FOR EUROPEAN RECOVERY
SUPPLIED BY THE
UNITED STATES OF AMERICA

The Marshall Plan and How It Works

The enactment of "The Foreign Assistance Act of 1948" (approved April 3, 1948), was the culmination of nearly a year of agitation, special studies by many of the U.S. agencies and foreign governments, congressional hearings, and debate.

When hostilities ceased at the end of World War II, it was clearly evident that the war-ravaged nations of Europe would require extensive aid if their economies were to be re-established and starvation, unrest and political upheavals were to be avoided.

It was equally evident that the United States of America was the only nation with the resources and leadership capable of underwriting the rehabilitation of Europe. But it was plain, also, that the United States could not indefinitely support the strain on its economy which would result from feeding the starving millions of Europe--to say nothing of Asia --and that relief alone would not result in re-establishing normal life in the world.

It had become clearly evident, too, that the foreign policies of the Soviet government were apparently aimed specifically not at reconstruction, recovery and cooperation among nations, but the prolongation of economic chaos in Western Europe with a view to revolutionary action by the hungry and disillusioned populations and the assimilation of the whole of the continent into the totalitarian communist system.

Chairman of the President's Council of Economic Advisers
Dr. Edwin G. Nourse

Secretary of the Interior Julius A. Krug

In June 1947, Secretary of State George C. Marshall made his historic address at Harvard University in which he laid down the outlines of a definite plan to put European nations back on their feet economically. This "Marshall Plan," in its general outlines, formed the basis for the conference of 16 European nations in Paris at which they formulated detailed estimates of their needs. Intensive studies and reports by three groups --The President's Committee on Foreign Aid headed by W. Averill Harriman;[1] an interdepartmental group headed by Secretary of the Interior Julius A. Krug,[2] and a group under the chairmanship of Dr. Edwin G. Nourse, chairman of the President's Council of Economic Advisers[3]--followed. They studied the estimates made at Paris, the capabilities of the 16 nations for self-help, the sources of materials available throughout the world, and the amounts that would be needed from the United States.

[1] The President's Committee on Foreign Aid, known as "The Harriman Committee," chaired by Secretary of Commerce W. Averill Harriman, carried the major responsibility for anticipating the problems that would arise and for laying the groundwork of analysis essential to the establishment of policies for a sound program to implement the plan for European recovery. *"Certain Reports and Proposals on Foreign Aid," U.S. Agency for International Development, accessed February 15, 2013,* http://www.marshallfoundation.org/library/documents/Marshall_Plan/Reports/Studies_Prior_to_the_Marshall_Plan.pdf. and http://pdf.usaid.gov/pdf_docs/PNABT590.pdf.

Republican Senator Arthur H. Vandenberg, Chairman Senate Foreign Relations Committee stated in his March 1, 1948 Senate speech in favor of passage of the Economic Cooperation Act of 1948, that the Harriman Committee "had as fine and as representative a personnel as was ever gathered together to do an unselfish, patriotic act. Its ultimate report is one of the most comprehensive ever made to a public problem."

[2] The Natural Resources and Foreign Aid study, known as "The Krug Report," The purpose of this study was to determine the effects of a program of foreign aid upon our national resources, particularly our raw materials, our manpower, and our production facilities. Its scope covered extensive studies of the availability, current utilization, and potential expansion of our resources--including surveys of the major non-exportable resources--manpower, electric power, and transportation-and statements concerning the current and prospective production, consumption, export, and resource reserve position of major commodities and commodity groups. The commodities selected for study were those representing the bulk of current exports and most likely to be required for a foreign aid program. *Ibid*

[3] This report, "The Nourse Report," considered the extent of the burdens that would be imposed on the economy of the United States by providing further foreign aid during the next few years and the capacity of the economy to support those burdens. As a companion to the Krug Report on the impact of foreign aid on U.S. national resources and physical capacities, the Council of Economic Adviser report concentrated on the effects of exports, partially Government-financed, upon domestic production, consumption, and prices. *Ibid*

The results were a special session of Congress called by the President in November 1947 which provided funds for interim aid for France, Italy and Austria; and a special message to Congress in December 1947 requesting relief authorizations and an appropriation of necessary funds; extended hearings before committees of Congress, culminating in the enactment of the Foreign Assistance Act of 1948.

