were not trivial in size. On manufactured items, the tariff ranged as high as 30 to 40 percent,[63] and on knives with folding blades, hit 184 percent. Tariffs on minerals and raw materials were slightly lower on average, but still hit 39.5 percent on mercury, 41.3 percent on tungsten, and 33 percent on fluorspar.[64]

Agricultural goods were affected more by quotas and international marketing agreements than by tariffs, though some of the latter existed as well. In 1948, the U.S. government declared a complete embargo on

[59] Horst Mendershausen, *Dollar Shortage and Oil Surplus in 1949-1950*, Essays in International Finance (Princeton, N.J.: Princeton University, 1950), p. 13.

[60] Harvey O'Connor, *The Empire of Oil* (New York: Monthly Review Press, 1955), p. 303.

[61] Peter Odell, *Oil and World Power* (London: Penguin Books, 1979), p. 112.

[62] See Mendershausen, *op. cit.*, p. 9.

[63] *Staff Papers Presented to the Commission on Foreign Economic Policy*, Washington, D.C., 1954, p. 308.

[64] *Ibid.*, p. 231.

agricultural imports.[65] Then in the first half of 1949, the government engineered a decrease in European imports by one-third.[66]

The U.S. government estimated that a complete suspension of tariffs in 1950 alone would have increased annual imports anywhere from $673 million to $1.4 billion.[67] With the exception of Japan, almost all of the increase would have come from Marshall plan countries, particularly Great Britain, because of its large but troubled textile industry.

Contrary to popular belief, U.S. trade policy was dominated by restrictive, bilateral trading agreements, not "Open Door" multilateralism. This counteracted much of the American attempt to restore European prosperity.

Lessons of the Marshall Plan

It is a truism that perceptions of history influence ideas about the present and the future. The series of myths that have sprung up around the Marshall Plan have given rise to a virtually identical series of myths around foreign aid today. Proponents of foreign aid almost always argue that U.S. assistance spurs foreign economic growth, encourages sound and free market economic policies, and is in the long-run best interests of the American economy. At the same time, they often overlook U.S. barriers to trade, such as tariffs and quotas, in the search for a rational development policy.

In spite of the numerous failures of foreign aid—Tanzania, Mali, and India are but a few examples—the search for a better foreign aid program continues. It is within this context that the example of the enormously successful Marshall Plan is brought up.

Policy makers and aid proponents should no longer view the Marshall Plan as an unqualified success. At best, its effects on postwar Europe were mixed, while its impact on the American economy was negative. The basic problem with foreign aid is that economic growth is not a creature of central planning and direction. Growth is the result of individual initiative and enterprise within a sound legal and economic framework. Government can only supply the framework. Anything more will result in the well-known problems of central or socialist planning: the impossibility of rational economic calculation, the creation of perverse incentives, and the stifling of entrepreneurial initiative, among others. Foreign aid programs always will be plagued by such problems.

Whatever the virtues and flaws of the Marshall Plan, the situation in postwar Europe was probably unique. Not only was the European economy already industrialized and fairly well integrated, but Europe had

[65] Kolko and Kolko, *op. cit.*, p. 454.

[66] *Ibid.*

[67] *Staff Papers*, *op. cit.*, p. 299.

a long tradition of capitalistic institutions. All that was needed was for such institutions to reemerge. In most cases, this phenomenon was encouraged by European leaders themselves, such as West Germany's Ludwig Erhard and Italy's Luigi Einaudi, rather than by outsiders.

Few Third World nations have similar traditions of capitalism and industrialism. And the historical evidence indicates that foreign aid is incapable of supplying or even encouraging such institutions. In most cases, and certainly in the case of the Marshall Plan, the government-to-government character of foreign aid encourages statism and central planning, not free enterprise. The best way to promote free markets in other countries is to allow their businesses to trade with the U.S. without government interference. This freedom of trade includes not only exporting and importing, but also lending, borrowing, and labor emigration and immigration.

Study of the Marshall Plan reveals five realities of development policy very different from the five pervasive myths:

1) *Sound economic policy is by far the most important factor in economic growth.* Its role dwarfs such other factors as culture, resources, and capital stock. This truth is clearly demonstrated by the postwar performance of Hong Kong and Taiwan, compared to mainland China.
2) *Foreign aid frequently discourages sound economic policy.* The rationale and practice of foreign aid are inseparable from interventionism.
3) *Foreign aid does not help the donor nation.* It simply drains resources from its private sector.
4) *Foreign aid programs will not be run in the "public interest."* Concentrated economic interest groups will use the political process to gain advantages from an aid program.
5) *Free trade is the best way to help other nations.* It encourages economic growth abroad while helping the U.S. economy.

Utilizing these lessons of the Marshall Plan will ensure a sound U.S. strategy for encouraging economic growth in developing nations.