

The Marshall Plan as a Structural Adjustment Program¹

J. Bradford De Long
NBER and Harvard University

Barry Eichengreen
University of California at Berkeley, NBER, and CEPR

October 1991

I. Introduction

The post-World War II reconstruction of the economies and polities of the Industrial West was an extraordinary success. Growth was fast, distributional conflicts in large part finessed, world trade booming. The stability of representative democracies in Western Europe made its political institutions the envy of much of the world. The politicians and bureaucrats who in the decade after World War II laid the foundations of the postwar order had good warrant to be proud of their work. They were, as Truman's Secretary of State Dean Acheson put it in the title of his memoirs, *Present at the Creation* of an extraordinarily successful set of political and economic institutions.

Perhaps the greatest of the many international relations successes of the post-World War II period was the successful establishment of stable market-oriented "mixed economies" in that half of Europe not occupied by the Red Army. A similar opportunity is apparent today in Eastern Europe: perhaps stable representative political institutions can be built, and Stalinist command-oriented economic systems replaced by market-oriented mixed economies. The future will judge today's politicians and bureaucrats as extraordinarily farsighted if they are only half as successful as Acheson and his peers.

Many argue that the West should seize this opportunity by extending aid to the nations of Eastern Europe, perhaps including the regions of the Soviet Union, in exchange for commitments to rapid and radical reform. Advocates of such a program refer as a precedent to the Marshall Plan—

¹This is an abridged version of a paper prepared for the conference on Post-World War II European Reconstruction, Hamburg, September 5–7, 1991, sponsored by the Centre for Economic Performance, the Anglo-German Foundation, and the Landeszentralbank Hamburg. This version will appear in a pamphlet to be published by the Anglo-German Foundation, while the complete version is to appear in a volume to be edited by Rüdiger Dornbusch, Richard Layard, and Wilhelm Nölling.

the program that transferred \$13 billion in aid from the United States to Western Europe over 1948–1951. They argue that we should replicate the actions of the founders of the postwar order half a century ago, this time extending aid to Eastern instead of Western Europe.

Any such argument by analogy hinges on the proposition that the Marshall Plan did in fact play a key role in inaugurating the postwar era of economic prosperity and political stability in Western Europe. In this paper we critically assess this proposition. Our central conclusion is that the Marshall Plan did matter. But it did not matter in the way that the folk wisdom of international relations suggests. Milward (1984) is correct in arguing that Marshall Plan aid was not large enough to significantly stimulate European growth by accelerating the expansion of Europe's capital stock. Nor did the Plan matter by financing reconstruction of devastated infrastructure, for reconstruction was largely complete before the program came on stream.

The Marshall Plan did play a role in loosening foreign exchange constraints and improving capacity utilization. But this channel was not strong enough to justify the high regard in which the program is held.

Rather, the Marshall Plan significantly sped Western European growth by altering the environment in which economic policy was made. In post-World War II Western Europe, conditions imposed formally and informally for the receipt of U.S. aid encouraged reductions in government spending, the relaxation of controls, and the opening up of economies to foreign trade. These shifts in policy led to the early attainment of financial stability, the creation of versions of the “mixed economy” that were market- and growth-oriented, and the early reestablishment of the intra-European division of labor. Conditionality pushed governments toward political and economic orders that used the market to allocate resources and the government to redistribute wealth, and that turned out to be highly successful at inducing rapid economic growth.

U.S. aid provided an extra margin of support that could be used to cushion consumption during the years of readjustment and reorganization. It made the relaxation of controls and the return to markets politically palatable. It provided an additional inducement for reform.

The Marshall Plan should thus be thought of as a large, and highly successful, structural adjustment program.

II. The Marshall Plan and Private Investment

Investment is an obvious channel through which the Marshall Plan might have accelerated economic growth in post-World War II Western Europe. Postwar Europe was poor and capital-scarce. Maintaining living standards at levels the citizenry regarded as minimally tolerable consumed a large share of product, leaving little for the repair of railroads, buildings and machines damaged in the war. The Marshall Plan could have relaxed this constraint.

