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FROM THE MARSHALL PLAN TO THE THIRD WORLD

Robert E. Wood

The Marshall Plan was one of the decisive turning points in the early Cold War. After deliberating briefly on whether or not the Soviet Union should participate in the plan, Stalin quickly decided against it. He feared that the United States would use it to lure Eastern Europe from the Soviet orbit and to build up a powerful Germany. As indicated in the Gati and MccGwire essays, the Soviet leader then moved decisively to crush all opposition within Eastern Europe and to bring down the iron curtain as it would exist for the next four decades.

US officials were relieved that the Kremlin rebuffed their overture to participate in the European Recovery Program. They feared that the Kremlin might sabotage the program from within, or that Congress might not finance an assistance package that included Communist lands. Using the specter of Soviet domination, Truman administration officials won congressional support. In 1948 the program got under way and it helped to restore hope and provide the marginal assistance that expedited reconstruction in Western Europe.

Economic historians now hotly debate the extent to which the Marshall Plan was responsible for European recovery. What is incontestable is that industrial growth did not quickly eliminate the dollar gap problem, that is, the shortage of dollars available to European governments which they needed to procure raw materials, foodstuffs, and some machine tools. In other words European countries continued to import more from than they exported to the United States. They had to design ways to overcome this problem. Otherwise when the Marshall Plan ended they would find themselves in a terrible predicament. They*

* Alan S. Milward, *The Reconstruction of Western Europe, 1945-1951* (Berkeley, CA: University of California Press, 1984).

might have to control trade, subsidize exports, or discriminate against American imports. They might have to look to the Soviet Union or Eastern Europe, now under the Kremlin's control, for markets. They might have to resort to exchange controls, bilateral trade agreements, quotas, and other mechanisms. Or, given the shortage of dollars, they might have to establish domestic controls and set industrial and agricultural priorities. Should any or all of these things occur, the open, multilateral world economic system that the United States wanted might be jeopardized.

In this chapter, Robert Wood shows how the European Recovery Program accentuated US concerns with the Third World. European recipients of Marshall Plan aid sought to use their former colonies to generate the dollars they themselves needed to overcome their dollar shortages. The colonies of Britain, France, the Netherlands, and Portugal sold raw materials to the United States and earned dollars which, in turn, flowed back to London, Paris, and other European commercial and financial centers. Hence retaining the ties, even informal ties, between colony and metropole assumed more importance than ever before.

Wood and some other historians believe that understanding the requirements of the world capitalist system is a key to grasping the developments that led to the Cold War. In their view the Cold War spread to the Third World because US officials and many of their partners in Western Europe and Japan believed they needed to maintain links with the underdeveloped periphery in order to earn dollars, sustain their economic growth, preserve their strength, and maintain open markets and free governments. They feared that revolutionary nationalist movements might sever ties with their former colonial masters and establish links with Moscow or its allies, thereby sapping the strength of Western democracies, undermining their reconstruction efforts, and jeopardizing multilateralism and liberal capitalism. In this respect the reader might turn back to the essay by John Kent and note his portrayal of Bevin's desire to retain Britain's position in Africa in order to help allay Britain's own dollar shortages. Similarly, the reader will want to recall this essay when reading the next excerpt by Bruce Cumings.

Whether or not one agrees with these challenging and thought-provoking arguments, one should take note of the importance of the interrelationships between economic and geopolitical developments in the international system. And one should be aware that the configuration of power in the international system can have a powerful influence

on the way officials think they can arrange their own domestic economic and political systems.

* * *

The Marshall Plan has exercised a tenacious grip on the consciousness of US policymakers. It has come to symbolize boldness and success, and virtually whenever new directions in US foreign aid programs have been proposed, the theme of "a new Marshall Plan" has been pressed into service.

Officially known as the European Recovery Program [ERP], the Marshall Plan dispensed over \$13 billion between 1948 and 1952 to Western European countries constituted as the Organization for European Economic Cooperation [OEEC]. Over 90 percent of this aid was in the form of grants. The program was administered by a relatively independent agency, the European Cooperation Administration [ECA]. It was formally concluded ahead of schedule at the beginning of 1952, when it was merged into the worldwide Mutual Security Program [MSP].

The European Recovery Program was not simply about either Europe or recovery; it was much more ambitious than that. In reality, the Marshall Plan's uniqueness was that it addressed the breakdown of the prewar economic order with a vision – backed up by a wide range of programs around the world – of a reconstructed set of economic relations binding Europe, North America, and the Third World. The boldness – and real success – of the Marshall Plan lay in its contribution to the construction of a new international order, not in the quantity of capital and raw materials it provided for Western European industries.

