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## ARTICLES

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### *The Marshall Plan in Germany, 1948-1952*

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#### I. National Economic Policy within a Multinational Framework

With his Harvard Address on June 5, 1947 Secretary of State George C. Marshall launched one of the major international economic programmes in this century. The European Recovery Programme involved the close and continued cooperation between the United States and sixteen European countries from 1947 to 1952, and \$ 14.1 milliard were spent on the programme. Since then there have been foreign aid programmes with a much bigger volume, but none has equaled the prestige of the Marshall Plan.

In its historical setting the Marshall Plan was part of the global strategy of the United States to reconstruct the capitalist world economy after the Second World War and to assert their political leadership. It was an economic programme to accomplish a political objective, using foreign aid to achieve economic stabilization and ultimately political stabilization in Europe.<sup>1</sup> The politics of the Marshall Plan have attracted more scholarly attention than its economics, particularly in Germany where the Marshall Plan was

<sup>1</sup> MICHAEL J. HOGAN, American Marshall Planners and the Search for a European Neo-Capitalism, in: *American Historical Review*, XC (1985). MICHAEL J. HOGAN, *The Marshall Plan. America, Britain, and the Reconstruction of Western Europe, 1947-1952*, Cambridge University Press, 1987. CHARLES S. MAIER, The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Europe, in: *American Historical Review*, LXXXVI (1981).

closely related to the decisive political issues of the time, the cold war, the partition of Germany and the restoration of a capitalist market economy in West Germany.<sup>2</sup> The economics of the Marshall Plan are interesting enough, however, to merit a study of their own.

In twentieth-century organized capitalism, bargaining is partially transferred from the market place to administrative centres, nationally and internationally: corporations bargain for privileges and subsidies, capital and labour bargain for collective wage schemes, governments bargain for influence in international institutions and programmes. Bargaining for national advantages is essentially what happened within the European Recovery Programme. Using foreign aid as a lever, the United States created a vast multinational framework comprising the Economic Cooperation Administration in Washington, the Organization for European Economic Cooperation in Paris and sixteen national administrations. For each of the participating countries, economic reconstruction depended not only on forces of production and markets, but also on successful bargaining within a multinational framework to obtain a satisfactory allocation of aid, to shape trade

<sup>2</sup> Cf. KNUT BORCHARDT, CRISTOPH BUCHHEIM, *Die Wirkung der Marshallplan-Hilfe in Schlüsselbranchen der deutschen Wirtschaft*, in: *Vierteljahreshefte für Zeitgeschichte*, XXXV (1987). G. VON CSERNATONY, *Le Plan Marshall et le redressement économique de l'Allemagne. Une étape vers l'intégration européenne*, Diss. Lausanne 1973. F. W. HENNING, *Wege und Wirkungen des Marshallplans*, in: *Scripta Mercaturae*, XV (1981). M. KNAPP, *Deutschland und der Marshallplan*, in: C. SCHARF, H.-J. SCHRÖDER, eds., *Politische und ökonomische Stabilisierung Westdeutschlands: 1945-1949*, Wiesbaden 1977. M. KNAPP, *Reconstruction and West-Integration: The Impact of the Marshall Plan on Germany*, in: *Zeitschrift für die gesamte Staatswissenschaft*, CXXXVII (1981). W. W. KRETZSCHMAR, *Auslandshilfe als Mittel der Aussenwirtschafts- und Aussenpolitik*, München 1964. E. KRIPPENDORF, ed., *The Role of the United States in the Reconstruction of Italy and West Germany, 1943-1949* (Freie Universität Berlin, John F. Kennedy-Institut für Nordamerikastudien, Materialien 16), Berlin 1981. W. LINK, *Der Marshall-Plan und Deutschland*, in: *Aus Politik und Zeitgeschichte*, XXX (1980), Heft 50. H. C. MAYER, *German Recovery and the Marshall Plan 1948-1952*, Bonn/Bruxelles/New York 1969. E. OTT, *Die Bedeutung des Marshall-Plans für die Nachkriegsentwicklung in Westdeutschland*, in: *Aus Politik und Zeitgeschichte*, XXX (1980), Heft 4.

liberalization and the new intra-European payments arrangements in concordance with national corporate interest, and to control counterpart investment. Nowhere was the impact stronger than in West Germany as the Marshall Plan era was the formative period of the country's export-oriented foreign economic policy.<sup>3</sup>

## II. Germany in Marshall's Plan 1947-1948

On the rare occasions when Marshall himself commented on the history of his plan he traced its origin to the Moscow Council of Foreign Ministers March 10 to April 24, 1947.<sup>4</sup> It was there that Marshall and British Foreign Secretary Bevin, having failed to win Soviet support for their plans to revitalize Germany as the industrial core of Europe, decided to go ahead on their own with a policy of economic reconstruction in the Anglo-American Bi-zone. On his return from the Moscow Council Marshall declared that the economic rehabilitation of Germany and Austria, the "vital center of Europe", was a prerequisite for economic recovery in Europe.<sup>5</sup>

The notion that in the long run a defeated Germany would have to be reintegrated into a multilateral world economy can be traced back to Secretary of State Cordell Hull's wartime planning. Europe needed Germany's industrial resources, and furthermore close integration into the world economy was in Hull's liberal view a means to warrant the peaceful orientation of the German economy; autarky leads to nationalism and aggression, whereas trade dovetailed with peace.<sup>6</sup> Morgenthau's opposing view that

<sup>3</sup> ALAN MILWARD has recently emphasized the prevalence of national economic policies within the European Recovery Programme; cf. A. MILWARD, *The Reconstruction of Western Europe 1945-1951*, London 1984; A. MILWARD, *Entscheidungsphasen der Westintegration*, in: L. HERBST, ed., *Westdeutschland: 1945-1955*. On the origins of West Germany's foreign economic policy M. KNAPP, ed., *Von der Bizonegründung zur ökonomisch-politischen Westintegration*, Frankfurt 1984.

<sup>4</sup> JOHN GIMBEL, *The Origins of the Marshall Plan*, Stanford 1976, p. 179.

<sup>5</sup> *Department of State Bulletin*, 11 May 1947.

<sup>6</sup> Cf. GERD HARDACH, *From Economic Disarmament to Economic Cooperation: Germany and Japan in the American World Economy, 1941-1952*, in: *Journal of International Studies* (Tokyo, Sophia University), XIV (1985).

Europe's industrial core should be turned into an agricultural and pastoral economy was only a brief interlude.<sup>7</sup> The early policy of economic disarmament embodied in the CS 1067 directive and the Potsdam agreement was never implemented with rigidity, and was from 1945 to 1947 gradually replaced by a policy of economic self-sufficiency. The economic situation in occupied Germany was so desperate that the United States and Britain soon began to provide aid to their occupation zones.<sup>8</sup> From 1945 the United States occupation forces distributed army supplies and stocks of the Combined Civil Affairs Office. To the civilian population from July 1946 aid was systematically provided under the GARIOA programme ("Government and Relief in Occupied Areas"). After the Bevin-Byrnes Agreement of December 1946 and the merger of the American and British occupation zones to the Bi-zone the GARIOA programme provided not only food ("category A") but also some raw materials for industrial recovery ("category B").<sup>9</sup> Thus from a German perspective the plan for European economic recovery which Secretary of State George Marshall announced in June 1947 was the logical continuation of established policies.<sup>10</sup> A multinational approach to European recovery would integrate United States support for the recovery of Germany into a European perspective and thus make it politically inoffensive; it would substitute American aid for German repara-

<sup>7</sup> Suggested Post-Surrender Program for Germany (Morgenthau Plan), September 1, 1944. Memorandum on the Treatment of Germany, September 15, 1944. Foreign Relations of the United States (= FRUS), 1944, Quebec Conference, pp. 86-90, 466-467.

<sup>8</sup> J.H. BACKER, *Priming the German Economy. American Occupation Policies 1945-1949*, Durham 1971. J. GIMBEL, *The American Occupation of Germany*, Stanford 1968. F. JERCHOW, *Deutschland in der Weltwirtschaft: 1944-1947. Alliierte Deutschland- und Reparationspolitik und die Anfänge der westdeutschen Aussenwirtschaft*, Düsseldorf 1978. R. WOLFE, ed., *Americans as Proconsuls. United States Military Government in Germany and Japan, 1944-1952*, Southern Illinois University Press 1984.

<sup>9</sup> Bundesministerium für den Marshallplan (= BMP), Memorandum über Nachkriegs-Auslandsschulden, 20. Sept. 1951. Bundesarchiv Koblenz (= BA) B 146/234.

<sup>10</sup> Remarks by the Honorable GEORGE C. MARSHALL, Secretary of State, at Harvard University on June 5, 1947. FRUS 1947, III, p. 237-239.

tions, overt or hidden, and the multinational institutions that went with the recovery plan would provide subtle controls which would satisfy Germany's neighbours and yet would be compatible with its future independence.<sup>11</sup>

However, early in 1947 the Truman administration faced an array of problems in Europe, and Germany was only one of them.<sup>12</sup> There was the intervention in Greece and Turkey which had led to the Truman Doctrine, the economic weakness of Britain, the socialist challenge in France and Italy, and the general problem of relief and reconstruction. Foreign aid had long been regarded as a key to economic and political stability. From the end of the war until early 1947 the United States spent some \$ 11 milliard, nearly as much as the Marshall Plan would eventually cost, and they had little to show for it.<sup>13</sup> The dismal situation called obviously for a new approach. This was clearly reflected in the series of official and semi-official documents, memoranda and speeches in the spring of 1947 which preceded Marshall's Harvard speech: the State-War-Navy Coordinating Committee's preliminary report on foreign aid of April 21, the "Delta Council" speech by Under Secretary of State Dean Acheson on May 8, the two memoranda by the State Department's new Policy Planning Staff under George Keanan of May 16 and May 23, and Clayton's memorandum on the European crisis of May 27, 1947.<sup>14</sup>

<sup>11</sup> GIMBEL, *The Origins of the Marshall Plan*, pp. 5, 274-280.

<sup>12</sup> R. BRÄHLER, *Der Marshallplan*, Köln 1983. U. DANIEL, *Dollardiplomatie in Europa. Marshallplan, kalter Krieg und US-Aussenwirtschaftspolitik: 1945-1952*, Düsseldorf 1982. M. KNAPP, Das Deutschlandproblem und die Ursprünge des Europäischen Wiederaufbauprogramms, in: *Politische Vierteljahresschrift*, XIX (1978). CHARLES KINDLEBERGER, The American Origins of the Marshall Plan: A View from the State Department, in: STANLEY HOFFMANN, CHARLES MAIER, eds., *The Marshall Plan: A Retrospective*, Boulder/London 1984.

<sup>13</sup> R.F. MIKESSELL, *United States Economic Policy and International Relations*, New York 1952, p. 246.

<sup>14</sup> FRUS 1947, III, pp. 197-249. DEAN ACHESON, *Present at the Creation*, New York 1969, pp. 226-236. *Selected Papers of Will Clayton*, ed. by F.I. DOBNEY, Baltimore 1971, pp. 201-206. GEORGE F. KEANAN, *Memoirs, 1925-1950*, Boston 1967, pp. 325-353. FORREST C. POGUE, *George C. Marshall: Statesman, 1945-1959* (Marshall Biography, Vol. 4), New York 1987.

Based on these documents, Marshall diagnosed an economic crisis in Europe from which the Europeans could and should extricate themselves in a coordinated effort, supported by American foreign aid. It was in the interest of the United States to assist in the return of normal economic health, which was a prerequisite for political stability and assured peace, presumably under United States leadership, though Marshall was careful to emphasize that his policy was directed "not against any country or doctrine but against hunger, poverty, desperation and chaos".<sup>15</sup> Both the diagnosis and the remedy were based on scanty economic information. While Europe was certainly poor by United States standards, recovery was under way and the European crisis which alarmed experts like Clayton was essentially a foreign exchange crisis, due to a surging demand for investment goods and consumer goods. European leaders were preoccupied with the growing dollar gap, but did not share the feeling of urgency which haunted American planners and politicians. Nor did European leaders generally subscribe to the American idea of economic integration as the only means to recovery; many were, quite to the contrary, bent on policies of national economic planning for reconstruction. Here was a source for future misunderstandings: the United States propagated economic integration for economic as well as political reasons to organise European support for their policies, but European governments accepted the rhetoric of integration only reluctantly as the political price to be paid for dollar grants, which was what they really wanted.<sup>16</sup>

Political confrontation, too, was a price which had to be paid. Marshall had termed his plan as an open proposal, including "everything up to the Urals", as he said in an interview.<sup>17</sup> This was largely a concession to European governments who did not want

<sup>15</sup> FRUS 1947, III, p. 238.

<sup>16</sup> MILWARD, *Reconstruction*, pp. 56-69.