But it is difficult—as Milward (1984) concludes—to ascribe large effects to this channel. Viewed relative to total investment in the recipient countries, the Marshall Plan was not large. Marshall Plan grants were provided at a pace not much greater in flow terms than previous UNRRA aid, and amounted to less than three percent of the combined national incomes of the recipient countries between 1948 and 1951. They equalled less than a fifth of gross investment in recipient countries. Only 17 percent of Marshall Plan dollars were spent on “machinery and vehicles” and “miscellaneous commodities.” The rest were devoted to imports of industrial raw materials, semi-finished products and agricultural commodities. The commodities bought directly with Marshall Plan dollars were not additions to the fixed capital stock of Western Europe.

Marshall Plan dollars did affect the level of investment. Countries that received large amounts of Marshall Plan aid invested more, for resources that would otherwise have been used to buy food, fuel, and raw materials were used for investment instead. Eichengreen and Uzan (1991) calculate that out of each dollar of Marshall Plan aid some 65 cents went to increased consumption and 35 cents to increased investment. The returns to new investment were high. Eichengreen and Uzan’s analysis suggests that social returns may have been as high as 50 percent a year: an extra dollar of investment raised national product by 50 cents in later years.

Even with such strong links between the Marshall Plan and investment and between investment and growth, the investment effects of Marshall Plan aid were simply too small to trigger an economic miracle. U.S. aid in the amount of three percent of West European output per year raised the share of private investment in national income by one percentage point. An increase of one percentage point in the ratio of investment to national income over would increase economic growth

by one-half of one percentage point. Over the four years of the Marshall Plan, this increase in growth cumulates to two percent of national product. While this was a valuable addition, it was hardly the sort of dramatic change trumpeted by champions of the Marshall Plan. It was too little to make the difference between prosperity and stagnation.

III. The Marshall Plan and Public Investment

A second channel through which the Marshall Plan could have stimulated growth was by financing public spending on infrastructure. Western European roads, bridges, railroads, ports, and other infrastructure had been severely damaged by the war. They were prime targets of the Allied strategic bombing campaign. Their destruction had been the first priority of retreating Nazis. The social rate of return to their repair and reconstruction was very high. This task was one of the principal objectives of postwar governments.

Unfortunately, those same governments had limited resources out of which to finance infrastructure repair. National tax systems were in disarray. The tax base had been eroded by the war. Social programs competed for scarce public revenues. Inflationary finance was at odds with the imperative of financial stabilization.

The question is how tightly the fiscal constraint limited public spending on infrastructure repair. In fact, the damage to European infrastructure was not that thorough or that long lasting. Although Allied generals had learned during World War II that bombing could destroy bridges, paralyze rail yards, and disrupt the movement of goods and troops, they had also learned that bridges could be quickly rebuilt and tracks quickly relaid.

Europe's transportation infrastructure was in fact quickly repaired. By the last quarter of 1946 almost as much freight was loaded onto railways in Western Europe as had been transported in 1938. Including British railways, total goods loaded and shipped in the last quarter of 1946 amounted to ninety-seven percent of pre-war traffic. Weighted by the distance traveled—measured in units not of tons carried but multiplying each ton carried by the number of kilometers traveled—1947 railroad traffic was a quarter higher than pre-World War II traffic. European recovery was not significantly delayed by the lack of track and rolling stock.

Similarly, the rapid repair of other forms of publicly-provided infrastructure prevented them from constraining recovery. Water systems were quickly restored. The electrical grid was put back into operation (although there was not always coal to fuel the power plants). In fact, public spending did not rise in countries receiving large amounts of Marshall Plan aid. Countries that were major aid recipients saw the government spending share of national income fall relative to other industrial nations (see Eichengreen and Uzan, 1991). The Marshall Plan did not accelerate European growth by releasing resource constraints that prevented governments from rebuilding infrastructure.

IV. Bottlenecks and Foreign Exchange Constraints

Another channel through which the Marshall Plan might have stimulated growth was by relaxing foreign exchange constraints. Marshall Plan funds were hard currency aid in a dollar-scarce world. They might have allowed Western Europe to obtain additional imports that that would help to relieve bottlenecks. After the war, coal, cotton, and other raw materials were in short supply. The Marshall Plan allowed their purchase at a higher rate than would have been possible otherwise.