THE FOREIGN ASSISTANCE ACT

The Act as finally passed actually contains four separate laws: Title I, "The Economic Cooperation Act of 1948;" Title II, "The International Children's Emergency Fund Assistance Act of 1948;" Title III, "The Greek-Turkish Assistance Act of 1948;" and Title IV, "The China Aid Act of 1948."

Title I is, properly speaking, the essence of "The Marshall Plan," which deals with European recovery. The basic reasons which actuated Congress in its enactment are stated in Sec. 102 (a) in these terms:

> "Recognizing the intimate economic and other relationships between the United States and the nations of Europe, and recognizing that disruption following in the wake of war is not contained by national frontiers, the Congress finds that the existing situation in Europe endangers the establishment of a lasting peace, the general welfare and national interest of the United States, and the attainment of the objectives of the United Nations. 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 by 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 plan, based upon a strong production effort, the expansion of foreign trade, the 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."

The effectuation of this policy is to be attained by furnishing goods and financial assistance to the participating nations (the plan is open to other European nations which may later decide to cooperate) in such manner as to aid them "through their own individual and concerted efforts, to become independent of extraordinary outside economic assistance."

The ultimate goal of The Marshall Plan is to promote industrial and agricultural production in these European countries, to aid in restoring sound currencies, budgets and finances, and to foster the growth of international trade through all appropriate measures including "reduction of barriers which may hamper such trade."

In addition to the 16 nations which participated in the Paris Conference, (Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Norway, Portugal, Sweden, Switzerland, The Netherlands, Turkey and United Kingdom) the law specifies the inclusion of Bizonia (Germany) and the areas of Trieste under international control as participants and beneficiaries of the Plan.

Paul G. Hoffman, Head of the Economic Cooperation Administration,
the agency that operated the Economic Recovery Program (ERP)

THE ADMINISTRATIVE MACHINERY

Administration of the Plan is vested in a new agency, the Economic Cooperation Administration (ECA), headed by an Administrator, a Deputy, and the necessary staff of economists, accountants, lawyers, specialists in foreign trade and clerical staff. The Administrator is given the authority (Sec. 104 a) to create a Corporation under the Government Corporation Control Act, and he may "promulgate such rules and regulations as may be necessary and proper to carry out his functions."

These functions (Sec. 105 a) are:

(1) to review and appraise the requirements of participating countries,

(2) to formulate programs of U.S. assistance, including approval of specific projects submitted to him by participating countries,

(3) to provide for effective executions of approved programs, and

(4) to terminate assistance when (under Sec. 118) he decides that a participating country is not complying with its pledges under the law, or when assistance is no longer needed.

Provision is made for close liaison between the Administrator and the Secretary of State. In case differences of opinion between them cannot be reconciled by consultation, the President must decide.

Two Advisory Boards are setup to aid the Administrator:

(1) a National Advisory Council on International Monetary and Financial Problems (Sec. 106) to aid in coordinating policies and operations of the International Monetary Fund and the World Bank (originally created by the Bretton Woods Agreements Act) with policies and programs of the ECA, and

(2) a Public Advisory Board (Sec. l07 a) consisting of the Administrator and twelve members appointed by the President and confirmed by the Senate, which Board is authorized to "advise and consult" with the Administrator on general basic policy matters.

In addition to these two Boards, the Administrator is given power (Sec. 107 b) to appoint such other advisory committees as he may determine are needed.