<sup>17</sup> R.M. FERRELL, *George C. Marshall as Secretary of State, 1947-1949*, New York 1966, p. 120.

to be rushed into a confrontation with the Soviet Union; the conditions were such that it was most unlikely that the Soviet government would join the Marshall Plan. When Bevin and Bidault informed their colleague Molotov at the Paris Conference June 27 - July 2, 1947 that the United States made their offer of foreign aid contingent on close cooperation and disclosure of detailed economic information and supervision of the participating economies by a European authority, Molotov not unexpectedly rejected these conditions as an infringement on his country's sovereignty.<sup>18</sup> After the failure of the Paris Conference many east European and central European countries rejected Marshall's plan, some with apparent regret. The Marshall Plan became a "watershed in the cold war",<sup>19</sup> with the frontier between the capitalist and the communist world running through the middle of Germany. Only the three Western occupation zones of Germany would take part in the Marshall Plan; economic aid was one more step toward partition.

Sixteen European countries accepted the joint British and French invitation to discuss a European answer to Marshall's proposal at a second Paris Conference, the "Committee of European Economic Cooperation" (CEEC) from July to September 1947: Austria, Belgium, Britain, Denmark, France, Greece, Iceland, Ireland, Italy, Luxemburg, Netherlands, Norway, Portugal, Sweden, Switzerland and Turkey. The European answer turned out to be different from what the Truman administration expected: the Europeans asked for much more aid than the United States were prepared to give, and no serious effort was made towards economic integration. Instead of the programme for European economic cooperation which the United States ex-

<sup>18</sup> Ministère des Affaires Etrangères, Documents de la Conférence des Ministres des Affaires Etrangères de la France, du Royaume Uni et de l'URSS tenue à Paris du 27 juin au 3 juillet 1947, Paris 1947. E.H. VAN DER BEUGEL, *From Marshall Plan to Atlantic Partnership*, Amsterdam 1966, pp. 59-63.

<sup>19</sup> A.B. ULAM, *Expansion and Coexistence. Soviet Foreign Policy 1917-1973*, New York 1974, p. 437.

pected, the European governments merely presented a noncommittal shopping list. Under strong pressure by the American observers who monitored the CEEC conference closely the Europeans finally trimmed down their requests to a realistic level. The cumulative trade deficit of Western Europe with the United States from 1948 to 1951 was estimated at \$ 22 milliard. It was assumed that \$ 3 milliard might be financed by an export surplus with third countries and another \$ 3 milliard by credits from international financial institutions, which would leave \$ 16 milliard as the necessary volume of United States' aid still too much for the American observers who declared that the conference report was only "preliminary" and would have to be "retailored." In spite of these difficulties the CEEC was a major breakthrough for economic reconstruction in West Germany. France was brought to accept the Anglo-American view, also shared by the Benelux government, that the economic rehabilitation of West Germany was essential for the economic recovery of Europe; in exchange, an international control over the Ruhr industrial centre was envisaged to satisfy French security demands.<sup>20</sup>

After the disappointing CEEC conference, Marshall's proposal that a European Recovery Programme should be drawn up by the Europeans themselves as a joint effort was tacitly dropped. The European Recovery Programme was hammered out from September 1947 to April 1948 in negotiations between the Truman administration and Congress.<sup>21</sup> As the drafting of the programme took more time than had been expected, an Interim Aid programme was launched in December 1947 to provide foreign aid for Austria,

<sup>20</sup> FRUS 1947, III, p. 249-439. Committee on European Economic Cooperation, Vol. I (General Report) and vol. II (Technical Reports), Washington 1947. GIMBEL, *Origins of the Marshall Plan*, pp. 258-265. MILWARD, *Reconstruction*, pp. 56-89. For the American qualification of the report FRUS 1947, III, pp. 415-417.

<sup>21</sup> Cf. HADLEY ARKES, *Bureaucracy, the Marshall Plan, and the National Interest*, Princeton 1972, pp. 59-131. IMMANUEL WEXLER, *The Marshall Plan Revisited. The European Recovery Program in Economic Perspective*, Westport/London 1983, pp. 9-54.

France and Italy. Under strong pressure from the China lobby, aid to the faltering Nationalist Chinese government was added to the Interim Programme.<sup>22</sup>

Foreign aid was now heavily impregnated by the rhetoric of the Cold War. When President Truman introduced the European Recovery Programme legislation to Congress in December 1947, Marshall's open proposal had become a bulwark to defend Western civilization and the American way of life against Soviet totalitarianism. The European Recovery Programme was scheduled for four years from April 1948 to June 1952. The total cost was estimated at \$ 17 milliard, but definite appropriations were to be made annually, decreasing in volume as the European economies moved towards viability.<sup>23</sup> The Economic Cooperation Act was finally passed in April 1948 as part of the Foreign Assistance Act, an omnibus bill which included also aid to China, UNICEF relief and assistance to Greece and Turkey. The objectives of the European Recovery Programme were defined as sound economic conditions, stable international economic relationships and independence from outside assistance. To accomplish these objectives, a recovery plan was to be implemented based on (1) a strong production effort, (2) the expansion of foreign trade, (3) the creation and maintenance of internal financial stability, and (4) the development of economic cooperation. The Economic Cooperation Administration (ECA) was created to administer the programme, a formidable organization with headquarters in Washington, a "Special Representative" in Europe and "Special Missions" in each of the participating European states. The ECA not only doubled the State Department bureaucracy but aimed at extending United States executive powers into the sovereign states of Europe. The

<sup>22</sup> *A Decade of American Foreign Policy. Basic Documents, 1941-1949*, Washington 1950, p. 1278-1283. *Foreign Relief Aid 1947* (Senate Foreign Relations Committee, Historical Series 1947-1950), Washington 1973. FERRELL, *George C. Marshall*, p. 129.

<sup>23</sup> *Public Papers of the Presidents of the United States. Harry S. Truman, 1947*, Washington 1963, p. 515-529.

“dollar gap” provided the United States with enormous political leverage, and the ECA intended to use it. The European countries held a second CEEC conference from March 15 to April 16 to discuss the imminent start of the European Recovery Programme and establish the “Organization for European Economic Cooperation” (OEEC) on April 16, 1948 as a permanent organization.<sup>24</sup> On the basis of the Economic Cooperation act the United States concluded a series of bilateral agreements with eighteen participating states or territories, fifteen of the original CEEC members plus the Bi-zone, the French Zone, and the US/UK-Zone of Trieste. Switzerland became an OEEC member but did not apply for American aid.

### III. The Implementation of the Marshall Plan in Germany 1948

In February 1948 the German administration of the Anglo-American Bi-zone received official notice from the Military Governors that West Germany was to be included in the European Recovery Programme.

The Military Governors requested the administration to prepare a reconstruction plan which was to be submitted to the Organization for European Economic Cooperation at Paris; reconstruction plans submitted by the participating governments were the basis on which the OEEC would discuss the distribution of Marshall aid.<sup>25</sup>

The official invitation to join the Marshall Plan came at a crucial stage in West Germany’s political and economic history. In the Anglo-American Bi-zone the new policy of economic reconstruction on which Marshall and Bevin had agreed at the Moscow Council of Foreign Ministers was rapidly put into effect. In May

<sup>24</sup> A Decade of American Foreign Policy, Basic Documents, 1941-1949, pp. 1299-1322. FRUS 1948, II, pp. 352-501. WEXLER, *Marshall Plan*, pp. 41-54.

<sup>25</sup> Bipartite Control Office to Verwaltungsrat des Vereinigten Wirtschaftsgebietes, 17 February 1948. BA Nachlass Pünder 704.

1947 a quasi-parliamentary German administration was planned for the Anglo-American Bi-zone, operating from June 1947, with a board of six Executive Directors ("Direktoren") as government, the Economic Council ("Wirtschaftsrat") as parliament and an Executive Committee ("Exekutivausschuß") as a second chamber representing the federal element. Working under the close supervision of the two Military Governors and their Bipartite Control Office ("Zwei-Mächte-Kontrollbüro"), the new institutions paved the way for a future West German government; in February 1948 the German administration of the Bi-zone was reorganized and obtained more autonomy.<sup>26</sup> In July 1947 a new policy directive was issued to the American Military Governor, with more emphasis on economic reconstruction than on control as an objective of United States occupation policy in Germany.<sup>27</sup> A new level-of-industry plan was issued for the Bi-zone in August 1947, replacing the four-power plan of 1946. The limit of industrial production was raised from 50-55 per cent to 70-75 per cent of the industrial production in 1938, and the dismantling list was reduced from 1800 plants to 858 plants.<sup>28</sup> In September 1947 the Truman administration decided to go ahead with the currency reform in occupied Germany, if necessary with a separate reform for the three Western occupation zones only. Plans for a West German currency reform were confirmed in March 1948, the "Bank deutscher Länder" was founded as a central bank for the Bi-zone, and the Soviet Union withdrew under protest from the four-power Allied Control Council in Berlin.<sup>29</sup> The new German administra-

<sup>26</sup> TILMAN PÜNDER, *Das bizonale Interregnum. Die Geschichte des Vereinigten Wirtschaftsgebietes: 1946-1949*, Waiblingen 1966.

<sup>27</sup> Directive to Commander-in-Chief of the United States Forces of Occupation, July 11, 1947. *A Decade of American Foreign Policy, Basic Documents, 1941-1949*, pp. 552-562.

<sup>28</sup> W. ABELSHAUSER, *Wirtschaftsgeschichte der Bundesrepublik Deutschland: 1945-1980*, Frankfurt 1983, p. 25.

<sup>29</sup> ECKHARD WANDEL, *Die Entstehung der Bank deutscher Länder und die deutsche Währungsreform 1948*, Frankfurt 1980.

tion of the Bi-zone, representing a centre-right coalition, planned to combine the currency reform with an economic reform towards decontrol and liberalization. Hence the currency reform, liberalization and the Marshall Plan came to be regarded as a comprehensive policy package for reconstruction, but also for restoration.<sup>30</sup> However, the first official comment on West Germany's inclusion in the European Recovery Programme was careful; the administration expected that additional imports of food, raw materials, consumption goods and investment goods would lead to a better utilization of Germany's economic resources, but it warned that the effect would come about only gradually.<sup>31</sup>

The German administration had been given short notice and the reconstruction plan was worked out within three weeks by the Bi-zonal Economic Department under Ludwig Erhard and the Food and Agriculture Department under Schlange-Schöningen. The German experts assumed that a perfunctory description would suffice to substantiate the claim for foreign aid; the plan which they submitted was a slim document of 16 pages.<sup>32</sup> This was considered inadequate by the Military Government. It rejected the draft plan and requested that a detailed economic plan should be worked out which should take due notice of the political situation in Europe. "Although the German Reconstruction Plan will necessarily be presented in the name of the Military Governors, it will be recognised in Paris as being the first major expression of German opinion in international affairs. It is important therefore

<sup>30</sup> W. ABELSHAUSER, Die Rekonstruktion der westdeutschen Wirtschaft und die Rolle der Besatzungspolitik, in: C. Scharf, H.-J. Schröder, ed., *Politische und ökonomische Stabilisierung Westdeutschlands 1945-1949*, Wiesbaden 1977. W. ABELSHAUSER, Probleme des Wiederaufbaus der westdeutschen Wirtschaft, 1945-1953, in: H.A. Winkler, ed., *Politische Weichenstellungen im Nachkriegsdeutschland: 1945-1953* (Geschichte und Gesellschaft, Sonderheft 5), Göttingen 1979.

<sup>31</sup> Verwaltung für Wirtschaft, Die Wirtschaftslage der Vereinten Zone im Februar 1948, BA Z 8/210.

<sup>32</sup> Verwaltung für Wirtschaft und Verwaltung für Ernährung und Landwirtschaft, Entwurf eines Aufbauplans für das Vereinigte Wirtschaftsgebiet für den Zeitraum April 1948 bis März 1949, 10. März 1948. BA Nachlaß Pünder 704.

that the general attitude adopted throughout the plan should be based on this fact, and should reflect a consciousness of the responsibility which the Bi-zonal area, in common with other participating nations, must be willing to undertake".<sup>33</sup>

In April 1948 the Bi-zonal administration submitted a revised reconstruction plan which paid due regard to the request of the Military Governors. It was a detailed economic plan, with statistics and production targets for every branch of industry, and it described Germany's economic recovery explicitly as part of a multilateral European reconstruction effort. In the specification of production targets priority was attached to the production of food and other consumption goods which were necessary to raise the productivity of the labour force and to secure the success of the currency reform and the liberalization programme. Next in priorities came coal and steel production, the development of the transport system, and the supply of energy. Production of consumption goods was to be raised from the current 10-20 per cent of the pre-war level to 35 per cent, steel production was to be doubled from 3 million tons in 1947 to 6 million tons in 1948; agricultural production was to be increased to 80 per cent of the 1938 level. The import programme put emphasis on food and raw materials. Food accounted for 45 per cent of all planned imports, raw materials and semi-manufactures 16 per cent, consumption goods 16 per cent. Only 7 per cent of planned imports were investment goods, most of it transport and mining equipment to overcome specific bottlenecks. It was estimated that imports of \$ 2.1 milliard were necessary while exports would reach only \$ 0.7 milliard. This left a deficit of \$ 1.3 milliard which would have to be financed by foreign aid, either under the old GARIOA Programme or under the new European Recovery Programme.<sup>34</sup> Thus, contrary to a widely held

<sup>33</sup> Bipartite Control Office to Verwaltungsrat des Vereinigten Wirtschaftsgebietes, March 18, 1948. BA Nachlaß Pünder 704.