In a well-functioning market economy, it is difficult to argue that such bottlenecks had more than a transient impact on the level of production. The European economy was not without possibilities for substitution. Market economies are very good at finding and utilizing such possibilities. However, assume for argument's sake that little active substitution of cheap goods for scarce imports was possible on the production side. It is still the case that Europe would not have seen lower production in the absence of the Marshall Plan if governments had made sustaining production a priority when allocating foreign exchange. Absent the Marshall Plan, according to this scenario, imports of consumer goods would have been reduced as foreign exchange was diverted to buy raw materials but output would not have been noticeably affected.

Had substitution possibilities been lacking in both production and the use of foreign exchange, raw material shortages might then have reduced European production. The question is to what extent. Consider the following back-of-the-envelope calculation for the most severe bottleneck: coal. In 1938 Western Europe consumed 460 million tons of hard coal. It produced only 400 million tons in 1948. Over the life span of the Marshall Plan, Western Europe imported about seven percent of its

coal consumption from the United States. Assuming that coal was the most important bottleneck, that half of national product was produced in coal-burning sectors, and that these coal-burning sectors used fixed coefficients in production, then elimination of coal imports would have reduced Western European output over the Marshall Plan period by no more than three per cent.

This back-of-the-envelope calculation neglects indirect effects and general equilibrium repercussions. One can imagine the possibility that, for example, a small decline in coal consumption might have produced a large decline in steel output, which in turn provoked an even larger fall in output in sectors for which steel was an essential input. Input-output analysis is the classic way of analyzing such a situation. Consider the case of Italy, for which the Marshall Plan administrators prepared a 1950 input-output table.² Our analysis assumes that all uses of coal would have been proportionately reduced in the absence of Marshall Plan imports, that all industry production functions were Leontief, and that resources made slack would have remained idle rather than being redirected. Under these assumptions, input-output analysis reveals that Italian national product would have fallen by 3.2 percent, almost exactly as calculated in the preceding paragraph.

This, of course, is a gross overestimate of the likely effects in 1950 of a coal bottleneck. The economy did possess substitution possibilities in production and foreign-exchange allocation. If the market economy was functioning and so uncovering substitution possibilities, it is plausible that production losses due to all bottlenecks together would have been less than this calculation for coal. In individual periods—such as the winter of 1947—bottlenecks, primarily in coal, were present. But the elimination of bottlenecks more than three years after the end of the war as a result of Marshall Plan aid is unlikely to have been a significant factor driving the rapid recovery, if the counterfactual is one in which the market economy is doing its job of adjustment and reallocation.

V. The Political Economy of European Reconstruction

But would the market economy have been allowed to do its job? The 1930's had seen not chronic bottlenecks but chronic deficiencies of aggregate demand. Production had fallen far below normal for virtually the entire decade; market forces had failed to restore demand to its normal

²We use the 16 sector input-output table provided by U.S. Mutual Security Agency (1953), pp. 132-133.

pattern. Circumstances during the Great Depression had been exceptional, but the aftermath of World War II was exceptional as well. Many feared the return of the Depression. Had such fears been sufficiently strong, they might have become self-fulfilling prophecies.

A live possibility in the absence of the Marshall Plan was that governments would not stand aside and allow the market system to do any substantial portion of its job. In the wake of the Great Depression, many still recalled the disastrous outcome of *laissez-faire* then in effect. Politicians were predisposed toward intervention: no matter how damaging “government failure” might be to the economy, it had to be less damaging than the “market failure” experienced during the Depression.

Had European political economy taken a different turn it is possible that post-World War II European recovery would have been slow and stagnant. Governments might have been slow to dismantle wartime allocation controls, and so have severely constrained the market mechanism.

The Marshall Plan era saw a rapid dismantling of controls over product and factor markets in Western Europe, and the restoration of price and exchange rate stability. An alternative scenario would have seen the maintenance and expansion of wartime controls in order to guard against substantial shifts in income distribution. The late 1940's and early 1950's might have seen the creation in Europe of allocative bureaucracies to ration scarce foreign exchange, and the imposition of price controls on exportables in order to protect the living standards of urban working classes.