The international order constructed during the Marshall Plan period had profound implications for the Third World. The Marshall Plan linked both European reconstruction and the US campaign for multilateralism to a particular model of development in the underdeveloped world.

Five sets of changes in the world economy set the stage for the Marshall Plan. Together these changes created the dollar shortage that was the basis of the worldwide economic crisis in the postwar period. First, there was the breakdown of trade between Eastern and Western Europe. As the "first Third World,"

Eastern European countries had maintained a semicolonial relationship with Western Europe, exchanging food and raw materials for manufactured goods.¹ In 1948, however, Western European exports to Eastern Europe were less than half of the prewar level, and imports from Eastern Europe were only one-third.² Instead of recovering, this trade declined over the next five years.³ This decline meant that European countries had to rely on dollar imports from the United States to fulfill needs formerly met by trade with Eastern Europe.⁴

Second, there was the loss – or threatened loss – of important colonial sources of dollars. France's major colonial dollar earner, Vietnam, was in rebellion. So was the Netherlands' major dollar earner, Indonesia. Guerrilla insurgency was increasing in Britain's most profitable colony, Malaya, although the rebellion never cut off Malaya's dollar exports. In addition to the loss of colonial dollar earnings, the European powers bore the substantial costs of fighting the liberation movements. France had 110,000 troops in Indochina, and the Netherlands had 130,000 in Indonesia.⁵

Third, there was Europe's loss of earnings on foreign investments, particularly in Latin America, brought about by the liquidation of overseas investments to finance the war effort. For both France and Britain, overseas investment earnings and other associated "invisible" payments had long helped offset trade deficits. Net earnings on foreign investment alone had paid for 20 percent of Western Europe's imports in 1938 – \$3 billion at postwar prices.⁶

Fourth, many of the European countries and their overseas territories were hit with declining terms of trade. According to one ECA analysis of the sterling area's two most important dollar exports, gold and rubber: "Had the prices of these two commodities gone up as the others did, the same exports to the United States during the five years following the war would have earned an additional \$3.5 billion for the sterling area."⁷ Total Marshall Plan aid to Great Britain came to \$2.7 billion. Without such declining terms of trade, some countries would not have had a dollar deficit at all.

Finally, the European countries found themselves dependent on the US economy in a way they never had been before. This left them susceptible to small fluctuations in the US economy. The UN calculated that a 4 percent fall in employment in the

United States would cost the rest of the world \$10 billion in dollar earnings.⁸

These international consequences of the Second World War were only dimly perceived in the United States before the end of the war. Although the strategic brilliance of the Marshall Plan was that it responded to the breakdown of the old economic order in Europe, the original impetus and rationale for it came from the United States, not from Europe. The case for large-scale grant assistance was made long before the particular consequences of the war were known and also long before the beginnings of the Cold War. It was made in terms of a theory of the Second World War's causes and of perceptions of the US economy's structural needs.

From the onset of the war, US policymakers linked the war to a need for a new international order afterwards. Under the leadership of Secretary of State Cordell Hull, the State Department developed a frankly economic interpretation of the causes of the war. This analysis became the basis of US economic policy and was stated as early as 1940 by President Roosevelt. The emergence of a multilateral world economy – based on the unobstructed movement of capital and labor – became a major wartime goal.⁹

Americans believed that their prosperity was due to rearmament and war and feared a postwar depression. A 1941 survey of the American Economic Association found 80 percent of its members predicting a postwar depression.¹⁰ A January 1945 public opinion survey found 68 percent viewing unemployment as the single most important postwar issue.¹¹ A major effort to deal with these concerns was mounted during the war. "By 1943, the government had become convinced that the greatest obstacle to the success of a postwar multilateral system and increased American exports was the 'dollar shortage.'"¹² During the rest of the war and the immediate postwar period, US government officials reiterated the theme of finding a way to maintain a high level of US exports as the key to avoiding a postwar depression.¹³

Some observers dispute the importance of these concerns by pointing to the problem of the inflation that occurred immediately after the war, caused by pent-up consumer demand.¹⁴ Proponents of the export-dependency argument

always recognized, however, that the necessity of overseas markets would not impress itself immediately upon demobilization, but only after backed-up consumer demand had been satisfied. This position was explicitly put forth both by government officials and in corporate-sponsored studies.¹⁵ Whether or not this position was correct, what mattered was that US policy-makers believed it.