<sup>34</sup> Der Verwaltungsrat des Vereinigten Wirtschaftsgebietes, Aufbauplan 1948-1949 für die Wirtschaft des Vereinigten Wirtschaftsgebietes. BA Nachlaß Pünder 705.

view, the Marshall Plan was not a programme to import investment goods for the reconstruction of the West German economy. With its emphasis on food and raw material imports the reconstruction plan confirmed the traditional pattern of Germany's foreign trade to import food and raw materials in exchange for manufactures.

The economic potential for a recovery was better than the dismal situation in early 1948 suggested. The capital stock was larger than in the mid-thirties; investment during the armament boom of the late thirties and during the war had been so important that it left a net increase after the combined effect of depreciation and war destruction was deducted. The total capital stock in the Bi-zone area in constant prices is estimated to have been 20 per cent higher in 1945 than in 1936. From 1945 to 1948 the combined effect of depreciation and industrial dismantling with little new investment taking place led to a net decline, but the capital stock in constant prices was still some 10 per cent higher in 1948 than in 1936.<sup>35</sup> Another asset of West Germany's post-war economy was the qualified labour force, with millions of people eager to find gainful employment. Refugees from East Germany increased the labour force of the Bi-zone. Its population in 1948 was 41 millions, 7 millions more than in 1939.<sup>36</sup>

Thus the main problem was the underutilization of labour and capital rather than a lack of capital. Industrial production in the first quarter of 1948 was only 48 per cent of the 1936 level,<sup>37</sup> labour productivity was estimated in early 1948 at 40-50 per cent of its pre-war level.<sup>38</sup> Low productivity was mainly due to the scarcity

<sup>35</sup> Cf. W. ABELSHAUSER, *Wirtschaft in Westdeutschland: 1945-1948. Rekonstruktion und Wachstumsbedingungen in der amerikanischen und britischen Zone*, Stuttgart 1975, pp. 114-126.

<sup>36</sup> *Op. cit.*, p. 102.

<sup>37</sup> ALBERT RITSCHL, Die Währungsreform von 1948 und der Wiederaufstieg der westdeutschen Industrie, in: *Vierteljahresschrift für Zeitgeschichte*, XXXIII (1985), pp. 162-164.

<sup>38</sup> Verwaltung für Wirtschaft, Die Wirtschaftslage der Vereinten Zone im Februar 1948. BA Z 8/210.

of food. There was widespread undernourishment; the official 1550 daily calories per person were rarely attained in 1947, and in the Ruhr industrial region the level fell at times to 800 calories. Thus food imports were regarded as the most important contribution to economic recovery, and next to food ranged other consumption goods to provide incentives for work. Ludwig Erhard argued in April 1948 that under the prevailing conditions, food and other consumption goods should be regarded as highly productive investment goods; more was to be gained by improving the efficiency of labour than by augmenting the capital stock.<sup>39</sup>

The imminent currency reform, and the free market policy which the Bi-zonal administration planned to combine with it, provided an additional motive to emphasize the import of food and other consumption goods. Monetary assets would be radically reduced by the currency reform, but there was nevertheless some apprehension that the abolition of price controls and rationing might be followed by an inflationary surge in consumer demand. German policy makers hoped that any such inflationary pressure could be neutralized by additional imports under the Marshall Plan. Thus the revised Reconstruction Plan defended high imports of coffee and tobacco because they were not only valued as incentives but would also absorb purchasing power.

Investment was indirectly linked to the European Recovery Programme. German importers would pay in Deutsche Mark currency for imported goods, and these counterpart funds were to be accumulated as an investment fund under joint German and United States control. Ludwig Erhard was confident in February 1948 that the bulk of capital accumulation would be financed by counterpart funds: "After the currency reform we will not have in Germany any capital for investment purposes. If we tried to accumulate that capital from small savings at the expense of the already low standard of living that would be a difficult way. We

<sup>39</sup> LUDWIG ERHARD, *Deutsche Wirtschaftspolitik*. Rede vor dem Wirtschaftsrat. Entwurf vom 20. April 1948. BA Z 13/30.

hope to get foreign aid (Marshall Plan) for these purposes. Then the solution will be that investment will be financed by foreign aid, while German incomes at the low, medium and high level can be used essentially for consumption."<sup>40</sup>

The Military Governors accepted the substance of the revised Reconstruction Plan, but they reduced the request for United States aid to \$ 1083 million. Of these, \$ 637 million were to be financed by the old GARIOA Programme and \$ 446 million were submitted to the OEEC as the Bi-zonal request for aid under the European Recovery Programme.<sup>41</sup>

While the experts were working on the reconstruction plan the Military Governors discussed in March 1948 the political aspects of the Marshall Plan with representatives from the Bi-zonal administration and "Länder" (state) governments. The Military Governors emphasized that the Marshall Plan must become a political success in West Germany. It was, as General Clay explained, an important political option. Since the Soviet Union had refused to cooperate, the Marshall Plan had become a West European Recovery Programme, and it would closely integrate West Germany into the West European economy. Clay warned that the Marshall Plan must not be "sabotaged" by internal opposition; potential "saboteurs" should be identified and neutralized by the German administration. To these political objectives the German administration pledged its full support. Erhard, in turn, explained his policy which envisaged a close link between currency reform, free market policy and Marshall Plan. While the Military Governors would not yet rule out a simultaneous currency reform in West and East Germany, Erhard argued that the inclusion of the Soviet Zone was neither possible nor desirable. The currency reform, if it was to be successful, would not be possible if the "collectivist"

<sup>40</sup> Sitzung der Sonderstelle für Geld und Kredit am 25. Februar 1948. BA Z 32/10. Cf. also ABELSHAUSER, *Probleme des Wiederaufbaus der westdeutschen Wirtschaft*, p. 240.

<sup>41</sup> Economic Cooperation Agency, West Germany. Country Study, Washington, February 1949, p. 11.

Soviet Zone were economically merged with the Western Zones and their free enterprise system. A merger, Erhard maintained, could only lead to the result that the Western Zones would be infested by "collectivist" practices.<sup>42</sup>

Currency reform, economic reform and the Marshall Plan were steps toward the economic partition of Germany, and the Bi-zonal administration was aware of it. The political implications of the Marshall Plan worried the socialist opposition, but the economic advantages were considered as so decisive that the SPD did not dare to reject the plan. The Economic Council ("Wirtschaftsrat") of the Bi-zone had welcomed the European Recovery Programme in July 1947 with a broad majority; only the communist deputies voted against the motion.<sup>43</sup> In April 1948 Hermann Pünder, head of the Bi-zonal administration, presented the reconstruction plan to the Economic Council. Pünder described the European Recovery Programme enthusiastically as "a turning point in our history." He argued that the Marshall Plan opened for a large part of Germany a way out of destitution and isolation which were the heritage of the Nazi system and the war, and that it promised reconstruction, recovery and eventually integration with equal status into the European community of nations.<sup>44</sup> In the chaotic post-war situation Pünder's description of the Marshall Plan as a historical turning point between destitution and recovery, despair and optimism, isolation and integration had all the qualities to become a myth, and indeed it has impregnated public reminiscences and historical studies of Germany's post-war history. Ludwig Erhard seized the opportunity and presented immediately after Pünder's Marshall Plan address an economic programme in which the imminent currency reform, economic

<sup>42</sup> Besprechung der Generale Clay und Robertson mit Persönlichkeiten des Vereinigten Wirtschaftsgebietes am 13. März 1948. BA Nachlass Pünder 704.

<sup>43</sup> Session of July 22, 1947. Wörtliche Berichte und Drucksachen des Wirtschaftsraates des Vereinigten Wirtschaftsgebietes 1947-1949, München 1977. Vol. 2, p. 4.

<sup>44</sup> Session of April 21, 1948. Loc. cit., p. 433-436.

liberalization and the Marshall Plan were tied into a policy package.<sup>45</sup>

The official programme of recovery and restoration caught the opposition in a dilemma. Kurt Schumacher had voiced early support for the Marshall Plan at the Nürnberg party conference of 1947, only a few weeks after Marshall's Harvard address, warning at the same time that American aid should not be used to foster a capitalist restoration.<sup>46</sup> This conditional acceptance was confirmed by official SPD statements in late 1947 and was again expressed by Herbert Kriedemann in the Economic Council in April 1948. Kriedemann accepted the Marshall Plan as an important contribution to Germany's economic recovery but warned that it should not be used in a reactionary design.<sup>47</sup> To some SPD members, however, this qualified acceptance went too far. Fritz Baade, a prominent economist, criticized that Herbert Kriedemann and Gerhard Kreyssig were "sometimes dangerously close to the arguments of General Lucius Clay".<sup>48</sup> In October 1949, after the founding of the Federal Republic, Baade still thought that West Germany might leave the Marshall Plan once it had gained full sovereignty, and suggested that the United States should be warned of a possible failure of the programme.<sup>49</sup>

The trade unions tried, like the SPD with which they shared the ideal of a "third way" between capitalism and communism, to separate the issues of recovery and restoration. In a first statement in August 1947 the trade unions of the British Zone welcomed the Marshall Plan but insisted that it should not be used to forestall socialization and other union claims. A trade union conference for the British zone in June 1948 endorsed the view of union leader

<sup>45</sup> *Loc. cit.*, pp. 436-445.

<sup>46</sup> Cf. E. OTT, *Die Wirtschaftskonzeption der SPD nach 1945*, Marburg 1978, pp. 167-179.

<sup>47</sup> *Berichte und Drucksachen des Wirtschaftsrates*, pp. 482-484.

<sup>48</sup> Baade an Fritz Heine, 21. April 1948. BA Z 35/349.

<sup>49</sup> ERP-Ausschuss des Bundestages, Sitzung vom 28. Oktober 1949. BA Nachlass Pünder 303.

Hans Böckler that Germany simply could not afford in its desperate situation to repudiate the Marshall Plan. Böckler maintained that the struggle for socialization might still be won, while a minority criticized that the European Recovery Programme was the end of socialization.<sup>50</sup> In the end only the Communist Party remained adamant in its opposition to the Marshall Plan. Kurt Müller summed up the main arguments in the Economic Council; in his view, the European Recovery Programme perpetuated West Germany's economic dependence upon the United States, strengthened the capitalist restoration, and contributed to the partition of Germany.<sup>51</sup>

West Germany was represented in the European Recovery Programme by the three military Governors. Two separate bilateral agreements were concluded by the United States, on July 14 with the American and British Governors for the Bi-zone and on July 9, 1948 with the French Governor for the French Zone. No German authorities were consulted in either case; the Bi-zonal administration was only informed after the agreement had been signed.<sup>52</sup> Under the control of the military Governors a small German Marshall Plan organization was set up within the Bi-zonal administration in March 1948. It was essentially a high-level coordinating office with Otto Schniewind, a former banker and civil servant, and a small staff.<sup>54</sup> The actual planning and administrative tasks were to be performed within the Economic Department under Ludwig Erhard. A special committee was established to coordinate the activities of the Bi-zonal administration and the state governments ("ERP Ausschuss"), while the administration

<sup>50</sup> E. SCHMIDT, *Die verhinderte Neuordnung: 1945-1952*. Frankfurt 1970, pp. 114-124.

<sup>51</sup> Wörtliche Berichte und Drucksachen des Wirtschaftsrates, vol. 2, pp. 487-490.

<sup>52</sup> Vermerk über die Besprechung deutscher Vertreter mit den Militär-Gouverneuren am 30. Juli 1948. BA Z 14/4. KNAPP, *Anfänge westdeutscher Aussenwirtschafts- und Aussenpolitik*, pp. 40-41.