Did the Marshall Plan play a role in Western Europe's avoidance of this trap? In answering this question, it is important to distinguish three effects of the program: its immediate contribution to the restoration of financial stability; its role in restoring the free play of market forces; and its part in the negotiation of the social contract upon which the generation of super-growth was based.

A. The Restoration of Financial Stability

Financial instability was pervasive in post-World War II Western Europe. Relief expenditure sent budgets deep into deficit. Governments responded to inflation by retaining wartime controls. Price controls prompted the growth of black markets but discouraged transactions at official prices. Farmers refused to market their produce so long as prices were restricted to artificially low levels. With their receipts vulnerable to inflation or confiscatory taxation, they were better off hoarding

inventories. The post-World War II food shortage in many European countries reflected not merely bad weather in 1947 but the reluctance of farmers to deliver food to the cities. Moreover, the manufactured goods farmers might have purchased remained in short supply. Manufacturing enterprises had the same incentive as farmers to hoard inventories. And so long as food shortages persisted, workers had little ability—or incentive—to devote their full effort to market work. Few were willing to sell goods for money when inflation threatened to accelerate at any time.

The liberal, market-oriented solution to the crisis was straightforward. Prices had to be decontrolled to coax producers to bring their goods to market. Inflation had to be halted for the price mechanism to operate smoothly and to encourage saving and initiative. Budgets had to be balanced to remove inflationary pressure. With financial stability restored and market forces given free reign, individuals could direct their attention to market work. Without financial stability, the allocative mechanisms of the market could not be relied on—and government controls over the process of goods allocation would appear the more attractive option.

For budgets to be balanced and inflation to be halted, however, political compromise was required. Consumers had to accept higher posted prices for foodstuffs and necessities. Workers had to moderate their demands for higher wages. Owners had to moderate their demands for higher profits. Taxpayers had to shoulder additional liabilities. Recipients of social services had to accept limits on governmental largess. Rentiers had to accept that the war had destroyed their wealth. There had to be broad agreement on a “fair” distribution of income, or at least on a distribution of the burdens of the war that was not so unfair as to be intolerable. Only then could pressure on central banks to continually expand the money supply in order to finance budget deficits, and thus cause either open or repressed inflation, be removed.

Here the Marshall Plan may have played a critical role. It did not obviate the need for sacrifice. But it did increase the size of the pie for division among competing interest groups. Two-and-a-half percent—Marshall Plan aid as a share of recipient GNP—was not an overwhelmingly large change in the size of the pie. But if the sum of notional demands exceeded aggregate supply by five or seven- percent, Marshall Plan transfers could reduce the sacrifices required of competing interests by a third or as much as a half. They significantly reduced the costs of compromise relative to the

benefits.³ And a destructive inflationary spiral could have been induced by aggregate demand that exceeded aggregate supply by a seemingly modest margin like five or seven percent.

With Marshall Plan aid available, it was no longer so risky for governments to impose financial discipline even though stabilization programs had adverse distributional consequences. The Plan provided an alternative to inflation and so in all likelihood advanced the date of stabilization.⁴

Along with the carrot of Marshall Plan grants, the U.S. also wielded a stick. For every dollar of Marshall Plan aid received, the recipient country was required to place a matching amount of domestic currency in a counterpart fund to be used only for purposes approved by the U.S. government. Thus each dollar of Marshall Plan aid gave the U.S. government control over two dollars' worth of real resources. Marshall Plan aid could be spent on external goods only with the approval of the United States government. And the counterpart funds could be spent internally only with the approval of the Marshall Plan administration as well.

In some instances the U.S. insisted that the funds be used to buttress financial stability. Vincent Auriol's memoirs claim that the U.S. refused to release French counterpart funds to the Treasury in 1948 until the new government affirmed its willingness to continue policies leading to a balanced budget.⁵ French officials were outraged: nevertheless, they took steps to obtain the quick release of the funds and raised taxes. U.S. veto power over the use of these counterpart funds considerably increased U.S. leverage over Western European economic policies.

