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Germany and the Political Economy of the Marshall Plan, 1947-1952: A Re-Revisionist View

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I. Introduction

The effects of the Marshall Plan on Germany's economic miracle are still controversial. On the one hand, public opinion and traditional economic history in Germany have it that the Marshall Plan marked the beginning of Germany's fabulous post-war recovery. On the other hand, an influential school among German economic historians maintains that post-war reconstruction both in Germany and throughout Europe was largely independent of the Marshall Plan, see Jánossy (1966), Manz (1968), Abelshauser (1975, 1981). In this view, both the late beginning and small magnitude of ERP deliveries to Germany provide evidence of the Marshall Plan having been irrelevant for Germany's post-war growth. Rather, the multitude of catching-up possibilities open to Germany and all other countries of continental Europe is held to have accounted for the Golden Fifties. The fact that supergrowth prevailed almost everywhere in Europe is taken as evidence against a major role for economic policies or even the choice between central planning or more liberal economic systems.

Defenders of the Marshall Plan have found it difficult to cope with this phenomenon of uniform growth. Most typically, the Marshall Plan is viewed as a series of nationwise aid and recovery schemes that can be analyzed independently. Thus, case studies are often presented which seek to pinpoint examples of Marshall aid having helped to overcome strategic bottlenecks in a given national economy.

Yet political historians have long adopted a radically different position. In their view, the Marshall Plan is to be regarded as a long-term unifying political strategy of the U.S. for European reconstruction along free-market lines that centered around reintegrating West Germany's economy into the European division of labor (Gimbel, 1976, Knapp, 1977, 1981, Daniel, 1982). In order not to be locked into providing U.S. assistance to Europe indefinitely, it would reestablish the West German economy as the prime supplier of capital goods to Western Europe, thus rendering Marshall aid unnecessary in the medium term and closing the dollar gap in European trade with the U.S.

This chapter is intended to elaborate on this perspective and trace its economic implications further. We shall argue that the aim of the Marshall Plan was to create credible political commitments to Europe's economic integration both within Germany and abroad, whereas U.S. resource transfers to Germany and other countries of Western Europe were mostly an initial pump primer and did not form the economic centerpiece of the plan.

We propose that post-war reconstruction in Western Europe can most gainfully be interpreted, not as a series of parallel national recoveries but rather as the politically managed reconstruction of the intra-European division of labor with West Germany as its locational and industrial center. Then, the observed uniformness of growth across Europe follows almost naturally and is no longer irritating.

In the light of Germany's uncooperative trade and debt policies of the interwar period and, above all, of the horrible occupation and exploitation policies of the Nazis, political action to reinstitute econom-ic cooperation in Europe was doubtlessly necessary. Seen in an international context, such policies would have to reassure America's allies that Germany's revived economic strength would only be used benignly and for mutual economic benefit. For Germany, they would have to signal that the allies would irreversibly and credibly commit themselves to removing restraints on economic recovery and to reopen their markets to West German exports. It is in the perspective of this broader political agenda - including constitutional and currency reform in Germany as well as membership in the European Payments Union (EPU) - that the political success of the Marshall Plan is to be seen. Therefore, the common practice of restricting economic analysis of the Marshall Plan to the incidence of ERP transfers appears to us as missing the central point of the plan.

Our discussion is organized as follows. Section 2 briefly reviews the debate about the Marshall Plan and its effects on the West German economy. Section 3 analyzes U.S. intentions regarding Germany's revitalization as an "ersatz" supplier for the reconstruction of Western Europe and thus, a device to overcome the dollar gap. Section 4 turns to international controversies in connection with this plan, arguing that the decision to revitalize Germany's industry jeopardized French plans at establishing industrial hegemony over Western Europe. Cooperation with Western Germany on almost equal terms was therefore hard to accept for French decision-makers, and it will be shown that far from taking the initiative, France initially opposed German reconstruction very strongly. Section 5 argues for easy credibility effects of U.S. policies within Germany. Section 6 reviews the early history of payments settlements in post-war Europe. It is argued that in the light of the multitude of allied claims on Germany, instituting the EPU as a system of mutual free trade and credit commitments was superior to continuing protectionism under bilateral trade agreements. As it helped Germany to credibly commit itself to a regime change in its foreign trade politics, the EPU had the effect of reintegrating European trade and payments, irrespective of the bad record of clearing arrangements under the Nazi New Order. Section 7 examines how the EPU worked in practice when Germany's pre-war balance-of-trade deficits began to reappear in the wake of the Korea crisis. In contrast some of the recent literature, we argue that the German balance-of-payment crisis was overcome not so much because of monetary or fiscal sanctions imposed by the EPU, but rather because of import restrictions levied by the Organization for European Economic Cooperation (OEEC) in cooperation with the Germans themselves. In our view, this temporary violation of West Germany's fresh commitment to free trade was only tolerated by the allies because of the credibility effects that the Marshall Plan institutions had created both within and outside of Germany.