<sup>53</sup> Aktennotiz von Pünder, 13. März 1948. BA Nachlass Pünder 704. KNAPP, *Anfänge westdeutscher Aussenwirtschafts- und Aussenpolitik*, pp. 43-45.

and interest groups came together in another committee with members from the Bi-zonal administration, the central bank, business, and labour unions ("ERP Arbeitsausschuss"). The German ERP office had as its counterpart an ERP office within the Military Government, with an American and a British element. At the OEEC in Paris and the ECA in Washington the Bi-zone was represented by the Military Government, but the delegation included several German experts. The role of these experts was gradually upgraded to prepare for the time when West Germany would be an OEEC member in its own right.<sup>54</sup>

Marshall Plan and currency reform brought the Bi-zone and the French Zone closer together. The currency reform of June 1948, though not Erhard's economic reform, included the French Zone, and at the same time the authority of the Bi-zonal central bank "Bank deutscher Länder" was extended retroactively as of March 1948 to the French Zone. In October 1948 the French Zone's foreign trade administration "Office du Commerce Extérieur" (OFICOMEX) was taken over by the Bi-zonal "Joint Export-Import Agency" (JEIA). Politically however the tiny French Zone, with only 19 per cent of the Bi-zone's territory and 13 per cent of its population in 1948, was administered as a distinct unit until the foundation of the Federal Republic of Germany in 1949. Decentralization was carried to the extreme, and no central German administration was admitted in the French Zone. The Saar region with its industrial resources was early separated from the French Zone and economically annexed to France. A customs line between the Saar and the rest of the zone was established in Dezember 1946, French currency was introduced in 1947, and in February 1948 the three Western allies agreed on the economic annexation of the Saar region by France to become effective in April 1948, when the European Recovery Programme started. A major difference to the Bi-zone was that the French administration

<sup>54</sup> Vertraulicher Jahresbericht 1948 des Beraters für den Marshall-Plan, 27. Januar 1949. BA Z 14/8.

made its occupation zone rigorously self-sufficient. Part of this policy was to close the frontier to East German refugees; the population of the French Zone in 1948 was 5.3 million, the same as in 1939.<sup>55</sup>

The Marshall Plan for the French Zone was managed by the military government as there was no central German administration. A small coordinating office with German staff was established in May 1948 to ensure coordination between the three state governments. In 1949 German experts were invited to join the French Zone's OEEC delegation, and the military government suggested strengthening the German ERP office in order to secure more influence for the French Zone in the future West German state. By then, however, the German experts thought that an expansion of the coordinating office would create unnecessary complications as the staff would soon be integrated into the Bi-zonal ERP organization. A small delegation was established to represent the French Zone at the ECA in Washington.<sup>56</sup>

The reconstruction plan for the French Zone was completed in May 1948, shortly after the Bi-zonal reconstruction plan. The plan set ambitious targets: industrial production in the French Zone was to be raised to 60 per cent of the 1936 level, agricultural production to 80 per cent, exports also to 80 per cent of the 1936 level. The planners calculated the demand for imports at \$ 370 million, which was more than could possibly be financed; export earnings from merchandise exports, electricity and tourism were estimated at \$ 156 million, ERP aid at \$ 111 million, which left a gap of \$ 103 million. Part of the problem was the recent separation

<sup>55</sup> W. ABELSHAUSER, *Wirtschafts- und Besatzungspolitik in der Französischen Zone 1945-1949*, in: C. Scherf, H.-J. Schröder, eds., *Die Deutschlandpolitik Frankreichs und die Französische Zone: 1945-1949*, Wiesbaden 1983. MATHIAS MANZ, *Stagnation und Aufschwung in der französischen Besatzungszone im ersten Marshallplan*, *Jahr. Bericht des Koordinierungs-Ausschusses für die deutschen Marshallplan-Arbeiten*, August 1949. BA B 146/227.

<sup>56</sup> *Deutsche Geschäftsstelle des ERP für die Französische Zone an den Berater für den Marshallplan*, 12. April 1949 und 6. Mai 1949. BA Z 14/156. Vermerke vom 2. Sept. 1949 und 15. Sept. 1949. BA Z 14/173.

of the Saar region. The balance of payments estimate contained a trade deficit with the Saar of \$ 60 million which the French administration would charge to their occupation zone in dollars.<sup>57</sup>

#### IV. Currency Reform, Inflation and Foreign Aid 1948-49

The European Recovery Programme started with an interim "90 Days Recovery Programme" from April to June 1948, followed by the first regular ERP year from July 1948 to June 1949. The United States granted a total of \$ 6.0 milliard for the first fifteen months, which was slightly less than the OEEC had expected. Consequently the aid requests of the participating countries had to be revised. Negotiations were less than amiable as each country defended its share in the programme. The Bi-zonal aid request was considerably reduced by the OEEC, but the military government used its direct access to Washington; the ECA overruled the OEEC decision and allocated a higher share to the Bi-zone.<sup>58</sup> In the end West Germany, the three Western occupation zones together, received an allocation of \$ 614 million for the first fifteen months of the Marshall Plan.<sup>59</sup>

The first ERP imports for the Bi-zone arrived in June 1948: grain, whale oil, copra, binder twine, canned beef and potatoes. They were imported not only from the dollar area but also from Belgium, France, the Netherlands and Switzerland. However, the quantities were small. By the end of June 1948 imports totaled \$ 20 million; this was less than one fifth of the \$ 111 million which had

<sup>57</sup> Deutsche Geschäftsstelle des Europäischen Wiederaufbauprogramms für die französische Besatzungszone, Plan für den wirtschaftlichen Wiederaufbau der drei Länder der französischen Besatzungszone Deutschlands: 1948-1949, 21. Mai 1948. BA B 146/236.

<sup>58</sup> Wiederaufbau im Zeichen des Marshallplanes, p. 158. Report of the OEEC Council on the preliminary distribution of aid under the ERP, August 12, 1948. BA Z 14/48. Vermerk von Martini vom September 1948. BA Z 14/8. VAN DER BEUGEL, *From Marshall Aid to Atlantic Partnership*, pp. 139-157.

<sup>59</sup> Wiederaufbau im Zeichen des Marshallplanes, p. 23.

been planned and allotted for the 90-Day Recovery Programme.<sup>60</sup> After the Marshall Plan enthusiasm of early 1948 the slow start of the programme led to some disenchantment. In August 1948 high level consultations were held in Frankfurt to speed up the operation of the plan. The ECA explained that it had difficulties in purchasing grain and other foodstuffs on the American market as demand was stronger than supply.<sup>61</sup> But more important than the market situation was the bureaucratic administration of the programme. The military government complained that the Economic Department of the Bi-zonal administration did not get its import programmes ready, the German administration complained that the military government's ERP office delayed the import programme, and both agreed that the ECA was too slow to organize purchases and shipments.<sup>62</sup> The programme continued to lag seriously behind schedule. Imports of \$ 361 million had been planned for the Bi-zone from April to December 1948. Of these, \$ 328 million (91 per cent) had been approved by the ECA, \$ 244 million (68 per cent) had been committed in purchasing contracts, but only \$ 99 million (28 per cent) had actually arrived in Germany. Emphasis was put on food imports, mainly grain, flour, meat, oil, peanuts, vegetables and fruits. Industrial raw materials began to arrive in October 1948, mainly cotton for West Germany's textile industry. Food accounted for 78 per cent of all ERP imports in 1948, raw materials 20 per cent and manufactures 2 per cent.<sup>63</sup>

Early planning had assumed a close connection between the Marshall Plan, the currency reform and the new free market policy of the bi-zonal administration; this link had dominated the politic-

<sup>60</sup> Bipartite Control Office, ERP Secretariat, Status Report 6, September 2, 1948. BA B 146/94.

<sup>61</sup> Vermerk über eine Besprechung am 9. August 1948. BA Z 14/4.

<sup>62</sup> Besprechung zwischen Bipartite Control Office und deutscher Verwaltung, 13. August 1948. BA Z 14/4.

<sup>63</sup> Vertraulicher Jahresbericht 1948 des Beauftragten für den Marshall-Plan, 27. Januar 1949. BA Z 14/8. Freight not included.

al discussions in 1948. As a result of the slow start, however, the Marshall Plan made in fact no contribution to either the currency reform or the free market policy. The currency reform was carried out in June 1948 in the three Western occupation zones. In the Bi-zone it was combined with a sweeping liberalization programme. Rationing and most price controls were abolished, while wage controls were maintained until November 1948. The reform was followed by a short inflationary boom during the second half of 1948. Declining real incomes led to strong labour protests against Erhard's new economic policy. In November 1948 a general strike was proclaimed. The labour unions asked for a complete reversal of policy, the reintroduction of price controls, economic planning and the socialization of banking and basic industries.<sup>64</sup> At the same time the "Bank deutscher Länder", West Germany's new central bank, applied monetary restrictions to fight inflation. Reserve ratios were raised, bills were scrutinized for eligibility, and finally a credit freeze was declared.<sup>65</sup>

The inflationary boom ended in early 1949. The additional purchasing power which had come from the conversion of Reichsmark accounts levelled off and the wage earning population had to adjust effective demand to the meagre incomes of the time. The new problem was unemployment as the number of unemployed increased from 450,000 in June 1948 to 1.1 million in March 1949. The "Bank deutscher Länder" began to ease its restrictions in March 1949. The Council of Economic Advisers to the Bi-zonal administration recommended an expansive monetary policy to bolster demand and fight unemployment.<sup>66</sup>

<sup>64</sup> Entschliessung des Gewerkschaftsrates der Vereinten Zone vom 5. November 1948. BA Z 13/305. G. BEIER, *Der Demonstrations- und Generalstreik vom 12. November 1948*, Frankfurt 1975.

<sup>65</sup> Bank deutscher Länder, Geschäftsbericht für die Jahre 1948 und 1949, Frankfurt 1950. Ausschuss für kreditwirtschaftliche Fragen, Auswirkungen der Kreditpolitik auf die deutsche Wirtschaft, September 1949. BA Z 13/42.

<sup>66</sup> Gutachten des Wissenschaftlichen Beirats der Verwaltung für Wirtschaft vom 7./8. Mai 1949, in: *Der Wissenschaftliche Beirat beim Bundeswirtschaftsministerium*,

The currency reform, liberalization and the general acceleration of the pace of recovery put considerable strain on the Bi-zone's foreign trade, which was administered by the Allied "Joint Export-Import Agency" (JEIA). Exports increased considerably in 1948, and the performance of the JEIA was in fact better than its reputation as a stifling bureaucracy. Yet the whole import programme continued to hinge on United States government deliveries in kind under the old GARIOA programme. According to an ECA estimate, total imports of the Bi-zone in 1948 were \$ 1.4 milliard. Of these, 50 per cent were GARIOA imports, 7 per cent were ERP imports and 43 per cent were financed by export earnings.<sup>67</sup> To some extent the balance of trade problem was distorted by political pricing. The Allies had fixed the prices for coal, timber and scrap metal, the Bi-zone's most important exports at that time, below world market prices, mainly at the insistence of the French government, and on the other hand some GARIOA imports were apparently overpriced. If market prices had been applied to both imports and exports the Bi-zone's trade deficit would certainly have been smaller. But the core of the problem was real. Economic recovery necessitated imports of food to raise productivity and imports of raw materials for Germany's industry at a time when West Germany's export capacity was still weak.

A report on the Marshall Plan issued in January 1949 by Otto Schniewind, the Bi-zonal ERP administrator, reflects the change from optimism to realism within the Bi-zonal administration. Schniewind described the Marshall Plan as useful, but too limited to have an immediate impact. He suggested that expectations should be shifted from the mediocre immediate economic results to the political gains; in the long run the European common market which the Marshall Plan fostered would be more important

*Sammelband der Gutachten von 1948 bis 1972*, Göttingen 1973. Wiederaufbau im Zeichen des Marshallplanes, p. 89.

<sup>67</sup> Economic Cooperation Agency, West Germany. Country Study, Washington, February 1949.

than any immediate material benefits.<sup>68</sup> The operation of the Marshall Plan improved in early 1949 as the planning and procurement process was simplified and a workable routine established. As the first ERP year came to its close, Pünder reported in April 1949 to the Bipartite Control Office, which was alarmed by Schniewind's pessimistic report, that considerable progress had been made in the implementation of the Marshall Plan. On the whole, the dollar gap during the first year 1948-49 was not quite as huge as German and Allied planners had assumed in the reconstruction plan of April 1948. Total imports of the Bi-zone during 1948-49 were \$ 1723 million, exports \$ 862 million, leaving a deficit of \$ 861 million. This is fairly consistent with the foreign aid accounts which put ERP imports for 1948-49 at \$ 310 million and GARIOA imports at \$ 579 million. Thus approximately 33 per cent of the Bi-zone's imports during the first ERP year were GARIOA imports, 17 per cent ERP imports and 50 per cent were financed by export earnings.<sup>69</sup>

In the Bi-zone the shift from pre-ERP aid provided by the GARIOA programme and the British contribution to ERP-aid was gradual. The situation was different in the French Zone, which carried a heavy burden of current reparations without any foreign assistance. In anticipation of the Marshall Plan the French government reduced reparations, and the Marshall Plan promised food and raw materials in support of a fragile recovery. The first ERP imports, agricultural and industrial products valued at \$ 14 million, arrived during the second quarter of 1948. By the end of 1948 ERP imports valued at \$ 43 million had arrived in the French Zone, leading to a substantial expansion of total imports. But as in the Bi-zone, actual deliveries lagged behind the official schedule.

<sup>68</sup> Allgemeiner Bericht über den Marshall-Plan, 7. Januar 1949. Vertraulicher Jahresbericht 1948, 27. Januar 1949. BA Z 14/8.

<sup>69</sup> BICO to Pünder, 10 February 1949. Economic Council, Bi-zonal Economic Policy and the ERP (Report), 13 April 1949. BA Z 14/148. Wiederaufbau im Zeichen des Marshallplanes, pp. 23-24, 82. The figure for Bi-zonal ERP imports has been obtained by substracting the French Zone's ERP imports from the total.