B. The Free Play of Market Forces

Renewed growth required, in addition to financial stability, the free play of market forces. Though there was support for the restoration of a market-oriented economy in Western Europe, it was far from universal. Wartime controls were viewed as exceptional policies for exceptional times, but it was not clear what was to replace them. Communist ministers, and some Socialist counterparts, opposed a return to the market. It was not clear when, or even if, the transition would take place.

³This is the argument developed for Italy and France in Casella and Eichengreen (1991).

⁴While internal price stabilization after World War II took four years, the German hyperinflation took place in the sixth year after the end of World War I, and France's post-World War I inflation lasted for eight years.

⁵Auriol (1970), p.162. Other sources do not contradict Auriol's memoirs. See, for example, Price (1955).

On this issue the Marshall Plan—specifically, the conditions attached to U.S. aid—left Western Europeans with no choice. Each recipient had to sign a bilateral pact with the United States. Countries had to agree to balance budgets, restore financial stability, and stabilize exchange rates at realistic levels. Europe was still committed to the mixed economy. But the U.S. insisted that market forces be represented more liberally in the mix. This was the price that the U.S. charged for its aid.

The demand that European governments trust the market to a greater extent came from the highest levels of the Marshall Plan administration. Dean Acheson describes the head administrator, Economic Cooperation Administration chief Paul Hoffman, as an “economic Savonarola.” Acheson describes watching Hoffman “preach...his doctrine of salvation by exports” to British Foreign Secretary Ernest Bevin. “I have heard it said,” wrote Acheson, “that Paul Hoffman... missed his calling: that he should have been an evangelist. Both parts of the statement miss the mark. He did not miss his calling, and he was and is an evangelist...” for free trade, reliance on the market to allocate goods and factors, and the reconstruction of the intra-European division of labor (Acheson, 1960).

U.S. pressure for European economic integration was the goal pursued most intensely by the Marshall Plan administration. Even where domestic markets were highly concentrated, competition would be injected via intra-European and international trade. Government intervention and other efforts to interfere with the operation of market forces would be disciplined by foreign competition. As a condition for receiving Marshall Plan aid, each country was required to develop a program for removing quotas and other trade controls. In 1950, discussions culminated in the establishment of the European Payments Union, a system of credits to promote multilateral trade within Europe. Between 1948 and 1952, trade among European countries increased more than five times as fast as trade with other continents. The economies of Europe were once again permitted to specialize in the production of goods in which they had a comparative advantage. Productivity received another boost.

C. The Social Contract and Long-Term Growth

The restoration of financial stability and the free play of market forces launched the European economy onto a two-decade long path of unprecedented rapid growth. European economic growth

between 1953 and 1973 was twice as fast as for any comparable period before or since. The growth rate of GDP was 2 percent per annum between 1870 and 1913 and 2.5 percent per annum between 1922 and 1937. In contrast, growth accelerated to an astonishing 4.8 percent per year between 1953 and 1973, before slowing to half that rate between 1973 and 1979.

Europe's rapid growth in the 1950's and 1960's was associated with exceptionally high investment rates.⁶ The investment share of GNP was nearly twice as high as it had been in the last decade before World War II or it was again to be after 1972. Accompanying high rates of investment was rapid growth of productivity. Even in Britain, the laggard, productivity growth rose sharply between 1924-37 and 1951-73, from 1 to 2.4 percent per annum.⁷

This high investment share did not, however, reflect unusual investment behavior during expansion phases of the business cycle. Rather, it reflected collapses of investment during cyclical contractions, and the absence of significant downturns between 1950 and 1971.

It would be tempting to ascribe Europe's cyclical stability to the advent of Keynesian stabilization policy, but for the fact that the tools of Keynesian policy were not forgotten when increasingly volatile cyclical fluctuations recurred after 1972. A possible reconciliation is that Keynesian policy was effective only so long as labor markets were accommodating. So long as increased pressure of demand applied by governments in response to slowdowns produced additional output and employment rather than higher wages and hence higher prices, the macroeconomy was stable. Investment was maintained at high levels, and rapid growth persisted.