W. Averill Harriman (right), Ambassador-at-Large to the Marshall Plan Countries,
with Paul G. Hoffman, Head of the Economic Cooperation Administration

THE “ROVING AMBASSADOR:” Sec. 108 of the Act provides for a U. S. Special Representative in Europe appointed by the President, subject to Senate confirmation. With the rank of Ambassador, he is the representative of the Administrator and chief representative of the U.S. Government to any organization of participating countries. He receives instructions from the Administrator, transmitted through the State Department. He coordinates the activities of special missions (established by Sec. 109) which may be sent to each one of the participating countries. These missions are responsible for overseeing the operation of the Plan in each participating country; their work must at all times be consistent with U. S. foreign policy; they receive instructions from the Administrator and report to him; and, in case of disagreement, the matter goes to the Administrator and the Secretary of State for settlement. If they disagree, then the matter goes to the President.

HOW ASSISTANCE IS FURNISHED : Any or all of five methods of assistance may be used by the Administrator:

(I) He may procure from any source any commodity which he determines to be required by the program. A commodity is defined by the law (Sec. 111) to mean "any commodity, material, article, supply, or goods necessary for the purposes of the program."

(2) He may authorize the processing, storing, transporting and repairing of any commodity or cause to be performed any other services for a participating country, but at least 50% of the gross tonnage of any commodities procured within the U.S. must be transported abroad on U.S. flag vessels, to the extent that such vessels are available "at market rates."

(3) He may procure and furnish technical information and assistance to participating countries.

(4) He may arrange for transfer of any commodity or service to "any agency or organization representing a participating country."

(5) He may allocate commodities and services to specific projects approved by him and designed to accomplish the purposes of the Act within participating countries.

PRIVATE TRADE CHANNELS: One of the most important sections of the Act, from the standpoint of American business is Sec. 111 b, in which Congress expresses its intent that the Administrator shall "facilitate and maximize the use of private channels of trade." In order to fulfill the five purposes discussed above, the Administrator may:

(1) establish accounts against which (i) letters of commitment may be used to constitute obligations of the U.S. and (ii) against which withdrawals may be made by participating countries, or agencies or organizations representing such countries;
(2) utilize the services of any other U.S. Government department or agency--with the agency's consent or by direction of the President and make available necessary funds to such agency for its services; and
(3) make guaranties (up to a total of not to exceed $300,000,000) to any person of investments made by such person (corporation) in connection with projects approved by the Administrator and the participating country, and arrange for the collection in dollars of returns on such investment in a foreign participating country, with a fee to be charged for such guaranty not exceeding 1% per annum on the amount guaranteed.

GRANTS OR REPAYMENTS: The Administrator may render assistance in the form either of outright grants in cash or credit, or upon terms of repayment, including payment by transfer to the U.S. by the participating country of materials needed by the U.S. as a result of deficiencies in its actual or potential resources of any material or commodity (Subsection (o) of Sec. 111). An important provision in this connection requires that, in determining whether assistance in any particular case shall be through grant or upon terms of payment, and if the latter, what terms the Administrator shall act "in consultation with" the National Advisory Council on International Monetary and Financial Problems. Although the Administrator may disregard such advice, he is required to seek it.

If and when, in any instance, it is decided to furnish certain assistance on credit terms, the Administrator allocates funds to the Export-Import Bank of Washington, which thereafter exercises the banking function in administering the credit. In order to allocate such funds as well as to make the "guaranties" discussed above, the Administrator is authorized (Sec. 111.2) to “issue interest-bearing notes" for purchase by the Treasury Department in an amount "not exceeding in the aggregate $1,000,000,000" for both purposes combined.

PROTECTION OF DOMESTIC ECONOMY: A vitally important section of the Act (Sec. 112 a) requires that the Administrator shall provide for the procurement in the U.S. of any commodities needed for export in such a way as to:

> (1) "minimize the drain upon the resources of the United States and the impact of such procurement upon the domestic economy,” and
>
> (2) "avoid impairing the fulfillment of vital needs of the people of the United States.” It is further specifically provided that procurement of petroleum and its products shall to the maximum extent possible be made from sources outside the U.S. A special provision (Sec. 112 c) covers the conservation of domestic grain supplies and by-product feeds necessary for agriculture in the U.S. Another provision (Sec. 112 d) vests in the Secretary of Agriculture with the right to define a “surplus agricultural commodity" (which the Administrator may procure for export) as any such commodity or product which the Secretary determines to be “in excess of domestic requirements.”