The quick success of this European crisis management and the subsequent turn of the tide in the German balance of payments provided the cornerstone of Germany's later financial reputation. In turn, this helped to establish its position as the main powerhouse of Europe's reconstruction and thus eventually turned the Marshall Plan's broader political agenda into a success.

II. German discussions of Marshall Plan efficiency

The traditional story of the Marshall Plan may be paraphrased as follows. According to it, the complete failure of the Nazi economic system became apparent as soon as the secret police were gone. Continuing price regulation under the Four Powers and the monetary overhang made work effort unattractive. Living standards worsened steadily, and the morale of the population declined day by day. Then came the deregulation programs of Ludwig Erhard, the deutschmark, and the Marshall Plan, and Germany became an economic wonderland overnight. Views like this have long dominated, both in Germany and abroad.[1]

A - doubtlessly necessary - revision of this position was first advanced by Jánossy (1966) and subsequently elaborated by Abelshauser (1975, 1981). Jánossy's argument, that the uniformity of rapid post-war growth all over Europe was caused by the scope for catching-up to historical trends, is closely related to that advanced by Abramovitz (1979,1986).[2] Dumke (1990) finds econometric evidence in support of this hypothesis.[3]

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[1]See, however, Wallich (1955) and Stolper and Häuser and Borchardt (1967) for more cautious views.

[2]It should be made clear, however, that Jánossy's political intentions were radically different. Being staff economist at Hungary's planning board, Jánossy sought to defend his country's reformist approach to communism against the seemingly more impressive growth records of both Western Europe and Soviet Russia. Employing a labor theory of value framework, he assumes long-term growth trends to be given by population and education and explains cross-country

Applying this concept to Germany in the early post-war years, Manz (1968) and Abelshauser (1975) suggest that recovery was well under way at the time of the currency reform of June 1948 and even more pronounced by the end of the year when the first Marshall aid deliveries arrived. According to this view, post-war economic reconstruction in Germany was mostly an exogenous process, driven by the speed at which bottlenecks in the war-hit transportation system were eliminated. The transformation to a free-market system and the Marshall Plan itself are seen to have been of only minor importance. This new approach, seemingly making a case for leftist attacks on the alleged superiority of free-market systems, remained undisputed for a decade. During this time, it soon became a leading doctrine in German economic history. Only in the mid-eighties did counter-revisions develop (see Borchardt, 1981, Ritschl, 1985, Klump, 1985, Klemm and Trittel, 1987, Buchheim, 1988).

Industrial output figures for West Germany indeed indicate that there was substantial growth even before the currency reform (Figure 1).

(Figure 1)

In Figure 1, output indices are given for the Anglo-American Bizone (YBZ) and the French zone of occupation (YFZ) separately. The date of the currency reform is indicated by the vertical line marked (CR). There is one bit of evidence in these data which seems to contradict the revisionist interpretation: around the time of the currency reform, there appears to be an upward jump in the bizonal data at (CR). Anticipating this point, Manz (1968) and Abelshauser (1975) argue that it is a mere artifact created by underreporting of output to the planning authorities prior to reform. To substantiate this hypothesis, Abelshauser (1975) considers also the output of power plants, which can be argued not to have been subject to underreporting.[4] Assuming constant average productivity of electricity output, he extrapolates aggregate industrial production backward by means of the electricity output series. The output estimates he obtains for the pre-reform period substantially exceed the official figures. Moreover, they neatly fit post-reform data, such that the upward structural break in output in mid-1948 almost disappears.

