

THE MARSHALL PLAN IN GREECE

We can best understand how to adapt the key technical details of the Marshall Plan by taking the case of Greece. In its economy and politics, Greece was the Marshall

CHASE THE DEVIL

Plan country most like poor countries today from various angles: in population, economy, and politics. The example of Greece gives us both concrete ideas to borrow and the hope it can work again.

Greece is smaller than the major countries of Europe. Its population at the time was 7.5 million, versus nearly 50 million each for Britain, France, Germany, and Italy. Of the sixteen Marshall Plan countries, Greece was the third poorest and the most unstable at the time. Only Portugal and Turkey were poorer, but both escaped most of the fighting of World War II. Greece suffered invasion from both Italy and Germany, which an active Greek resistance fought with the help of the British army. After the war the resistance split and fought a civil war: Greek communists with Russian help versus Greek royalists and democrats with British help. So among the war-torn countries, Greece was the poorest and stayed war-torn longest. And it was less than a full democracy before, during, and right after the Marshall Plan: The Greek king stayed in power to some degree through the 1940s and 1950s.

Small, poor, war-torn, and semi-democratic—that sounds a lot like many poor countries today, especially in Africa. Of course, Greece did not have forty years of aid to undo. And although its farmland was the poorest in Europe, it still had its ancient advantages of a single written language, excellent ports, and a prime location at the hub of Mediterranean trade. We cannot expect most poor countries to mimic Greece's success in whole. But how the

CHASE THE DEVIL

Marshall Plan helped, at scale and quickly, is worth learning from and mimicking in part.

The original Marshall Plan spent a different amount per person in all its sixteen countries, and the new one would do the same. Three percent of Marshall funds went to Greece: \$366 million out of \$12.7 billion total. That's about \$50 per person for Greece, or \$400 adjusted to today. By comparison, in the last chapter we estimated a ten-year budget of about \$100 billion for the ECA and ECA Foundation combined, over ten years: divided by the 1.5 billion poor people in the poor countries of the world. This would make \$67 per person, or about one sixth of what the Marshall Plan spent in Greece. If only half the poor countries joined in, that amount would double. And if the ECA had twice the funds we estimated, that amount would double again.

In one sense the Marshall Plan began with Greece. In postwar Europe, communism threatened to spread west in many countries, but especially France and Greece. In France the Communist Party might win an election. In Greece the communist fighters might take Athens. In February 1947 came crisis: Britain's lack of funds for its own recovery led it to cut off military aid to Greece. The Americans rushed in, first with direct military aid and then, thanks to General George C. Marshall, a recovery plan for not just Greece but all of western Europe.

A month before the Greek crisis, in January 1947, President Truman named Marshall his secretary of state. A month after the Greek crisis, in March, the president announced

CHASE THE DEVIL

American military aid to Greece. In April, Marshall met with the foreign ministers of Europe in Moscow to arrive at a final treaty for Germany and Austria. There he saw firsthand how the Soviet Union wanted to continue expanding into the West, and how the economic collapse of the West was helping. Marshall asked George Kennan of the Foreign Service to put together a working group and propose a program of economic aid to Europe. Kennan delivered his report on May 23. Four days later, a second report came from Marshall's undersecretary of state for economic affairs, William Clayton, a former business executive from the cotton industry. Marshall discussed both reports with his staff and advisors. A week later, on June 5, Marshall announced his plan in a speech at Harvard's commencement.

Here in part are his words:

The breakdown of the business structure of Europe during the war was complete. . . . The restoration or maintenance in European countries of principles of individual liberty, free institutions, and genuine independence rests largely upon the establishment of sound economic conditions, stable international economic relationships, and the achievement of the countries of Europe of a healthy economy independent of extraordinary outside assistance. The accomplishment of these objectives calls for a plan of European recovery, open to all such nations which cooperate in such a plan, based upon a strong production effort, the expansion of foreign trade, the

CHASE THE DEVIL

creation and maintenance of internal financial stability, and the development of economic cooperation, including all possible steps to establish and maintain equitable rates of exchange and to bring about the progressive elimination of trade barriers.

Marshall does not exactly list the ten elements of *Doing Business*, but he gives a good start. From Kennan's and Clayton's report, through Marshall's speech, and on to the detailed planning of that summer and fall, the details of how to support the business sector of western Europe became clear. From first to last, the Marshall Plan aimed at business, not charity. Many aid agencies were already working in Europe, especially the United Nations Relief and Rehabilitation Administration from 1943 to 1947, which handed over to the International Relief Organization in 1948. In postwar Europe, then, business support followed refugee relief. Contrast that with the recent decades in poor countries, where NGOs entered for disaster relief and then followed that with charitable village projects, not business.