In order to aid U.S. agriculture, whenever the Secretary of Agriculture determines an agricultural commodity to be "surplus," the Administrator is required to authorize the procurement of such commodity only in the U.S., except that such commodities may be purchased abroad for transfer to a participating country if the Administrator, in consultation with the Secretary of Agriculture, determines that such purchase and transfer would not create "a burdensome surplus in the U.S." or "seriously prejudice the position of domestic producers of such surplus agricultural commodities," or if and to the extent that any such surplus is not available in the U. S. in sufficient quantities to supply all the requirements of the participating countries.

The Secretary of Agriculture is further empowered to determine in any case what, if any, items acquired by the Commodity Credit Corporation in administering agricultural price-support program, may be available for procurement as “surplus" by the Administrator. And an important restriction (Sec. 112 g) prohibits the export of any commodity from the U.S. to any European country which is not a participating country, if the supply of such commodity would thereby insufficient to fulfill the requirements of participating countries under the Marshall Plan.

APPROPRIATIONS: The act itself does not appropriate any funds for use of the Administrator; instead it authorizes advances to be made to the Administrator by the Reconstruction Finance Corporation (to be repaid from later appropriations to EGA) of not exceeding $1,000,000,000; plus any unobligated and unexpended balance of funds available under the Foreign Aid Act of 1947. The Act provides that to carry the program for one year following its approval there is authorized to be appropriated an amount not to exceed $4,300,000,000.

AGREEMENTS WITH PARTICIPATING COUNTRIES: The Secretary of State, in consultation with the Administrator, is charged (Sec. 115 a) with the function of concluding agreements with individual participating countries, or with the central organization set up by such countries, to fulfill the purposes of the Act. These agreements must include pledges by the participating countries to use all their efforts to accomplish joint recovery contemplated by the Marshall Plan. Specifically, each agreement must include appropriate provisions for:

(1) promoting industrial and agricultural production with the object of becoming independent of outside assistance by submitting to the Administrator specific projects, particularly (when applicable) of basic production of steel, coal, transportation facilities and food,

(2) taking necessary financial and monetary measure to stabilize currency and exchange and balance the governmental budget of the signatory country,

(3) taking appropriate measures to restore international trade between participating countries by reducing tariff and other barriers among themselves and with other countries,

(4) making efficient use of the country's own resources and those received under the Marshall Plan, including the use of foreign investments by its nationals in the U. S.,

(5) furnishing to the U. S. critically needed materials for stockpiling which are in short supply in the U.S.,

(6) placing a deposit of its currency in a special account in amounts commensurate to any outright grants of assistance, such funds to be used within the European country for such purposes as may be agreed between the country and the Administrator, after consultation with the National Advisory Council on International Monetary and Financial Problems, for purposes of internal financial stabilization and stimulation of production within such country,

(7) publishing full reports of operations under the agreements,

(8) supplying other needed information, and

(9) agreeing to negotiate a future minimum schedule of available critically needed materials for future U.S. and participating country purchase at world prices so as to protect the access of U. S. industry to an equitable share of such materials including, where practicable, an agreed schedule of increased production of such materials in the participating countries.

Participating countries must, within three months after date of enactment of the law, conclude the bilateral and multilateral agreements referred to above and, in that period, the Administrator has authority to proceed with such assistance, provided only that such country has signified its adherence to the purposes of the Act and its intention to conclude an agreement and if the country is complying with the intent of the Act. As to certain "relief" supplies--food, medical supplies, fibers, fuel, petroleum and its products, fertilizer, pesticides, and seed--the Administrator was authorized (up to June 30, 1948) to provide such assistance, regardless of the conclusion of agreements, to any of the nations which participated in the Committee of European Economic Cooperation, whenever he determines that such commodities are essential to alleviate hunger and cold and prevent serious economic disintegration. Effective follow-up inspection pledges to utilize the manpower of displaced persons, and retention of certain capital equipment scheduled for removal as reparations from the American-British-French occupied zones, is also provided.