Domestic economic justifications of aid remained dominant in the business press as late as mid-1948. In February 1948, *U.S. News and World Report* carefully listed the advantages and disadvantages of domestic versus foreign "pump priming," concluding that the latter was superior:

Some advantages over domestic pump priming are seen in the world program that is about to begin. Effects of spending will not be so visible inside the United States. American taxpayers will not have WPA [Work Projects Administration] leaf-raking projects before their eyes. They won't see courthouses being built, sidewalks laid or murals painted with federal money. The result is that there may be less criticism.

The foreign aid program also may promise an easier way of keeping U.S. business active and of getting rid of surpluses. Most industrial orders will be for heavy goods – machinery, trucks, tractors, electrical equipment – a sector of industry that the New Deal never could revive until the war. Foreign outlets for surplus grains and fruit and cotton may prove more effective than relief stamp programs at home.¹⁶

Important as US concern over exports was, it does not explain the particular form the Marshall Plan took or its timing. A common assumption is that the Marshall Plan was aimed at the European left. Yet while State Department spokesmen and ECA figures like Paul Hoffman later credited the Marshall Plan with preventing the victory of the left in Europe – an assessment many historians have accepted – there is reason to believe that the European left had already been defeated as a result of its own internal weaknesses, the Great Power conservatism of Soviet foreign policy, and the policies of American and British occupation forces.¹⁷ More recent historical scholarship has clarified that the major target of the Marshall Plan was not socialism

but capitalism – or rather the national brand of capitalism that US leaders saw emerging in Europe.¹⁸

Fred Block has argued that "national capitalism," based on extensive state intervention and planning to ensure full employment, was the dominant trend in Western Europe at the end of the war:

Although little was actually done before World War II to implement national capitalism, there is good reason to believe that after the war, there might have been substantial experiments with national capitalism among the developed capitalist countries. In fact, in the immediate postwar years, most of the countries of Western Europe resorted to the whole range of control devices associated with national capitalism – exchange controls, capital controls, bilateral and state trading arrangements. The reason these controls were not elaborated into full-scale experiments with national capitalism was that it became a central aim of United States foreign policy to prevent the emergence of national capitalist experiments and to gain widespread cooperation in the restoration of an open world economy.¹⁹

In the struggle to mobilize the US public in support of massive aid programs, US leaders again and again stressed the danger European economic policies represented. In his speech at Baylor University in March 1947, President Truman publicly sounded the tocsin about the danger of European reconstruction policies, attacking government intervention in trade, even if the actual activities (and profits) were left in private hands. He urged that "the whole world should adopt the American system" and, pointing to the dangers of autarkic capitalism, warned: "Unless we act, and act decisively, it will be the pattern for the next century."²⁰

The commitment to fighting autarky and national economic planning took many forms. It guided occupation authorities. It led to the long and often bitter bargaining with the British over the British loan in 1945. It was at the basis of US leaders' vision of the new international institutions they sought: the United Nations, the World Bank, the International Monetary Fund, the International Trade Organization. And it accounts for the unique focus of the Marshall Plan on building and consolidating

a new international economic order. Through the Marshall Plan, the United States sought an antidote to national capitalism through new sets of international arrangements. These were to have profound implications for the underdeveloped world.

From the very beginning, the struggle against national capitalism in Europe led US policymakers to look to Africa and Asia to close the dollar gap. US imports from Europe constituted only 0.33 percent of US gross national product. Politically untouchable tariff walls made increasing most European imports impossible. US investors, despite the existence of convertibility guarantees, expressed little interest in investing in Western Europe – an alternative source of dollars that Congress and the ECA had originally counted on.²¹ US policymakers looked instead to the overseas territories of European countries to bail out their colonial masters. As John Orchard, a special representative and consultant for the ECA, concluded: "Indeed, the overseas territories hold more promise of contributions to the closing of the dollar gap than the countries of metropolitan Europe."²²

The overseas territories were expected to contribute to the success of the Marshall Plan in two major ways. First, they would provide the market for European goods that had formerly existed in Eastern Europe and that the United States was not able to provide.²³ Second, the overseas territories were expected to be dollar earners through their raw materials exports to the United States. US demand for these raw materials was expected to draw US private investment in these territories, constituting, in the words of ECA Special Representative Averell Harriman, "one of the most promising ways to assist in reaching a balance of payments."²⁴