The German ERP office blamed the complicated procurement process for the delay. The distribution was also very slow: consumption goods reached the consumer 6-8 weeks after they had been shipped in the United States, industrial goods needed 2-3 months to reach their destination. The implementation of the Marshall Plan improved in 1949, as it did in the Bi-zone. By the end of the first Marshall Plan year the French Zone had received ERP imports for \$ 78 million, about 35 per cent of all imports of \$ 223 million; merchandise exports were \$ 129 million.<sup>70</sup> Export earnings and foreign aid fell short of what planners had expected or rather hoped for in May 1948, so that imports had to be seriously curtailed. For the three Western occupation zones together, ERP imports were \$ 389 million from April 1948 to June 1949, or 63 per cent of the available funds of \$ 614 million.<sup>71</sup>

Economic integration in Western Europe as an objective of the Marshall Plan was more popular among American planners than among European governments, as the CEEC conferences had already demonstrated in 1947 and early 1948. Within the OEEC there was fiercely competitive bargaining for United States aid rather than a coordinated effort for cooperation and integration, as Pünder, the head of the German Bi-zonal administration, complained.<sup>72</sup> As a positive commitment to cooperation, ECA Administrator Paul Hoffman suggested in July 1948 that the OEEC countries should discuss a quantitative Long Term Plan for 1952-53, the year when Western Europe was supposed to have achieved independence from outside assistance. The individual countries were to prepare national plans which should be discussed at the OEEC and integrated into a multilateral Long Term

<sup>70</sup> Service de Statistique, *Réalisation du Plan Marshall*, 2 juillet 1949. BA B 146/7. Deutsche ERP-Stelle für die französische Zone, *Notiz über die technische Durchführung des ERP*, 6. Januar 1949. BA Z 14/156. *Die Wirtschaft der französischen Besatzungszone im ersten Marshallplan-Jahr. Bericht des Koordinierungsausschusses für die deutschen Marshallplan-Arbeiten*, August 1949. BA B 146/227.

<sup>71</sup> *Wiederaufbau im Zeichen des Marshallplanes*, p. 23.

<sup>72</sup> *Interfraktionelle Besprechung zum ERP*, 7. September 1948. BA Z 14/8.

Plan, so that a scenario of economic viability for Western Europe in 1952-53 would emerge. The Long Term Plan was not expected to be a detailed blueprint for specific economic policies. It should contain the major objectives, the expected trade flows between OEEC members and other key variables to give a broad idea of what was economically feasible within the next four years. Hoffman's ambitious suggestion reflects the permanent concern of the ECA that the participating countries should commit themselves unequivocally to integration and viability, so that United States aid would not become an unlimited engagement. The OEEC accepted Hoffman's proposal; national Long Term Plans were to be submitted in October 1948 for further discussion within the OEEC.<sup>73</sup>

The Bi-zonal Long Term Plan was prepared by the German administration and revised by the military government. It was estimated that industrial production in the Bi-zone should reach 110 per cent of the 1936 level in 1952-53, agricultural production 100 per cent and gross national product 105 per cent. Taking the population increase into account, per capita income at constant prices was expected to attain 81 per cent of its 1936 level in 1952-53. These production targets would require total gross investments of \$ 30 milliard for the period from 1948-49 to 1952-53, allowing for \$ 12 milliard net fixed capital investment, \$ 5 milliard net inventory investment and \$ 13 milliard depreciation. Part of this investment programme was to be financed by counterpart funds and private capital imports, but no quantitative forecast was made for the external contribution. It was estimated that imports would have to be raised by 75 per cent from 1948-49 to 1952-53 to sustain the production targets. If a balance of trade equilibrium was to be realized, exports would have to attain \$ 2.8 milliard, which was a 300 per cent increase over 1948-49. It was assumed

<sup>73</sup> The Long-Term Program. Memorandum adopted by the Council at its 30th Meeting on 4th August, 1948. National Archives, Washington (= NA), RG 469, ECA, European Program Division, Director, Subject Files, box 5. MILWARD, *Reconstruction*, p. 202-203. VAN DER BEUGEL, *From Marshall Aid to Atlantic Partnership*, p. 168.

that the Bi-zone would still have a trade deficit with the United States in 1952-53 which would have to be compensated by a trade surplus with West European countries. The German planners had originally assumed a trade deficit of \$ 500 million in 1952-53, but they had been overruled by the experts of the Military Government who insisted that the plan must show a balance of trade equilibrium. The message of the Bi-zonal Long Term Plan was unequivocal: to achieve economic viability in 1952-53, West Germany would have to become a major industrial power and an important competitor on the world market.<sup>74</sup>

At the OEEC in Paris the Bi-zonal Long Term Plan was received with surprise, to say the least. The other delegations conceded that the production targets were moderate; the targets for agricultural production and per capita income were even considered as rather low. If the production targets were accepted the level of imports were not unreasonable. Yet the volume of exports which went necessarily with these imports, once a balance of trade equilibrium was assumed, came as a shock for West Germany's European neighbours. Apparently the delegates from other OEEC countries perceived only then that a viable economy would require West Germany to become an important economic power, and not only a customer, but also a strong competitor. Particularly vehement objections were raised against the proposition that West Germany should aim at an export surplus in Europe to compensate the trade deficit with the United States; this looked like passing the problem to Germany's European neighbours rather than solving it. Even those governments which had until then supported West Germany's economic recovery were now apprehensive that a new German export offensive was in the making.<sup>75</sup>

<sup>74</sup> Das langfristige Programm der Bizone. BA Z 8/1943. Economic Cooperation Agency, West Germany. Country Study, Washington, February 1949. Vermerk vom 3. März 1949. BA Z 14/124.

<sup>75</sup> Berichte von Keiser, November 1948, und Mangoldt, 10. November 1948. BA Z 14/124.

Eventually the European Long Term Plan remained a torso. The national Long Term Plans and the trade flows which they assumed were not consistent with each other and the delegations failed to reach an agreement. The ambitious project of a European Long Term Plan had failed; the OEEC contented itself to publish the national Long Term Plans as they had been prepared by the participating governments.<sup>76</sup>

Instead of a rigorous Long Term Plan the OEEC Council agreed in March 1949 on a "Plan of Action" with seven "principles" of viability and integration: (1) Monetary and financial stability, (2) a rapid increase in exports, (3) a reexamination of imports, (4) expansion of trade between OEEC member countries, (5) careful study of investment and modernization projects to avoid excess capacities, (6) coordination of investment projects between OEEC members, (7) a study of population problems. The progress of the programme was to be reviewed at regular intervals by the OEEC Council.<sup>77</sup> Announced as an agreement to implement the Long Term Plan, the Plan of Action was in fact so vague to be almost meaningless in practice, perhaps not unintentionally. The motive was obviously to satisfy the ECA with a declaration of interest and good will.

A more powerful integrative instrument than either the Long Term Plan or the OEEC Action Plan of March 1949 was the system of intra-European drawing rights which was introduced in October 1948. In this "Little Marshall Plan," as the system came to be called, countries with estimated export surpluses had to grant non-redeemable drawing rights to deficit countries. Within the surplus countries these intra-European grants were financed out of counterpart funds. The effect of the "Little Marshall Plan" was a redistribution of Marshall Plan aid. Surplus countries had part of

<sup>76</sup> OEEC, *Interim Report on the European Recovery Programme*, 2 vols., Paris, December 1948.

<sup>77</sup> OEEC Council, March 21, 1949. BA Z 14/48. MILWARD, *Reconstruction*, pp. 203-204.

their ERP quota commuted into "conditional aid" which was de facto passed on as intra-European aid to other countries; deficit countries enjoyed an addition of intra-European aid to their ERP-quota. One sixth of the total ERP allotment for 1948-49 was redistributed within the "Little Marshall Plan". Net givers of intra-European drawing rights were Britain, Belgium and, with smaller amounts, Sweden, Italy, Turkey, and West Germany; net recipients were France, the Netherlands, Greece, Austria, Norway and Denmark. For West Germany a net contribution of \$ 9 million was planned, consisting of a contribution of \$ 10 million by the Bi-zone and a grant of \$ 1 million to the French zone. But as German importers used less than half of the Bi-zone's drawing rights, the net contribution rose in fact to \$ 48 million.<sup>78</sup> German experts criticized at the time the fact that the "Little Marshall Plan" forced West Germany to render a part of its Marshall aid to neighbouring countries.<sup>79</sup> But in the long run the advantages of an early export orientation outweighed the temporary loss of resources.

According to the bilateral agreements between the United States and occupied West Germany, counterpart funds would be available for domestic investment. The decision whether the Marshall Plan funds were to be considered as a grant or as a loan which would have to be repaid was deferred for the time being.<sup>80</sup> In a first enthusiastic appraisal Ludwig Erhard had expected that counterpart funds might finance the bulk of West Germany's investment. That, however, was much too optimistic. To justify the release of

<sup>78</sup> W. ABELSHAUSER, *Der Kleine Marshallplan. Handelsintegration durch innereuropäische Wirtschaftshilfe, 1948-1950*, in: HELMUT BERDING, ed., *Wirtschaftliche und politische Integration in Europa im 19. und 20. Jahrhundert (Geschichte und Gesellschaft, Sonderheft 10)*, Göttingen 1984. MILWARD, *Reconstruction*, pp. 258-278. WEXLER, *Marshall Plan*, pp. 135-144.

<sup>79</sup> G. KEISER, *Konstruktionsmängel des Marshallplans*, in: *Wirtschaftszeitung*, V. November 1949. Die Grundlinien des gesamten Marshallplan-Systems. Memorandum von Dr. Wegmann, 3. September 1949. BA Z 14/41.

<sup>80</sup> ERP-Ausschuss des Bundestages, 27 Oktober 1949. BA Z 14/10

counterpart funds the Bi-zonal administration prepared a two year investment plan for 1948-49 and 1949-50. The total investment requirements for these two years were estimated at \$ 8.3 milliard, based on the investment programme of the Long Term Plan. Priority was assigned to investment in public utilities, energy, the chemical industry and the optical industry. The plan did not suggest a precise amount of counterpart funds, but it maintained that other countries financed 70 to 75 per cent of their investment from counterpart funds, and that the economic situation of the Bi-zone justified a comparable, if not a higher contribution.<sup>81</sup> This was obviously incompatible with the volume of aid which the United States envisaged.

Counterpart funds investment was by its very nature a bureaucratic procedure and could not be expected to yield quick results. In December 1948 a special bank, the "Kreditanstalt für Wiederaufbau", was founded to administer the counterpart investment programme; it began to operate in early 1949.<sup>82</sup> By the end of 1948, DM 121 million had been accumulated in counterpart funds, the equivalent of \$ 36 million at the prevailing exchange rate of \$ 0.30 for DM 1.<sup>83</sup> In addition to these ERP counterpart funds the Military Government promised that some counterpart funds from the GARIOA Programme would be available for investment. Investment programmes were prepared by the bi-zonal administration in cooperation with the Kreditanstalt für Wiederaufbau and had to be submitted to the Military Government and the ECA for approval. The Military Government and the ECA examined the investment projects in detail, and they had also to be satisfied that the German administration complied with the ECA's request of general fiscal and monetary stability. This included a

<sup>81</sup> Verwendung der DM-Erlöse aus ERP-Einführen. Vermerk vom 3. Januar 1949. BA Z 13/301.

<sup>82</sup> M. POHL, *Wiederaufbau. Kunst und Technik der Finanzierung: 1947-1953*, Frankfurt 1973.

<sup>83</sup> Vertraulicher Jahresbericht 1948, 27. Januar 1949. BA Z 14/8.

request that serious efforts must be made to increase domestic capital formation before any counterpart funds were released. Contrary to early German speculations, the Military Government and the ECA regarded counterpart funds only as a supplementary source, not as the mainstay of capital formation. General Clay proposed in April 1949 a relation of 5 : 1 between domestic savings and counterpart funds. Towards the end of the first ERP year the Kreditanstalt für Wiederaufbau obtained some GARIOA funds and an interim credit from the Military Government for a few selected investment projects in coal mining, electricity, transportation and regional West Berlin development. ERP counterpart funds were accumulated on a special account with the Bank Deutscher Länder and none was released for investment during the first ERP year.

In the French zone the counterpart investment programme started earlier than in the Bi-zone. DM 61 million were released early in 1949 for investment in railway reconstruction, electricity and tourism.<sup>85</sup>

TABLE 1  
WEST GERMAN FOREIGN TRADE 1948-1952  
(Milliards of dollars)

ERP-year	Imports	Exports	Percentage eximp.
1948-49	1.9	1.0	51
1949-50	2.3	1.4	59
1950-51	3.2	2.8	85
1951-52	3.7	3.8	103

Source: Bundesministerium für den Marshallplan, Wiederaufbau im Zeichen des Marshallplanes 1948-1952, Bonn 1953, p. 83. For 1948-49 French Zone figures have been added from: Koordinierungsausschuss für die deutschen Marshallplan-Arbeiten, Die Wirtschaft der französischen Besatzungszone im ersten Marshallplan-Jahr, August 1949, BA B 146/227.

<sup>84</sup> Vermerk über eine Besprechung mit den Militärgouverneuren am 13. April 1949. BA Z 14/136. Mangoldt (OEEC-Delegation Paris) an Keiser, 19. Juli 1949. BA Z 14/137.

<sup>85</sup> Investitionen im Rahmen des ERP in der französischen Besatzungszone. Vermerk vom 1. März 1949. BA Z 14/106. Cf. W. ABELSHAUSER, *Wirtschaft und Besatzungspolitik in der französischen Zone*. Nachwort zu: M. MANZ, *Stagnation und Aufschwung in der französischen Besatzungszone: 1945-1948*, Ostfildern 1985, p. 113.