Abelshauser's rationale behind this exercise is again to be found in Jánossy's reconstruction hypothesis. In Abelshauser's interpretation, not only did the forces of recovery operate irrespective of the particular institutional setup, but they also continued to dominate economic activity during the process of system transformation. According to his view, recovery began in mid-1947 as the result of successful attempts of the allied authorities in the Bizone to widen bottlenecks in the transport system. As his estimates seem to imply, the currency reform and economic liberalization acts of mid-1948 had only a minor impact, and so did Marshall aid that arrived only by the end of 1948 when an adaptation crisis was under way.

Replicating Abelshauser's assumptions, Ritschl (1985) finds it possible to reject the underreporting hypothesis in various ways. Summarizing the results, there seems to be a structural break, not only in aggregate output but also in electricity output itself, whereas the null hypothesis of no effects of the economic reforms on economic performance would predict no such break in the latter series. Moreover, no significant break shows up

divergences of post-war growth by the severity of wartime disruptions and subsequent catching-up. His book is still interesting reading today as it rightly predicts the subsequent productivity slowdown.

[3]Compare, however, Eichengreen and Uzan (1992).

[4]The underlying reasoning of this is that coal production and electric power generation, being under close Allied control, could be better observed than aggregate industrial production, implying little or no underreporting in their respective series.

in the input-output ratio between electric current and industrial production (a structural break would now be the null under the underreporting hypothesis) if trend growth of productivity is allowed for.

The results of this have not prevented scholars from using Abelshauser's series further, as there seems to be a general consensus among historians that the underreporting hypothesis is convincing on a priori grounds (e.g. Klemm and Trittel, 1987). However, the theory of the socialist firm predicts that a planning system, in which entitlements to deliveries of scarce inputs are linked to reported output levels, provides as many incentives to overreporting as to understating output (see Kornai, 1981).

Interestingly, different results obtain for the French zone. Here a break in the input-output ratio of electrical power supply to industrial production can be observed, although there is no break in the aggregate output series (whereas a break in the latter and no break in the former would be the null hypothesis). Moreover, during early 1949 the French zone does not experience stagnating output whereas the Bizone does (see Giersch/Paqué/Schmieding (1992) for a short review of the debate in English). One of the reasons for the differential performance of the two zones seems to lie precisely in the timing of the transformation process that accompanied the currency reform. While the deutschmark was introduced in all parts of Western Germany, the deregulation acts were not, as the powers of Ludwig Erhard's administration were still limited to the Anglo-American Bizone at the time. In the French zone, transition to a market system was slower. Only in mid-1949, which is precisely the time when the French zone caught up with Bizonia, were similar levels of deregulation attained. It is probably a matter of chance that by the same time, industrial production in the French zone had fully caught up to bizonal levels.

Two things stand out from this debate. First, evidence does seem to support the traditional idea that the currency reform did have an impact. Second, however, there remains the question of why recovery apparently began already in mid-1947, why performance during the year after the reform was so disappointing, and what the Marshall Plan had to do with all that. The issue of the timing of Marshall aid has triggered off a debate of its own. Table 1 summarizes key data on foreign assistance to Germany.

Table 1
U.S. Aid to West Germany, 1945-52
Mill. U.S. $

	1945/46		1947	1948	1949	1950	1951	1952	total 1945-62
1. Civilian supplies	195								195
2. GARIOA etc.		75	237	788	503	177.8	11.9	.4	1793
3. ERP etc.				142	420	302.6	415.8	114.1	1678
4. Other	3								206
I. U.S. aid total	273	237	930	923	480.4	427.7	114.5		3872
5. UK Contribution	264	363	90	32	1				
II.Foreign aid total	537	600	1020	955	481	428	114		4640
6. Current account surplus	18	103	60	-262	-323	592	649		
7. Imports (cif)			785	867	2237	2703	3503	3854	
8. Counterpart funds as percentage of aggregate fixed investment				5.8	7.8	4.1	2.1		
9. GNP (billion DM)			37.5*	83.8	89.7	113.6	126.0		

* Second half of 1948 only.

Source: 1,3,4: Deutsche Bundesbank (1976, pp. 323, 341).
2: 1945-1948: adapted from Buchheim (1990, p. 72)
1949-52 and total: Bundesminister für den Marshallplan (1953, pp. 23 f.)
5: Buchheim (1990, p. 72)
6: Buchheim (1990, pp.184 f.)
7: 1947-48: Buchheim (1990, p. 186),
1949-52: Bundesminister für den Marshallplan (1953, p. 24)
8: Baumgart (1961, p. 47).
9: Statistisches Jahrbuch für die Bundesrepublik Deutschland (1950-54).