These two roles of the overseas territories were linked in a triangular trade model, in which dollars would flow into European hands indirectly through their colonies. As one economist put it: "Such a pattern of trade, to be self-sustaining, would mean a surplus of (European) exports to the nondollar world, a surplus of exports by the latter to this country, and a European surplus of imports from us, to be financed in this manner."²⁵ Although this description does not accurately portray the way the colonial powers actually acquired the dollars their colonies earned, the model was politically attractive

because it allowed for the continuation or even the increase of European trade deficits with the United States, as long as the overseas territories ran up trade surpluses with the United States.²⁶

The raw material exports of the overseas territories were seen as critical both to the success of the Marshall Plan in Europe and to US prosperity. An important selling point of the plan in the United States was that it would provide access to raw materials and primary products in the underdeveloped world. This goal was to be achieved in three main ways. First, various mechanisms for US stockpiling of raw materials were built into the operating structure of the ERP. For example, the United States could use up to 5 percent of the counterpart funds its aid generated to purchase "strategic" materials. Second, the aid treaties that were negotiated with each metropolitan country guaranteed potential US investors access "to the development of raw materials within participating countries on terms of treatment equivalent to those afforded to the nationals of the participating country concerned."²⁷ Third, a special fund was established for investments in increased production of strategic materials.

In 1951 congressional hearings on the foreign aid program, Nelson Rockefeller testified that 73 percent of US strategic materials imports came from the underdeveloped areas.²⁸ In an article titled "Widening Boundaries of National Interest," Rockefeller concluded: "Clearly, the success of the industrial mobilization plans of the North Atlantic Treaty countries is contingent upon the continued and increasing supply from underdeveloped areas of such strategic materials as bauxite, chrome, copper, lead, manganese, tin, uranium, and zinc," and he called for a 50 percent increase in raw materials exports from the underdeveloped areas.²⁹

Coincidentally, the three colonies with the greatest raw materials exports – Malaya, Netherlands East Indies, and Indochina – were all areas where significant anti-colonial insurgency had taken place right after the war. The military efforts of Britain, the Netherlands, and France to repress these movements provided an additional link between the overseas territories and the European Recovery Plan. Resolution of colonial wars came to be seen as necessary for fulfilling US political and military aims in Europe. As the US Secretary of Defense testified

in the foreign aid hearings in 1951: "The sooner Indochina can be stabilized, the sooner those French divisions, which are the backbone of European land defense, can be brought to full effectiveness by the return of sorely needed professional officers, noncommissioned officers, and technicians."³⁰

The role that the ECA envisioned for the underdeveloped areas – particularly the overseas territories – reinforced the type of export-oriented development that had always been the basis of European colonial policy. The difference was that the overseas territories were to be opened more to US investment and their exports directed more to the United States and other "hard currency" areas.

Measuring the significance of the Marshall Plan for the overseas territories is not an easy task. Not all aid directed toward the overseas territories was labeled as such. In the cases of France and the Netherlands (until Indonesia gained its independence), substantial dollar aid to the metropolises was officially earmarked for their colonies. For France and the Netherlands, this came to \$388.3 million; unfortunately, the ECA provided no comparable cumulative figures for the other European metropolises. The ECA Special Reserve Fund, later renamed the Overseas Development Fund, made \$63.8 million of investments, mostly in Africa. These included \$32.1 million in French Africa, \$17.3 million in the Belgian Congo, \$11.5 million in British Africa, and \$663,000 in Portuguese Africa.³¹ Another \$47 million was invested directly in the production of strategic materials. If we assume that the dollar forms of aid generated counterpart that was spent in the overseas territories, the overall total would surpass \$1 billion.

The Marshall Plan's relationship to colonialism in Asia, where the postwar reimposition of colonial authority was resisted by significant popular movements, was more varied and complex than it was in Africa. Within their staunchly anti-Communist and counterrevolutionary framework, US policymakers were flexible in their responses, depending on their assessment of the nature of the popular forces and the options open to the colonial powers. One extreme is represented by British Malaya, where British counterinsurgency efforts seem to have enjoyed full US support. Subsequently, a National Planning Association report concluded: "The United Kingdom effort to suppress guerrilla

warfare in Malaya would seem to have been indirectly financed out of aid that ostensibly was going to Europe."³²