There was nothing in Marshall's personal background to make him especially pro-business. His father owned his own company, selling coal in Pennsylvania, but the son never worked for it. The company suffered in the recession of 1893, so it did not appear to offer an immediate future for the boy. In 1897, at the age of seventeen, George enrolled in a state college, the Virginia Military Institute. He gradu-

CHASE THE DEVIL

ated in 1901, and joined the army. From there he worked his way up through the ranks, to become a key staff planner for American troops in World War I and then a general in 1936. Three years later President Roosevelt made him army chief of staff. That made him America's most important military commander during World War II. He never fought directly in that war: Eisenhower, in Europe, and MacArthur, in the Pacific, reported to Marshall in Washington.

At no time during those army years did Marshall have any more contact or show any greater interest in business than other American officers. Truman appointed him Secretary of State because he was a good diplomat and planner, not for any pro-business stance. And Truman himself was a Democrat. The Republicans were the more pro-business party. Marshall's speech, and the plan that followed, sprang not from any unusual knowledge or commitment to business but from the ordinary, mainstream American mentality that business was the source of mass prosperity. To this day the two main American political parties still agree on that, and probably always will.

Soon after his speech, Marshall invited all countries of Europe, including the Soviet Union, to meet in Paris from July 12th on to begin working out the details. The Soviets and the nations of Eastern Europe declined, although Czechoslovakia accepted at first and others, such as Hungary, would have attended if the Soviets had let them. Clayton led the American delegation. On July 21, Kennan reported to Marshall by memo the results of the Paris

CHASE THE DEVIL

convention: “We have no plan.” Instead the Europeans proposed various structures, programs, and amounts for the plan overall and for each country. There was little agreement. Yet Marshall was pleased. The Europeans had the first go at the details. He wanted them to design their own program as much as possible. The Paris conference never really ended. It broke up gradually into work and reports by committees, with Marshall’s staff alongside. The final report came out in September.

Right away we see an element to carry forward to our new ECA. The government of each poor country must agree to the ECA operating there. So a first step for the ECA is to invite poor countries to a meeting like the Paris conference of July 1947. Those who decline miss their chance to join and to influence the outcome. Over the following months the country delegates and ECA staff work together to hammer out the details of how the program will work.

But we expect some differences too. The European delegates in July 1947 all understood the business sector. That’s not the case for many poor countries today. The ECA will have to negotiate with each country the composition of their delegation, to include the legitimate business sector. Those businesses will likely include domestic and foreign firms. And the Marshall Plan had a single sponsor: The ECA will likely have many sponsors. So those sponsors will need to hammer out their own structure during the conference too. It will all be very complicated. But the Marshall Plan points the way.

CHASE THE DEVIL

Three kinds of committees came out of the Paris conference. First, a Committee of European Economic Co-operation (CEEC) included all the participating European countries as members. Our new ECA might do the same, either worldwide or by region, such as Latin America and the Caribbean, Africa, the Middle East, and Asia. Europe, after all, is a region. Next, an Executive Committee of five countries convened the CEEC and oversaw the Technical Committees that did the detailed work from July to September. Marshall and his staff chose the five. For various political reasons specific to the time and place, they were Britain, France, Italy, the Netherlands, and Norway. Some other countries objected, of course. Our new ECA would need an equivalent Executive Committee, likewise chosen by the ECA itself. And the Technical Committees would carry over completely to the new ECA.

The Executive and Technical committees dissolved in September. Their role was to help design the plan, not implement it. The CEEC became the permanent Organization for European Economic Co-operation (OEEC), to continue as the regional coordinating body for the plan. From October to March American advocates of the Marshall Plan sold it to their public and Congress. The Committee for Economic Development (CED), founded in 1942, played a key role. It was a group of business leaders who spun off from the Commerce Department's Business Advisory Council to work with government departments as the voice of the private sector in wartime economic

CHASE THE DEVIL

policy. The first president of the CED was Paul Hoffman, head of the car maker Studebaker. The U.S. Congress passed the Marshall Plan in March 1948. The ECA came into existence, replacing the Paris Executive Committee and Marshall's own planning staff. President Truman named Hoffman head of the ECA.

We are a long way from Greece, but all these details matter for how the Marshall Plan worked there. Greece took part in every step on the European side. The program began in April 1948. At that point Greece had a one-year plan for items it needed to buy and what it wanted to do with the money Greek businesses repaid. Marshall's staff approved the plan. For future years Hoffman's ECA staff took over. Each year Greece submitted a new one-year plan. This same one-year routine can carry over to the new ECA.