SPECIAL PROVISIONS: The Administrator (Sec. 117 a) is authorized to use funds made available to promote an increase in production in participating countries of materials required by the U.S. where there are actual or potential shortages in the U.S.; he may in cooperation with the Secretary of Commerce, "facilitate and encourage" travel by U. S. citizens to and within participating countries (thus supplying an additional source of dollars to such countries); he is authorized to promote and encourage voluntary contributions for relief purposes in Europe, by paying ocean freight charges from U.S. ports to foreign ports on shipments of donated relief supplies, or relief packages sent to individuals. Transport from the European port in Europe to interior points is, wherever practicable, to be paid from the deposits of local currency placed in the special accounts (referred to above and provided in Sec. 115 b of the Act). Duty-free entry of such gift packages and voluntary agency relief supplies is to be arranged wherever practicable by the Secretary of State with the country concerned.

WESTERN HEMISPHERE COUNTRIES: By Sec. 116 the President is required to take "appropriate steps" to encourage all countries of the Western Hemisphere to participate in the Marshall Plan by making available to the European participating nations such assistance as they may be able to furnish.

THE "IRON CURTAIN: "An important provision, designed to prevent countries behind the "iron curtain" from receiving reshipments which might contribute to military use is included in subsection (d) of Sec. 117 which directs the Administrator to refuse delivery to participating countries of commodities which go into the production of anything designed for delivery to any non-participating country of Europe (meaning Soviet Russia and its satellites) which commodities would, under existing law and regulations, be refused export licenses by the U.S. "in the interest of national security."

THE CUT-OFF PROVISION: If a country is found to be failing to observe its agreements, the Administrator (Sec. 118) may terminate assistance. Such assistance may also be terminated if, because of changed conditions, the country no longer needs it.

OTHER PROVISIONS: The exceptional powers granted to the Administrator and, through him, to other governmental agencies cooperating in administration of the Marshall Plan include exemption from certain government contracts and accounting laws (Sec. 119) and exemption from Federal laws relating to employment (Sec. 120).

The Marshall Plan program uses the machinery of the United Nations, by authorizing the President to utilize the services and facilities of the U.N. or any of its organs and agencies; requires reports to U.N. of the Marshall Plan operations specifies registration with U.N. of agreements concluded under the Plan.

The termination date for the program is June 30, 1952, or such earlier date may be fixed by congressional concurrent resolution, with provision for its liquidation in the 12 months following any such termination of assistance.

The Act establishes a “watchdog committee"--the Joint Committee on Foreign Economic Cooperation--composed of ten members: three from the Committee on Foreign Relations and two from the Committee on Appropriations of the Senate; and three from the Committee on Foreign Affairs and two from the Committee on Appropriations of the House. They are required to make a continuous study of the programs of economic assistance to the participating European countries, to hold hearings, and to report to the House and Senate on the progress and efficiency of the program.

THE THREE ADDED TITLES

In addition to the Marshall Plan proper, embodied in Title I, Congress added three additional Titles as parts of the "Foreign Assistance Act of 1948." Title II, “International Children’s Emergency Fund Assistance Act of 1948." provides for the special care and feeding of children authorizing up to $60,000,000 in appropriations for the fiscal year ending June 30, 1949.

Title III is the “Greek-Turkish Assistance Act of 1948,” which authorizes additional appropriations (to those previously authorized under the Act of May 22, 1947) in the amount not to exceed $270,000,000.

Title IV, the "China Aid Act of 1948," is designed to "encourage the Republic of China in its efforts to maintain the genuine independence and the administrative integrity of China through a program of assistance based on self-help and cooperation." It authorizes appropriations not to exceed $338,000,000 to remain available for one year following enactment of this law with an additional special authorization of $125,000,000 for additional aid through grants, without regard to the provisions of the Economic Cooperation Act of 1948 (Title I of the Foreign Assistance Act of 1948). An advance of $50,000,000 from the Reconstruction Finance Corporation is made available pending appropriation of funds (Sec. 404).