Indochina represents an intermediate case. State Department documents in 1948–9 reflect considerable US frustration with French intransigence toward nationalists of all political stripes. However, recognizing the popularity of Ho Chi Minh and his forces, US policymakers were forced to admit that they could offer no alternative course of action.³³ During this period, they sought to maintain some pressure on the French by refusing to fund projects directly for Indochina, but at the same time, they took account of the dollar cost of France's war in calculating French aid requirements. The Griffin Mission, sent to Indochina and elsewhere in Southeast Asia in early 1950 to expand the US aid presence, noted:

In the last analysis, of course, the French financial contribution to the area has been made possible by ECA aid to France, and the balance-of-payments deficit of the area has been taken into account in calculating France's need for ECA aid. The United States is therefore already indirectly aiding Indochina.³⁴

Indonesia represents the other extreme, where the United States was prepared to use Marshall Plan aid to pressure the Netherlands to relinquish control. After authorizing over \$100 million of aid to the Netherlands for use in Indonesia, the State Department desperately sought to convince the Dutch that the way to prevent revolution in Indonesia was to come to terms with anti-Communist nationalists. Acting Secretary of State Robert Lovett urged Dutch acceptance of a US plan to strengthen "Mr Hatta [one of the leaders of the Indonesian Republic] and his government sufficiently to enable him successfully to liquidate Communists within the Republic."³⁵ After the fledgling republic violently suppressed a military revolt in Madiun that drew Communist backing, the United States secretly informed the Dutch that any military action against the republic would result in the cessation of US aid. When the Dutch proceeded to take such action in December, all US aid earmarked for Indonesia was suspended. In 1950, ECA aid was resumed to the now independent Republic of Indonesia.

Between 1948 and 1952, the ECA gradually became involved in aid programs to other underdeveloped areas besides the

overseas territories. The original Marshall Plan legislation included an authorization of \$463 million for China, which was to be administered by the ECA. In January 1949, Truman transferred the administration of economic aid in South Korea from the army to the ECA. In the following year, after the Chinese Revolution ended ECA activities on the mainland, Congress authorized the use of the leftover Chinese funds in the neighboring areas of Southeast Asia; this became the basis of programs in Taiwan, Indochina, Thailand, Indonesia, and Burma. A substantial aid program was initiated by the ECA in the Philippines in 1951, and the ECA financed a large shipment of grain to India in the same year. Outside of East Asia, most economic aid was administered by the Technical Cooperation Administration, formed in 1951.

Between 1948 and 1952, the great bulk of aid to the Third World was administered by the ECA and represented an attempt to intervene in civil and revolutionary struggles in Asia. Sixty-four percent of the total went to Taiwan, Korea, and the Philippines, and a \$248.7 million loan to India made to avert famine was credited with "preventing the establishment of a new Communist bridgehead in Asia."³⁶

NOTES

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- 7 Economic Cooperation Administration, Special Mission to the United Kingdom, *The Sterling Area: An American Analysis* (London: Economic Cooperation Administration, 1951), 68.
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- 10 Lloyd C. Gardner, *Architects of Illusion: Men and Ideas in American Foreign Policy, 1941–1949* (Chicago: Quadrangle, 1970), 22.
- 11 *ibid.*, 57.
- 12 Hickman, *Genesis*, 79.
- 13 William Appleman Williams, *The Tragedy of American Diplomacy* (New York: Delta, 1962), 236–7. Williams has explored the long-term social roots of the belief in the necessity of export markets in *The Roots of the Modern American Empire: A Study of the Growth and Shaping of Social Consciousness in a Marketplace Society* (New York: Vintage, 1969). For a variety of other statements by US officials linking reliance on exports to avoiding a postwar depression, see J. Fred Rippy, "Historical Perspective," in James Wiggins and Helmut Schoeck (eds), *Foreign Aid Reexamined* (Washington, DC: Public Affairs Press, 1958), 1–24.
- 14 For example, see Daniel Yergin, *Shattered Peace: Origins of the Cold War and the National Security State* (Boston, MA: Houghton Mifflin, 1977), 309.
- 15 Hickman, *Genesis*, 138, 208.
- 16 *U.S. News and World Report* (February 27, 1948): 21.
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 - 34 Samuel P. Hayes (ed.), *The Beginning of American Aid to Southeast Asia: The Griffin Mission of 1950* (Lexington, MA: D. C. Heath, 1971), 98.
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 - 36 Price, *The Marshall Plan*, 217.