We turn now to how the Marshall Plan worked for Greece. The one-year Greek plan included contracting details and delivery dates. The ECA released that to U.S. businesses through the normal channels of the export-import trade: the U.S. Department of Commerce, press releases, and industry journals. A U.S. business contacted the Greek business directly. The ECA made sure that normal market prices prevailed, and issued a letter of commitment to a U.S. bank, which in turn arranged letters of credit with the Greek bank of the Greek business. The U.S. bank made a loan to the Greek business by paying the bill to the Greek bank. The ECA then reimbursed the U.S. bank in dollars, out of a revolving fund for Greece at the U.S. Treasury. The

CHASE THE DEVIL

amount of the total fund and of its annual use made up part of the annual Greek plan that the ECA approved.

In Greece the farmer or factory paid the Greek bank in drachmas, usually in installments as a loan. Instead of paying the U.S. bank in turn, the Greek bank forwarded the money to a Greek Treasury counterpart fund. The Greek government then used 95 percent of those funds for projects within Greece, as approved by the ECA in the annual plan. The other 5 percent went to the ECA for administrative costs.

There were other payment mechanisms too. Greece could pay with dollars from its own foreign exchange, for later reimbursement by the ECA; or issue an ECA draft through the U.S. Federal Reserve in favor of U.S. suppliers; or ask the ECA to issue a letter of commitment to the supplier, pledging direct payment without a bank. These alternative mechanisms were mostly for large shipments of commodities such as grain, oil, or steel, for very large Greek businesses.

The new ECA needs to adopt the same kind of flexible financing as the old ECA. The essential idea is the same: to turn aid into effective support for the entire domestic business sector in poor countries. Many elements can carry over intact, for example, the revolving fund by country. U.S. banks advancing payment for U.S. products will likely not be needed, because today all countries have easy access to world trade and various forms of financing for whatever they need to buy. All funding will be grants or

CHASE THE DEVIL

loans to local firms and organizations, not ECA contracts that those entities implement. Contrast that with the typical aid project, where the local organization is a subcontractor who hands over receipts payment-by-payment for a project that the aid agency manages. Under the ECA, businesses and other organizations manage directly and report income and expenses by normal business accounting procedures.

Over the four years of the Marshall Plan, Greece spent less than half of its counterpart funds (45 percent), thus leaving a healthy balance for the future. Like most other war-torn Marshall Plan countries, what Greece did spend went first for physical reconstruction: housing, public buildings, roads, railroads, and ports (31 percent). Unlike other Marshall Plan countries, because of its ongoing civil war, Greece spent a good share of its counterpart funds on refugee relief (29 percent). As a poor country, it also spent a good share on agriculture (13 percent), especially land reclamation, the purchase of livestock, and a research and extension system. And it made further loans to private Greek businesses of all kinds (7 percent). Next came sanitation and public health (3 percent), including a malaria campaign.

This spending pattern of counterpart funds shows that most of the money helped business: agricultural and commercial infrastructure, including a direct re-lending program for businesses. Not only did the Marshall Plan turn aid into effective financing for the whole Greek business sector, but it made Greek public spending dependent

CHASE THE DEVIL

on the volume of business. If Greek business thrived, it bought more inputs and paid more money into the government counterpart fund. That fund in turn spent most of the money to support more business. All these elements carry over intact to the new ECA.

The Marshall Plan included a technical assistance program, separate from the country programs, where American experts advised European businesses and government agencies and Europeans traveled to the U.S. to study American businesses. The whole program took up only 1.5 percent of the total Marshall Plan budget. Greeks participated, and asked for even more. The civil war lasted until 1949, and even after that instability continued. In 1950 alone, there were five different governments. This wreaked havoc on Marshall Plan administration, as government agency staff came and went. Many Greeks asked the Americans to take over the Greek side of administering the Plan, but they refused. That was the right response, so Greeks worked out the institutional arrangements that must endure after the Marshall money was gone.

Contrast that with the many foreigners that aid agencies post to design and run government and NGO projects in poor countries, to make sure the project goes right. But it goes right only as long as the foreigners remain, and then it falls apart. That's project assistance, not technical assistance. The difference between the two is crucial. In project assistance, the foreigners manage the project. In technical assistance, the local company or organization runs the

CHASE THE DEVIL

project, and technical assistants advise them on aspects of the project where they have special expertise. Decades ago in aid to poor countries, technical assistance was the norm. Mismanagement by the local entity led aid agencies gradually to shift to project assistance, though they still call it technical assistance. Like the original, the new ECA should fund technical assistance, not project assistance. If the local entity fails, it goes out of business, instead of getting propped up forever by foreigners who run the show.