## V. The Export Drive 1949-50

It is the beginning of the Marshall Plan which has attracted the attention of contemporaries and historians, the time of acrimonious controversies, of enthusiasm and frustration. Compared with the dramatic start the remainder of the European Recovery Programme has an air of successful and yet slightly boring routine. As a political issue the Marshall Plan was displaced from the headlines by the foundation of the Federal Republic, the Korean War, and the debate on German rearmament. But as an economic issue the Marshall Plan remained very much alive and played an important part in West Germany's return to the world market.

The Federal Republic of Germany was founded in May 1949, elections were held in August, and a centre-right Federal Government was formed in September. Within the new government the Marshall Plan organizations of the Bi-zone and French Zone were merged into an ERP Ministry under Vice-Chancellor Franz Blücher of the liberal FDP. West Germany became an OEEC member in its own right, and on December 15, 1949 an ERP agreement was concluded with the United States to replace the agreements of July 1948 with the Military Governors.<sup>86</sup> In the parliamentary debate Blücher emphasized the historical significance of this first international agreement of the Federal Republic, but the general atmosphere lacked the enthusiasm of 1948. Pünder saw even a "crisis" of the Marshall Plan; there was general disappointment in Europe and even more so in the United States about the failure of cooperation, and the implementation of the Marshall Plan was frustrating. Specific complaints were the slowness of the Marshall Plan, excessive bureaucratization, the complicated programming procedure, and during the first year insufficient German participation. ERP assistance was to a large degree

<sup>86</sup> Kabinettsitzungen 4. Okt. 1949 und 3. Nov. 1949. Die Kabinettsprotokolle der Bundesregierung Bd. 1, Boppard 1982, pp. 97-98, 169-170. Bundesgesetzblatt 1950, pp. 9-21. McCloy to Adenauer, 22 December 1949. NA RG 466, McCloy Papers, Classified General Records, box 5.

tied to imports from the dollar area and the United States would often deliver such goods as they had in surplus instead of those which West Germany really wanted. Fritz Baade from the SPD saw his scepticism validated by the poor performance of the European Recovery Programme; only by a "miracle" could West Germany become until 1952 a country living on its own without foreign assistance. Nevertheless the SPD acknowledged the "generous help" of the Marshall Plan and confirmed its acceptance. As in the Economic Council in 1948, only the Communist Party maintained its fundamental opposition.<sup>87</sup>

The early Marshall Plan enthusiasm had visibly cooled down not only in Germany but also in the United States in 1949. The volume of United States aid was slashed from \$ 6.0 milliard in 1948-49 to \$ 3.5 milliard in 1949-50. Adjusting the claims of OEEC members to this disappointingly low level was an extremely painful exercise; it led to a complete reversal of OEEC procedure.<sup>88</sup> West Germany's allocation for 1949-50 was reduced to \$ 285 million. Another \$ 198 million were provided to West Germany by the GARIOA programme, which ended in March 1950. The remaining GARIOA funds of \$ 172 million were transferred to the ECA, so that total foreign aid of \$ 655 million was available for 1949-50. GARIOA imports were mainly foodstuffs, which accounted for 82 per cent of the total in 1948-49. Marshall Plan imports shifted gradually from food to raw materials, reflecting the recovery of West Germany's industry. From 1948-49 to 1949-50 the share of raw materials in ERP imports increased from 27 per cent to 37 per cent while the share of food imports declined from 55 per cent to 42 per cent. Manufactures continued to be a minor item on West Germany's shopping list.

The absolute volume of ERP imports increased over the previous year to \$ 416 million in 1949/50 as West Germany's quota

<sup>87</sup> Verhandlungen des Deutschen Bundestages, 1. Wahlperiode, 27. Sitzung 18. Jan. 1948 and 31. Sitzung 27. Jan. 1949, pp. 828-842, 951-958.

<sup>88</sup> MILWARD, *Reconstruction*, pp. 204-206.

was augmented by remaining funds from 1948/49 and by the transfer of GARIOA funds. The relative importance of foreign aid declined, however, as West Germany's exports surged by 58 per cent from \$ 862 million in 1948/49 to \$ 1363 million in 1949/50. West Germany abandoned the early post-war regime of a strictly administered trade in such goods as the war had left in a devastated country, coal, timber and scrap metal, and began to reappear on the world market as an exporter of industrial products. The share of manufactures in West Germany's exports increased from 17 per cent in 1948 to 65 per cent in 1950.<sup>89</sup>

With the foundation of the Federal Republic, responsibility for West Germany's foreign economic policy passed from the Military Governors to the German government. The Allied Joint Export-Import Agency (JEIA) was dissolved in October 1949. The West German government assumed that an export drive, and not a curtailment of imports, was the solution to the dollar gap. Following the devaluation of the pound, the Deutsche Mark was devalued in September 1949 from DM 3.33 to DM 4.20 per \$ 1. In October 1949 preparations began for a new tariff system, which became effective two years later in October 1951 when West Germany joined the General Agreement on Tariffs and Trade (GATT). The new German tariff held a middle line between the protectionist tariffs of Britain, France and Italy, and the free-trade policy of Belgium, Denmark and the Netherlands.<sup>90</sup> Trade liberalization was not only imposed by the United States but was also accepted by the German government as an instrument to win back

<sup>89</sup> Wiederaufbau im Zeichen des Marshallplanes, pp. 23-24, 81, 83. ABELSHAUSER, *Wirtschaft in Westdeutschland*, p. 158. Bipartite Control Office an die Bizonale Delegation bei der OEEC, "Exportprogramm der Bizone", 19. April 1949. BA B 102/12599.

<sup>90</sup> FRIEDRICH JERCHOW, *Aussenhandel im Widerstreit. Die Bundesrepublik auf dem Weg in das GATT, 1949-1951*, in: H.A. WINKLER, ed., *Politische Weichenstellungen im Nachkriegsdeutschland, 1945-1953* (Geschichte und Gesellschaft, Sonderheft 5), Göttingen 1979. BERNHARD WELSCHKE, *Aussenpolitische Einflussfaktoren auf die Entwicklung der westdeutschen Aussenwirtschaftsbeziehungen in der Frühphase der Bundesrepublik Deutschland (1949-1952)*, in: M. KNAPP, ed., *Von der Bizonenegründung zur ökonomischpolitischen Westintegration*, Frankfurt 1984.

foreign markets for West Germany's industry.<sup>91</sup> Liberalization implied both a removal of import quotas and the facilitating of payments. The system of intra-European drawing rights known as the "Little Marshall Plan" continued in 1949-50. West Germany had to offer higher drawing rights as a consequence of its improved export performance. However, the new quota was only partially used, and as German importers made more use than before of the drawing rights that were available to West Germany, the net contribution remained unchanged with \$ 50 million.<sup>92</sup>

A trade surplus in Europe would indirectly contribute to West Germany's "viability", as the Long Term Plan of 1948 had already suggested, but ultimately a solution of the dollar gap depended upon access of German and other European exporters to the North American market. This was emphasized in the Taylor Report of 1949 and the subsequent "dollar drive". In May 1949 an ECA special mission under Wayne C. Taylor toured Western Europe to investigate the dollar gap and the possibilities to increase Western Europe's dollar earnings. The Taylor Report was submitted to the ECA in August 1949 and was circulated to the OEEC and member governments.<sup>93</sup> On the basis of the Taylor Report German business leaders and government officials discussed a German "dollar drive" and the opening of a German trade representation in New York. The "German House", "Dollar Drive Office" or simply the "Corporation", as the trade representation

<sup>91</sup> BMP, Die Liberalisierung des Aussenhandels. Memorandum vom 10. Nov. 1949. BA Z 14/165a.

<sup>92</sup> ABELSHAUSER, *Der kleine Marshallplan*, p. 223. WEXLER, *Marshall Plan*, pp. 144-153.

<sup>93</sup> Report of the ECA Commerce Mission to Investigate Possibilities of Increasing Western Europe's Dollar Earnings, August 1949. NA RG 469, ECA, Administrator Subject Files, box 9. Collisson (Chief, ECA Special Mission to Western Germany) to Blücher, 31 Oct. 1949. Der Vorsitzende des ERP-Arbeitsausschusses. Rundschreiben vom 3. Dez. 1949. - Karl F. Bode (Chief Program Review Division), Three Major Objectives of the ECA Mission to Germany. Memorandum, 15 Nov. 1949. BA Z 14/122. OEEC Executive Committee, Report by Trade Committee on the Export Drive to the Dollar Area, 10 Dec. 1949. BA Z 14/121.

was tentatively called, was a private non-profit organization financed jointly by the government and the major economic organizations. The government contributed DM 7.5 million from ERP counterpart funds to get the Dollar Drive Office started in Frankfurt and New York. In June 1950 the dollar drive organization was officially founded as the "German-American Trade Promotion Company" (*Gesellschaft zur Förderung des deutsch-amerikanischen Handels mbH*) with government support, by West Germany's leading economic organisations. Its task was to promote German exports to the United States by studying American markets, providing information for German exporters, suggesting sources of supply to potential American buyers, and acting as a general intermediary. In the era of West Germany's limited sovereignty the German-American Trade Promotion Company became an important instrument of economic diplomacy.<sup>94</sup>

West Germany's export drive was founded on a strict deflationary policy. After the inflationary boom of 1948, the pendulum swung in 1949 to the other extreme. Unemployment increased sharply, reaching a maximum of more than 2 million or 14 per cent of the labour force in February 1950. The hard line of the government and West Germany's new central bank was strongly criticized by opposition parties, economic experts and increasingly also from abroad. In June 1949 the OEEC Executive Committee described deflation as a serious danger and urged the Bi-zonal administration to fight unemployment and launch an investment programme. The Bi-zonal delegation countered that unemploy-

<sup>94</sup> Tagung des Aussenhandelsbeirats am 13. Dez. 1949. — Arbeitsgemeinschaft Aussenhandel an den Bundesminister für den Marshallplan, 12. Dez. 1949. — Bundeswirtschaftsminister Erhard an Blücher, 19. Dez. 1949. BA Z 14/121. Besprechungen zwischen ERP-Minister Blücher und dem svv. Leiter der ECA Mission Hanes am 16. Dez. 1949 und 9. Jan. 1950 BA B 146/845. *Gesellschaft Förderung des deutsch-amerikanischen Handels mbH* (German American Trade Promotion Company), Aufruf an die deutsche Wirtschaft und an den deutschen Gewerkschaftsbund, 27. Juni 1950. BA B 140/1. — A systematic study of the German-American Trade Promotion Company is being prepared by Dr. Neebe, Marburg.

ment in West Germany was a structural problem which could only be solved in the long run. At that time the ECA representative gave explicit support to the German position and added that counterpart funds for investment within the Bi-zone would only be released after the ECA was convinced that there were no inflationary tendencies.<sup>95</sup> When unemployment continued to increase during the second half of 1949, however, the ECA Special Mission in Frankfurt joined the German and European critics of the government's deflationary policy. In a critical evaluation of Germany's 1949-50 programme, the ECA Mission in December 1949 accused the government of making no serious effort to combat unemployment.<sup>96</sup>

The first counterpart funds to be released for investment had come from the GARIOA programme, and this remained the major source of counterpart investment throughout 1949. Negotiations between the Bi-zonal administration and the Military Government on an ERP investment programme started in April 1949, and they were tedious as the German side had to demonstrate not only the utility of every single investment project, but also a general determination to maintain fiscal and monetary stability. It was not until August 1949 that the Military Government approved the programme and submitted it to the ECA.<sup>97</sup> There the programme remained deadlocked for several months as the ECA made its approval contingent on the conclusion of a new ERP agreement between the Federal Republic of Germany and the United States to replace the temporary agreements with the Military Governors of

<sup>95</sup> Bericht über die Verhandlungen zur Sicherung der inneren Finanzstabilität in der Bizone und in der französischen Besatzungszone im Rahmen des Exekutiv-Komitees der OEEC, 21. Juni 1949. BA Z 14/156.

<sup>96</sup> ECA Sondermission für Westdeutschland, Kritische Untersuchung des Wiederaufbauprogramms 1949-50 für Westdeutschland, 29. Dez. 1949. BA B 146/233.

<sup>97</sup> Verwaltungsrat des Vereinigten Wirtschaftsgebietes an Bipartite Control Office, 4. Mai 1949. BA Z 14/137. Bericht vom 30. Mai 1949. Bipartite Control Office an den Verwaltungsrat des Vereinigten Wirtschaftsgebietes, 9. Juni 1949. BA Z 14/136. Bipartite Control Office to ECA Special Mission in Germany, August 25, 1949. BA Z 14/138.