The key to Europe's rapid growth, from this perspective, was its relatively inflation-resistant labor markets.⁸ So long as they accommodated demand pressure by supplying more labor input rather than demanding higher wages, the other pieces of the puzzle fell into place. What then accounted for the accommodating nature of postwar labor markets? The conventional explanation, following Kindleberger (1967), is elastic supplies of underemployed labor from rural sectors within the advanced countries and from Europe's southern and eastern fringe. Elastic supplies of labor

⁶This point, made forcefully for Britain by Matthews (1967), applies to other European countries as well. See Glyn et al. (1990).

⁷Broadberry (1991), Table 6.

⁸This, of course, is the famous conclusion of Kindleberger (1967), although the mechanism there linking labor markets to economic performance is somewhat different.

disciplined potentially militant labor unions. A problem with this argument is that the competition of underemployed Italians or Greeks or Eastern European refugees was not felt in the United Kingdom, yet labor market behavior was transformed in the U.K. as in other countries after World War II.⁹

Another potential explanation is “History.” Collective memory of high unemployment and social strife between the wars served to moderate labor-market conflict. Conservatives could recall that attempts to roll back interwar welfare states had led to a high degree of political polarization, thus made representative institutions less stable, and set the stage for fascism. Left-wingers could recall the other side of the same story. And both could reflect on the economic stagnation of the interwar period and blame it on political deadlock.

Another potential explanation is the Marshall Plan. In principle, the Marshall Plan and U.S. policy in general could have mattered directly. Marshall Planners sought a labor movement interested in raising productivity rather than in redistributing income. With labor peace a potential precondition for substantial Marshall Plan aid, labor was willing to push for productivity first and defer redistributions to later. Moreover, money was channeled to non-Communist labor organizations. European labor split over the question of whether Marshall aid should be welcomed—which left the Communists on the wrong side, opposed to economic recovery (Maier, 1977).

In practice, the Marshall Plan’s indirect effects were important. One way to think about the post-World War II settlement, and the contrast with interwar years, is as a coordination problem. Labor, management and government in Europe could, in effect, choose to try to maximize current shares of national income—as after World War I. Inflation, strikes, financial disarray, cyclical instability and productivity problems can be seen as corollaries of this equilibrium. Alternatively, the parties could trade current compensation for faster long-term growth and higher living standards. Workers would moderate wage demands, management its demands for profits. Government agreed to use demand management to maintain employment in return for wage restraint on the part of unions (Broadberry, 1991), and also to provide a generous “safety net” and a substantial welfare state. Higher investment and faster growth ensue, eventually rendering everyone better off.

Such a “social contract” is advantageous only if it is general. If workers continued to

⁹See Broadberry (1991).

aggressively press for higher wages, management had little incentive to plow back profits in return for the promise of higher future profits. If management failed to plow back profits, workers had little incentive to moderate wage demands in return for higher future productivity and compensation. If government failed to maintain high demand and redistribute wealth through the welfare state, neither workers nor managers could be confident of receiving the benefits they had implicitly bargained for.

The Marshall Plan could have shifted Europe onto this “social contract” equilibrium path, for once workers, managers, and governments began coordinating on the superior equilibrium they had no obvious reason to stop. The Marshall Plan provided immediate incentives for wage moderation in the late 1940’s. U.S. policy encouraged European governments to pursue investment-friendly policies. Productivity soared in the wake of financial stabilization and the advent of the Marshall Plan. The advantages of the cooperative equilibrium were suddenly clear.

VI. Implications for Eastern Europe Today

Do conditions like those that made the Marshall Plan a success after World War II exist in Eastern Europe and the Soviet Union today? There are parallels. Just as in Western Europe in 1947–48, enterprises hold back inventories in anticipation of higher prices once controls are relaxed. Excess liquidity and government budget deficits create the specter of rampant inflation. Belief that some sort of reform must occur soon, but uncertainty about its nature, provides a powerful incentive to delay investment and rationalization until the situation is clarified.

As in Europe after World War I, political struggles over the structure of economic arrangements could lead to damaging “wars of attrition” as social classes and interests withdraw from the production process and reduce output in order to demonstrate their indispensability. Conflict over distribution could produce alternative bouts of inflation and of price controls and foreign-exchange rationing. This would result in economic stagnation. But such a controlled, semi-planned economy could persist for a generation, until this particular approach was discredited.