Because the Greek government was in such bad shape, a share of its counterpart spending (3 percent) went to a special technical assistance program to reduce and reform it. In most poor countries aid has funded many technical assistance programs to reform government agencies, but without an internal financing mechanism like the counterpart fund or an overall reorientation toward business like the Marshall Plan. Although the scale of institutional disorder in most poor countries means that the ECA Foundation will have to spend grant money on institutional reform, including a portion in ECA financing is a good discipline to carry over from the original.

Contrast the Marshall Plan's tight financing formula with the World Bank's standard practice. In the Marshall Plan, businesses repaid loans and advances, and that money funded government projects directly. In poor countries today the World Bank staff designs projects for the government to implement and then calculates how much that will boost the overall economy. It adds up the projects

CHASE THE DEVIL

to arrive at a total projected economic increase and then calculates the extra taxes the government will collect. It then gives a huge loan for the government to pay back with the future taxes from the future economic growth. Five years later, when the growth has not happened and the government can't pay back the loan, the bank rolls it over or aid activists campaign for the bank to forgive it. Meanwhile, the bank has designed another set of projects that are already under way, with another loan the government will never repay.

The Marshall Plan encountered more obstacles in Greece than in other countries, but still the program worked. The Greek economy grew 30 percent over the four years of the plan and then took off in the 1950s, when Greece grew faster than any other country in the world except for Japan. But the ECA faced problems not only in Greece and the other Marshall Plan countries but in Washington too. There Hoffman fought off two sets of fellow Americans: officials from other agencies and industry lobbies.

Many State Department officials wanted the ECA under them, because it dealt with foreign affairs, but Marshall wisely decided to make it independent. Even so, officials in the State, Treasury, Commerce, and Agriculture departments wanted the ECA to hire staff from them and to work through them when it stepped on their turf, which was all the time. Instead Hoffman staffed the ECA in Washington mostly with fellow business executives, corporate lawyers, and investment bankers, and he tried his best to run the Marshall Plan on straight business principles rather than

CHASE THE DEVIL

according to the policies of the various departments. He won all major battles, although the struggles continued throughout the four years of the plan.

The industry lobbies were another matter. Hoffman wanted American business to compete on an equal basis with foreign business for Marshall Plan contracts. But the U.S. shipping lobby managed to write into the Marshall Plan law that 50 percent of all commodities under the Plan travel in U.S. ships. The wheat industry got in too, at 25 percent. The aluminum industry tried for 50 percent, but Hoffman was able to kill that in Congress. He then judged that U.S. shippers were overcharging, so he threatened to ignore the 50 percent rule. The shipping lobby fought back with a public relations campaign. So Hoffman threatened to quit. In the end he lost that round and stayed on. Later he managed to kill the wheat rule.

The new ECA has much to learn from Hoffman's struggles with competing agencies and industry lobbies. Donors to the new ECA must give it the same bureaucratic autonomy that Marshall gave the original. The same nationalistic procurement rules that Hoffman fought against still bedevil foreign aid today, not just for commodities like food aid but for technical—and project—assistance, where American agencies hire American companies and the British do the same for the French. The Danish will want a certain technical institute they fund at home to run some technical project in Guatemala. The French will insist on a certain percentage of French citizens on the ECA staff. The Americans will try to re-create the U.S. land-grant university system in every country. And

CHASE THE DEVIL

so on around the donor table. This is common aid practice, and for the ECA it will have to stop. That will be very hard to achieve. Each donor will want the ECA to promote its own policies, people, and institutions in the same way the American departments wanted Hoffman to promote theirs.

Last but not least, we must recognize the Marshall Plan's effect on European economic integration. There is no direct link: The European Union began as a regional coal agreement in 1951, then became a European Economic Community in 1957. But the indirect link is strong. The ECA forced the countries to come together on a single plan in Paris over the summer and fall of 1947, and they did. The ECA also forced them to open their borders to each other. And they did. The ECA's regional body, the OEEC, was too much an American creation, so the Europeans set up their own. All the poor regions of the world feature countries that are too small to thrive on their own, and most of them pay lip-service to regional integration, but the real problem is how. The new ECA can help, just like the original in Europe.

From Washington to Greece these myriad details start to point the way for how the new ECA might work. Many details will differ: For example, there won't be tractors and flour from America. But the structure and mechanisms of the old and new will be essentially the same—the same software, different hardware, for a different time and a different place. In that way the Marshall Plan remains timeless and universal, and the best hope to fight poverty in the poor countries of the world.