July 1948.<sup>98</sup> Until this agreement was concluded in December 1949, DM 625 million were released for investment from GARIOA counterpart funds and only DM 151 million DM from ERP counterpart funds. The first major ERP investment programme was approved by the ECA in December 1949 to become effective in 1950, with a volume of DM 1036 million. The relative contribution of counterpart funds to capital formation reached a peak toward the end of the second ERP year, rising from 3.8 per cent of net fixed capital investment in the second half of 1949 to 17.5 per cent during the first half of 1950.<sup>99</sup>

## VI. The Crisis of 1950-51

In October 1949, when preparations began for the 1950-51 programme, ECA Administrator Paul Hoffman announced a change of policy. During the first two years of the programme emphasis had been on the examination of import needs of the equitable distribution of aid. For the remaining two years the focus should shift to such actions as were required to emerge by 1952 in sound economic conditions, free from outside assistance. ERP allocations were to be reduced summarily by 25 per cent for 1950-51, and again by 33 per cent for 1951-52, so that a "panorama of the entire ERP period" would be available.<sup>100</sup> This made the allocation of aid increasingly rigid and formal, as the OEEC had already decided after the fierce discussions of the 1949-50 programme, and the ECA had approved, that the individual screening of national reconstruction plans would be abandoned. In the future, ERP aid was to be distributed according to the Snoy-Marjolin quotas that had been accepted for 1949-50. The burden placed on the OEEC as a policy-making body among rivaling

<sup>98</sup> Sitzung des ERP-Arbeitskreises "Investitionen", 21. Oktober 1949. BA Z 14/138.

<sup>99</sup> ECA Special Mission in Germany to ERP-Minister Blücher, December 22, 1949. BA Z 14/135. Wiederaufbau im Zeichen des Marshallplanes, pp. 26-27.

<sup>100</sup> ECA, Draft Aide-Memoire on 1950-51 Program, 19. Oct. 1949. BA Z 14/35.

national governments had been too great; after the loss of its essential political function the OEEC gradually assumed a statistical and consultative role.<sup>101</sup> Eventually the ERP allocation for 1950-51 became \$ 2.4 milliard, a reduction by 32 per cent from the previous year. West Germany received \$ 385 million; with a 15 per cent reduction Germany fared better than other countries, but still the German Marshall Plan Ministry considered the 1950-51 allocation as insufficient, for the GARIOA programme was to be terminated in March 1950. Due to the slow start of the Marshall Plan, however, there was a considerable balance left from 1949-50 which could be used in 1950-51, so that the total volume of imports in the third ERP year became \$ 479 million. Raw materials (41 per cent), food (32 per cent), fodder (9 per cent) and freight (6 per cent) were the most important items.<sup>102</sup>

Though the new programming procedure for the third ERP year eroded the OEEC as a political institution, the United States maintained integration as a major objective of the European Recovery Programme. After the realignment of currencies in September, Hoffman took up the issue of political and economic integration in an address to the OEEC council in October 1949. With the Marshall Plan approaching the half-way mark, the ECA Administrator stressed that the two objectives were the balancing of Europe's dollar trade, and economic integration in Western Europe. Integration was interpreted by Hoffman as "the formation of a single market within which quantitative restrictions on the movement of goods, monetary barriers to the flow of payments and eventually all tariffs are permanently swept away."<sup>103</sup>

<sup>101</sup> *European Recovery Programme. Second Report of the OEEC*, Paris, February 1950.

<sup>102</sup> *Wiederaufbau im Zeichen des Marshallplanes*, pp. 23, 158. BMP, Besprechung vom 9. Nov. 1949. BA Z 14/172.

<sup>103</sup> Statement made by Mr. Hoffmann at the OEEC in Paris, October 31, 1949. NA RG 469, ECA, Hoffman Speeches, box 1. - The State Department viewed Hoffman's position on European integration somewhat critically; Dean Acheson, Memorandum of Conversation, October 25, 1949. Truman Library, Acheson Papers, box 64. MILWARD,

In November 1949 the OEEC members agreed on a multilateral liberalization programme; by March 1950, fifty per cent of all quotas in intra-European trade were to be removed. In September 1950 the intra-European drawing rights of the "Little Marshall Plan" were replaced by a multilateral clearing system, the European Payments Union. Planned for two years, the EPU actually lasted for eight years until the introduction in 1958 of general convertibility within the Bretton Woods system.<sup>104</sup>

West Germany's export drive was in conformity with the ECA's liberalization programme, but the deflationary policy on which the export boom ultimately rested drew increasing criticism from United States observers. In its 1950-51 programme and a long-term perspective for 1951-52 the German government admitted that it expected unemployment to rise further during 1950 and 1951 and to stay at a high level in 1952, with 1.6 million unemployed in 1950 and 1.8 million unemployed in 1951 and 1952.<sup>105</sup> The ECA Mission was alarmed at the prospect of continued mass unemployment, which it perceived as a threat to Germany's new democratic institutions. In an unusually sharp memorandum Robert Hanes rebuked the German government. The basic economic problem of Western Germany, he stated, was the reduction of unemployment, without endangering the increase in labour productivity, the progressive elimination of the balance of payments deficit and the establishment of an economic and social system reasonably free from restrictions. The rate of economic progress anticipated in the German government's plan was not sufficient for a solution of the problem.<sup>106</sup> Hanes was seconded by the economic

*Reconstruction*, pp. 296-298. WEXLER, *Marshall Plan*, pp. 217-218. Editorial Note, FRUS 1949, IV, pp. 438-440.

<sup>104</sup> MILWARD, *Reconstruction*, pp. 299-334, 421-422. WELSCHKE, *Aussenpolitische Einflussfaktoren*, pp. 211-212. WEXLER, *Marshall Plan*, pp. 177-201.

<sup>105</sup> BMP, Memorandum der Bundesrepublik Deutschland zum Programm 1950-51 und 1951-52, 15. Dez. 1949. BA B 146/234.

<sup>106</sup> ECA Special Mission to Western Germany, Evaluation of the 1950-51 and 1951-52 Programs of Western Germany, 21 Jan. 1950. BA B 146/228.

experts of the Allied High Commission, who subjected in February, 1950, the economic policy of the Federal government to a devastating critique. The experts denounced mass unemployment under the prevailing conditions as an absurdity. It was too obvious that all hands were needed for reconstruction, and the West German government's stereotyped argument that unemployment was a structural problem would not do. Due to the German government's general mismanagement, the increase in production, investment and trade was insufficient.<sup>107</sup> The German government was caught in a tactical dilemma: it could only defend itself by trying to demonstrate that Germany's economic performance was not as bad as the Allied experts assumed, but on the other hand the outlook should not be too optimistic as the dismal economic situation in Germany was the standard argument for United States assistance.<sup>108</sup> In January, 1950, the socialist opposition had already won a majority for a bill that requested an employment programme, and when the High Commission joined the critics the government finally yielded and launched a public expenditure programme.<sup>109</sup>

When the Korean War began in June, 1950, the focus of United States foreign economic policy shifted from economic stabilization to economic mobilization. OEEC Secretary-General Robert Marjolin was briefed in July on the policy change. Rearmament had now priority in the United States. The role of the ECA changed from economic reconstruction to the economic support of rearmament. However, the "dollar drive" and the liberalization programme were to be maintained; Europeans should not expect a solution for their dollar problem from the armament boom

<sup>107</sup> Memorandum der Wirtschafts- und Finanzberater der Alliierten Höhen Kommission, 7. Feb. 1950. BA B 102/12736.

<sup>108</sup> Verwaltung für Wirtschaft (mit der Wahrnehmung der Geschäfte des Bundesministers für Wirtschaft beauftragt), Stellungnahme zu dem Memorandum der Wirtschafts- und Finanzberater der Alliierten Höhen Kommission, 15. Feb. 1950. BA B 102/12736.

<sup>109</sup> H.R. ADAMSEN, *Investitionshilfe für die Ruhr*, Wuppertal 1981, pp. 56-77.

only.<sup>110</sup> In August 1951 the OEEC agreed on a "Five Year Plan" to increase production by 25 per cent within five years for the military build-up.<sup>111</sup>

In West Germany the surging demand for raw materials after the outbreak of the Korean War, a deterioration of the terms of trade and rapid liberalization led to a severe balance-of-payments crisis which interrupted the export drive for almost a year. After West Germany's regular credit line within the new European Payments Union as well as an emergency credit were exhausted in early 1951, liberalization was in February 1951 temporarily suspended.<sup>112</sup> After the inflation of 1948 and mass unemployment in 1949-50, the balance of payments crisis of 1950-51 was the third crisis of West Germany's free-market policy in three years. The patience of West Germany's American controllers in the Allied High Commission was visibly exhausted. High Commissioner and ECA Representative McCloy requested in his ultimatum of March 1951 a complete reversal of policy, the replacement of West Germany's free market policy by a tightly controlled economy in support of the American war effort; ERP aid would be discontinued if the West Germany did not comply. The German government hastened to submit a satisfactory answer and ensure the continuation of American assistance. More important than the administrative change, however, was a change in international markets as the Korea boom shifted from raw materials to manufactures. Toward the end of the third ERP year in mid-1951 exports increased much faster than imports and the balance of payments

<sup>110</sup> ERP-Rundschreiben 6/50 vom 8. Aug. 1950. BA B 102/12600. FRUS 1950, III, pp. 664-668.

<sup>111</sup> Bundesministerium für Wirtschaft, Voraussetzungen und Möglichkeiten einer 25-prozentigen Produktionssteigerung, 19. Okt. 1951. ERP-Arbeitsausschuss, Sitzung vom 5. Nov. 1951. BA B 102/12601.

<sup>112</sup> Interministerieller Wirtschaftsausschuss, Sitzung vom 22. Sept. 1951. BA B 102/12581.

crisis came to an end. Trade liberalization was eventually resumed in January 1952.<sup>113</sup>

Preparations for a second ERP investment programme began in late 1949; the volume became eventually DM 1166 million. The greater part of the funds was used to finance projects which had been started in the first ERP investment programme in coal mining, iron and steel, electricity, gas and water supply. New projects were in agriculture, inland waterways, integration of refugees, and export promotion. The absolute volume of counterpart investment continued to increase, but its relative contribution to capital formation declined during the third ERP year from 12.8 per cent of net fixed capital investment in the second half of 1950 to 5.0 per cent in the first half of 1951 as the pace of domestic capital formation quickened.<sup>114</sup>

## VI. The Militarization of Foreign Aid 1951-52

In May 1951 President Truman announced in a Message to the Congress a new "Mutual Security Programme", directed against a presumed Soviet threat which Truman described as world-wide, total and of indefinite duration.<sup>115</sup> The Mutual Security Programme was designed to coordinate the various United States foreign aid programmes under the new strategic objectives, including the

<sup>113</sup> McCloy an Adenauer, 7. März 1951. Antwort Adenauers an McCloy, 27. März 1951. BA B 102/12580 u. 12581. W. ABELSHAUSER, Ansätze "korporativer Marktwirtschaft" in der Korea-Krise der frühen fünfziger Jahre, in: *Vierteljahreshefte für Zeitgeschichte*, XXX (1982). — FRUS 1951, III/2, pp. 1618-1629. Bundesministerium für Wirtschaft, Informierung des Bundeskanzlers, 10. Jan 1952 und 10. März 1952. BA B 102/12573.

<sup>114</sup> POHL, *Wiederaufbau*, pp. 83-86. *Wiederaufbau im Zeichen des Marshall-planes*, pp. 26-27.

<sup>115</sup> *Public Papers of the Presidents of the United States. Harry S. Truman*, 1951, Washington 1965, pp. 302-313. FRUS 1951, I, pp. 264-442. House of Representatives, Selected Executive Hearings of the Committee on Foreign Affairs, 1951-56, vol. 9: The Mutual Security Program, part I, Washington 1980. For a critical evaluation of the new legislation cf. Donald C. Stone, Implications of Mutual Security Act and requirements for action, Memorandum, October 4, 1951. Truman Library, Hoffman Papers, box 22.

Defence Assistance Programme, Third World development programmes and also the European Recovery Programme. With the Mutual Security Act of October 1951 the new programme was started. The Economic Cooperation Agency was replaced by a new Mutual Security Agency; it was to administer the remainder of the European Recovery Programme until 1952. The German-American Marshall Plan agreement of October 1949 was modified to suit the new conditions. After a brief discussion the German government decided that the Marshall Plan Ministry should stay in charge for the remainder of the programme, though the focus of the European Recovery Programme shifted from economic reconstruction to military and strategic issues.<sup>116</sup>

In Germany the militarization of foreign aid did not come as a surprise. In fact, the continuation of the Marshall Plan under the new MSA was more than had been expected; in early 1951 German experts had conjectured that the United States might terminate the European Recovery Programme in June 1951.<sup>117</sup> The total ERP allocation for 1951-52 was \$ 1.5 milliard, of which West Germany received \$ 104 million. This sum was augmented by procurement authorization from the previous year, so that ERP imports for 1951-52 became \$ 210 million. The major items were raw materials (31 per cent), food (30 per cent) and freight (12 per cent).<sup>118</sup> The militarization of foreign aid accentuated the crisis of the OEEC and led to intensive discussions on the organization's future role. The German experts of the Marshall Plan Ministry argued that the OEEC should concentrate on political issues and reduce its statistical work, as the tasks of European economic cooperation, trade

<sup>116</sup> The Ministry of the Economy, anxious to get rid of a rival, had suggested that responsibility for the Mutual Security Programme should be transferred from the Marshall Plan Ministry to a new agency or to the Foreign Office. BMP an Bundeskanzleramt, 8. Nov. 1951. BMP an Deutsche ECA-Delegation Washington, 13. Dez. 1951. BA B 136/6580. Memorandum des Bundeswirtschaftsministeriums, 12. Nov. 1951. BA B 102/12602.