As in Argentina after World War II, a state excessively solicitous of the economic status of particular classes might transform its emerging markets from an instrument for resource allocation to a tool for redistribution. The state would retain control over the allocation of goods and factors of

production to economic classes. Market prices and quantities would be controlled to generate a distribution of income favorable to powerful interest groups. This is also a recipe for stagnation.

To avoid both the post-World War I “distributional conflict” trap and the Argentinian “populist overregulation” trap, Eastern European countries will have to be lucky.

A substantial aid program might help them to make their own luck. Supporting Eastern European living standards could limit public opposition to economic reform when output initially falls during the transition to a market economy. Hard currency would allow higher imports from the West. Reserves would make monetary stabilization and currency convertibility possible.

Important differences weaken the case for a Marshall Plan, especially for the regions of the post-World War II Soviet Union. In post-World War II Western Europe there already existed widespread support for and experience with the market. The Marshall Plan only tipped the balance. It is not clear that comparable support exists in the Soviet Union today, or in much of Eastern Europe. Powerful elements in the Soviet government and military still oppose economic liberalization. The Eastern European public understands only dimly that a free market entails massive shifts in the distribution of wealth, and a period of painful transition that may be long-lasting.

In post-World War II Western Europe, Marshall Plan aid was effective because Europe had experience with markets. It possessed the institutions needed for their operation. Property rights, bankruptcy codes, court systems to enforce market contracts—not to mention generations of accumulated entrepreneurial skills—all were in place. None of this is true in Eastern Europe today.

In post-World War II Western Europe, U.S. aid and U.S. conditionality encouraged the reductions in government spending needed for financial stability. It encouraged the elimination of controls and the liberalization of trade. It is far from certain that aid to Eastern Europe will have the same effect. Transfers to the central government may delay rather than accelerate the process of scaling back the public sector, privatizing industry, and creating a market economy. It is critical that whatever programs are adopted, aid should be provided on actions rather than need.

These observations all point toward caution on the part of those contemplating the extension of Western aid to the East. They remind that aid for Eastern European reform is a gamble. But the

potential rewards are very high. And recall that from George Marshall's perspective, his plan was a gamble as well.

References

- Acheson, Dean (1960), *Sketches from Life*. New York: Harper & Bros.
- Acheson, Dean (1966). *Present at the Creation*. New York: New American Library.
- Auriol, Vincent (1970). *Mon Septennat, 1947-1954*, Paris.
- Broadberry, S.N. (1991). "Why Was Unemployment in Postwar Britain So Low?" Unpublished manuscript, Warwick University.
- Casella, Alessandra and Barry Eichengreen (1991). "Halting Inflation in Italy and France After World War II." In Michael Bordo and Forrest Capie (eds.), *Monetary Regimes in Transition*, Cambridge: Cambridge University Press (forthcoming).
- Eichengreen, Barry (1989). "European Economic Growth After World War II: The Grand Schema." presented to the Conference Marking the Retirement of William N. Parker, New Haven.
- Eichengreen, Barry, and Marc Uzan (1991). "The Marshall Plan: Economic Effects and Implications for Eastern Europe." *Economic Policy* (forthcoming).
- Glyn, Andrew, Alan Hughes, Alain Lipietz and Ajit Singh (1990). "The Rise and Fall of the Golden Age." In Stephen Marglin and Juliet Schor (eds.), *The Golden Age of Capitalism*, Oxford: Clarendon, pp.39-125.
- Kindleberger, Charles (1967). *Europe's Postwar Growth*. London: Oxford University Press.
- Maier, Charles S. (1977). "The Politics of Productivity: Foundations of American International Economic Policy after World War II." *International Organization* 31, pp. 607-33.
- Matthews, R.C.O. (1968). "Why has Britain had Full Employment Since the War?" *Economic Journal* 82, pp.195-204.
- Milward, Alan S. (1984). *The Reconstruction of Western Europe 1945-51*. London: Methuen.
- United States Mutual Security Agency (1953), *The Structure and Growth of the Italian Economy*, Rome: MSA.