<sup>117</sup> BMP, Vermerk vom 8. Jan. 1951. B 146/845.

<sup>118</sup> *Wiederaufbau im Zeichen des Marshallplanes*, p. 23.

liberalization, payments union and the removal of trade barriers and tariffs were not yet accomplished.<sup>119</sup> But the OEEC suffered from depoliticization as much as from politicization: depoliticization as the major issues were transferred from the OEEC to direct bilateral negotiations between the United States and European governments, politicization as the United States attempted to transform the OEEC into an instruments of the Cold War, a move opposed by many Europeans. Caught in a dilemma, the OEEC took refuge in the role of a statistical and consultative organization as a method of survival.<sup>120</sup> The dynamics of European economic integration shifted to the Schuman Plan.

Counterpart investment was still a complicated procedure in 1951-52. A third ERP-investment programme of DM 1025 million was approved by the ECA Mission in March 1951 and later increased to DM 1500 million. After the change from the ECA to the USA in October 1951 the militarization of foreign aid was extended to counterpart investment; new investment programmes were to be approved by the USA only if they contributed to the defence effort. Total ERP investment was DM 763 million during 1951-52, which was more than in the previous year. As domestic capital formation increased, however, the relative contribution of counterpart funds to West Germany's net fixed capital investment declined to 3.3 per cent in the first half of 1952.<sup>121</sup>

By any quantitative indicators the Marshall Plan in West Germany came close to success in its fourth year. For the first time after the war the balance of trade yielded in 1951-52 a small export surplus, with \$ 3.8 milliard exports and \$ 3.7 milliard imports. The Federal Republic of Germany had moved towards "viability" at a rapid pace: exports increased from 51 per cent of imports in the

<sup>119</sup> BMP, Vermerk vom 5. März 1952. BA B 146/860.

<sup>120</sup> Bericht vom 15. April 1952 über die Ministerrats-Tagung der OEEC am 27.-29. März 1952. BA B 102/12602. Milward, *Reconstruction*, pp. 168-211.

<sup>121</sup> POHL, *Wiederaufbau*, pp. 90-92. *Wiederaufbau im Zeichen des Marshallplanes*, pp. 200, 27.

first ERP year 1948-49, to 59 per cent in 1949-50, 85 per cent in 1950-51 and 103 per cent in 1951-52. Exports and imports in 1951-52 were both substantially higher than the Long Term Plan of 1948 had projected for the year 1952-53. Within the general equilibrium of West Germany's foreign trade a regional imbalance persisted, as a considerable trade deficit with the dollar area was compensated by a trade surplus with OEEC countries. This was exactly the trade triangle which the Long Term Plan had proposed, and which West Germany's OEEC neighbours had at that time criticized as the beginning of a German export offensive. At the end of the Marshall Plan the export offensive was well under way.

External viability of West Germany was accompanied by economic recovery. The production targets of the Long Term Plan for 1952-53 were fulfilled, and in fact more than fulfilled, in 1951-52. Industrial production had risen to 139 per cent of the 1936 level, gross national product at constant prices to 137 per cent, and agricultural production was 111 per cent of the average production from 1933 to 1939.<sup>122</sup> However if the base is shifted from 1936 to 1938 with its higher production, and if the increase of population is taken into account, economic recovery was still incomplete. The per capita income of 1938 in constant prices was only reached in 1953. Unemployment was still a serious problem. After the peak in early 1950 the numbers began gradually to decline, but average unemployment in 1952 was still 1.4 million persons.<sup>123</sup>

## VII Trade, Not Aid

When the British Chancellor of the Exchequer R.A. Butler promulgated in 1952 the slogan "trade, not aid," he struck a

<sup>122</sup> *Wiederaufbau im Zeichen des Marshallplanes*, pp. 82-83, 86, 54, 209.

<sup>123</sup> Calculated from W.G. HOFFMANN, F. GRUMBACH, H. HESSE, *Das Wachstum der deutschen Wirtschaft seit der Mitte des 19. Jahrhunderts*, Berlin/Heidelberg/New York 1965, pp. 174, 828. *Wiederaufbau im Zeichen des Marshallplanes*, p. 89.

popular note. Secretary of Commerce Charles Sawyer and other American policy makers adopted the slogan immediately.<sup>174</sup> Foreign aid was to be replaced by business as usual.

The European Recovery Programme expired officially in June 1952, but the USA made a final allocation of \$ 541 million for the second half of 1952. West Germany received \$ 24 million, to which were added procurement authorizations from the previous year so that ERP imports from July to December amounted to \$ 67 million. With these last imports West Germany had almost exhausted the Marshall Plan; 98 per cent of all allocations from April 1948 to December 1952 were actually spent on imports. The structure of ERP imports in the second half of 1952 was similar to the previous year, with emphasis on raw materials (30 per cent), food (36 per cent) and freight (5 per cent).<sup>125</sup>

Business as usual meant also competition as usual when capitalists and bureaucrats looked ahead in 1952 to a post-ERP world. American experts continued to plead for European integration within the OEEC, for the "building of a single market".<sup>126</sup> Europeans would have none of this. The removal of trade barriers, the reduction of tariffs and the development of intra-European payments schemes were only partially accomplished, but there was little enthusiasm for further liberalization as businessmen and governments feared excessive competition. West Germany was no exception; the government criticized trade barriers wherever they stood in the way of German exports but maintained its own trade barriers to protect the German textile industry.<sup>127</sup>

When German capitalists and bureaucrats discussed the post-ERP world their minds turned inevitably to transatlantic econo-

<sup>124</sup> OEEC, Secretary Sawyer's Survey of Europe, 26 December 1952. BA B 146/836.

<sup>125</sup> *Wiederaufbau im Zeichen des Marshallplanes*, pp. 23, 158.

<sup>126</sup> Paul R. Porter (Director European Office) to Dirk Stikker (Chairman, OEEC Council), 6 March 1952. BA B 146/860.

<sup>127</sup> Deutsche OEEC Delegation a BMP, 14. Nov. 1952. BA B 146/860.

mic relations.<sup>128</sup> Within the general trade surplus realized since 1951, West Germany relied on a trade surplus with European countries and third countries to compensate a considerable deficit with the dollar area. The dollar gap was therefore still regarded as a key problem and the dollar drive was in the centre of West Germany's foreign economic policy. According to German experts it was the persistent protectionism in the United States in spite of all the liberal rhetoric, which made access to the American market so difficult; they pointed out the failure of the Havana Charter, the deterioration of the Reciprocal Trade Agreements and the futility of the Taylor Mission in 1949.<sup>129</sup>

There might be problems ahead, yet the German government looked back in 1952 at the way it had travelled with unveiled pride. Economic success became the decisive element in developing an identity for the new Federal Republic of Germany, and the return to the world market was an important part of the economic success story.<sup>130</sup> During the Marshall Plan West Germany rose from a closed and tightly controlled protectorate to one of the leading industrial nations of the world. Partition was part of the price that had to be paid for economic success, but most West Germans seem to have been prepared to pay that price.

The direct contribution of the Marshall Plan is difficult to assess, as a variety of factors contributed to West German's recovery. The Marshall Plan, to begin with, was not the only form of foreign aid which West Germany received. Calculating the total amount of foreign aid was a difficult exercise even for contemporary experts. According to German accounts GARIOA imports were \$ 1620 million from July 1946 to March 1950, not including \$ 172 million transferred to the ECA in 1950. ERP allotments were

<sup>128</sup> Cf. W. LINK, *Deutsche und amerikanische Gewerkschafter und Geschäftsleute, 1945-1975. Eine Studie über transnationale Beziehungen*, Düsseldorf 1978.

<sup>129</sup> BMP, Aufzeichnungen der Vertretung der BRD bei der USA, 19. Mai 1952. BA B 146/835.

<sup>130</sup> Cf. LUDWIG ERHARD, ed., *Deutschlands Rückkehr zum Weltmarkt*, Düsseldorf 1953.

\$ 1585 million, including the remaining \$ 172 million GARIOA funds, resulting in \$ 1536 million ERP imports from April 1948 to December 1952. Thus the total of United States foreign aid, GARIOA and ERP, would be \$ 3156 million. In the London Debt Agreement of 1953 the United States claimed \$ 276 million pre-GARIOA aid from July 1945 to June 1946, including some funds actually paid after June 1946, \$ 1534 million GARIOA aid and \$ 1523 million ERP aid. After some deductions the total became \$ 3.0 milliard, of which West Germany had to pay back \$ 1.0 milliard. Britain claimed £ 201 million aid (\$ 563 million) of which £ 150 million (\$ 420 million) were to be paid back. France claimed to have extended \$ 16 million foreign aid to its occupation zone, of which it expected to get back \$ 12 million. The French claim was violently contested in Germany and was voted down by an angry Bundestag on July 2, 1953; the vote had to be repeated the next day to get the bill through.<sup>131</sup> By any count the old GARIOA programme was larger in volume than the Marshall Plan, and the relative quantitative economic impact of GARIOA was more important as it provided aid during the destitute early post-war years, whereas the European Recovery Programme supported a booming West German recovery.

The Marshall Plan symbolized a change in United States foreign aid from "relief" to "recovery". This change is reflected in the composition of imports. In the GARIOA Programme the most important item was food, accounting for 72 per cent of all GARIOA imports from 1946 to 1950. In the European Recovery Programme food was the most important item at the beginning, with more than half of all ERP imports in 1948-49, but in the following years the emphasis shifted to industrial raw materials. Of \$ 1.5 milliard German ERP imports from 1948 to 1952, agricultural imports (food, fodder, seed, fertilizer) were 44 per cent,

<sup>131</sup> Verhandlungen des Bundestages, 1. Wahlperiode 1949, 262., 279. und 280. Sitzung. Auslandsschulden-Abkommen vom 27. Feb. 1953 und bilaterale Abkommen, Drucksache 4260. BGBl 1953 II, pp. 331-511.

raw materials 39 per cent, freight 8 per cent, fuel 4 per cent and machinery and vehicles only 2 per cent. The commodity structure of West German ERP imports was not typical; other ERP countries placed less emphasis on food and raw materials, and more emphasis on machinery and vehicles. Of \$ 14.1 milliard European ERP imports from 1948 to 1952, agricultural imports were 25 per cent, raw materials 30 per cent, fuel 14 per cent and machinery and vehicles also 14 per cent.

The contribution of foreign aid to West Germany's capital formation was not nearly as large as had been expected in the early Marshall Plan enthusiasm of 1948. From 1948 to the end of 1952 a total of DM 5709 million was invested from counterpart funds: DM 1603 million GARIOA funds, DM 3823 million ERP funds and DM 253 million reinvested interests and repayments.<sup>132</sup> West Germany's total net fixed capital investment during the Marshall Plan from 1948-49 to 1951-52 was DM 46.7 milliard: thus GARIOA funds contributed 3.4 per cent, ERP funds 8.2 per cent to net fixed capital formation. Counterpart investment was an instrument of economic planning under joint German and Allied control in West Germany's market economy. Investment was concentrated on a few sectors: key sectors such as coal, electricity and transport, investment programmes for West Berlin and other structurally weak regions, export financing, and special credit programmes for small business. Usually counterpart funds would be used to initiate projects which were then consolidated with funds from other public or private sources. Interests and repayments on counterpart credits were reinvested so that the ERP fund became a revolving permanent investment fund which still exists.<sup>133</sup>

<sup>132</sup> *Wiederaufbau im Zeichen des Marshallplanes*, pp. 23-24, 27, 209-210. *Statistical Abstract of the United States 1954*, pp. 904-905.

<sup>133</sup> E.R. BAUMGART, *Investitionen und ERP-Finanzierung*, Berlin 1961. E.R. BAUMGART, R. KRENGEL, W. MORITZ, *Die Finanzierung der industriellen Expansion in der Bundesrepublik während der Jahre des Wiederaufbaus*, Berlin 1960. W. Becker, *Das ERP-Sondervermögen. Entstehung und Verwaltung*, Göttingen 1968.

In December 1949 the ECA Mission to West Germany suggested to the new Marshall Plan Ministry that more efforts should be made to increase agricultural production as agricultural imports were such a large part of ERP imports.<sup>134</sup> There is no indication that the German government took any action; possibly it understood the contribution of the Marshall Plan better than the American experts. Traditionally, Germany was integrated into the capitalist world economy as an exporter of manufactures and an importer of raw materials. The Marshall Plan provided food and raw materials at a time when these could not be bought in sufficient quantities with West Germany's industrial export earnings. It made possible an early return to Germany's traditional pattern of production and trade; without the Marshall Plan, West Germany would have had to place more emphasis on agricultural development. This structural effect was probably the most important contribution to West Germany's economic recovery. Also, the Marshall Plan prompted liberalization of trade and payments in Europe which were essential to the revival of West Germany's export industries. Economic recovery would have been possible without the Marshall Plan, but it would have been slower.

<sup>134</sup> ECA Mission to Blücher, 22 Dec. 1949. BA Z 14/135.