As regards timing, it is first worthwhile to look at earlier aid programs. Most of assistance to Germany came from the earlier GARIOA program (row 2) and related British schemes (row 5). Apparently, the combined annual levels of previous U.S. and British assistance (sum of rows II and 5) were at no time exceeded or even reached by later ERP deliveries. This is not surprising, as the latter were designed to substitute for the former (Daniel, 1982). Total aid to Germany was largest from 1947 to 1949 and provided for the majority of imports during that period.

Borchardt and Buchheim (1991) focus attention on this transition period. They suggest that Marshall aid had its impact mainly in eliminating bottlenecks to industry and in creating announcement effects on output.[5] Comparing output of cotton textiles and imports of raw cotton with one another, they conclude that cotton stocks must have been reduced to almost zero during the fall of 1948, which would hardly have taken place without the information that large ERP deliveries were due soon. To further substantiate their hypothesis, they cite contemporary press articles speculating about an imminent breakdown of German textile production due to cotton shortages when the announced ERP deliveries underwent an unforseen delay in November 1948. The textile industry in Germany, processing imported cotton, wool, and some synthetics, still had significant shares

[5] This is at slight variance with Borchardt's contribution in Stolper, Häuser, and Borchardt (1967), which gives a broader interpretation of the Marshall Plan, stressing the role of institutional change.

in value added at the time. Cotton imports thus provide an example of a significant bottleneck in German industry that was eliminated by ERP deliveries, a point which Abelshauser (1991) has acknowledged.[6]

Another argument of Borchardt and Buchheim relates to the use of the so-called counterpart funds, a deutschmark capital stock created by payments of private-sector recipients of ERP deliveries (see e.g. Milward, 1984, pp. 108 ff.). These funds, administered first by American ECA officials, later by a newly created bank named Kreditanstalt für Wiederaufbau (KfW), were channeled into investment in bottleneck sectors, primarily into expanding electric power supply. The importance of these KfW investments has long been part of conventional wisdom. Table 1 above shows that counterpart funds attained some significance for capital formation during 1949 and 1950. Focusing on long-term capital formation and on certain sectors, the effects of counterpart funds become even more pronounced (Table 2).

Table 2
Percentage Share of ERP Counterpart Funds in Gross Fixed Investment

	Long Term Capital Formation	Industry		Energy	Transport		
		total	Mining	total	total	State Railways	Merchant Fleet
1949	21.8	7.1	35.0	14.0	20.0	32.0	-
1950	14.5	13.3	32.0	24.0	7.1	-	35.4
1951	7.0	4.6	8.6	21.0	3.3	-	12.4
1952	4.8	2.3	4.2	5.5	2.2	3.1	4.7

Source: Baumgart (1961)

However, some caveats must be made. As Borchardt and Buchheim themselves mention, both the capital market and the energy sector were still regulated: price deregulations during the reforms of 1948 had been confined to consumer goods and other downstream industries, whereas heavy industry and the energy sector still had to sell their output at regulated pre-war prices. With the general price increase that took place after the currency reform, this resulted in operating losses for the public utility companies. As market interest rates were still pegged below 5%, initial attempts by the ECA to float public utility bonds on the market were unsuccessful (see Abelshauser, 1984b). Hence it is certainly true that, given all these regulations, counterpart funds were important for investment activity in the energy sector. However, what one is talking about here are investment subsidies to a regulated, subsidized industry, and arguing that this was a particularly efficient way of using the ERP counterpart funds is clearly problematic.[7]

[6] For a similar reasoning see DeLong and Eichengreen (1992) who evaluate the importance of ERP coal deliveries to Italy using a small input-output table. According to their estimates, Italian GNP in 1947 would have been around 9 % lower without such deliveries.

[7] There is little work that examines the motivations behind continued regulations in industry and on the capital market in Germany after the currency reform of 1948. One possible answer is to be found in the antitrust commitments of Ludwig Erhard, then West Germany's economic minister and the main architect of the Wirtschaftswunder. Himself a disciple of the socialist Franz Oppenheimer, Erhard seems to have adhered to a revisionist interpretation of the Marxist model of economic development. As such, the alleged tendency of upstream industries to overaccumulate capital, implying heavily unbalanced growth, appeared to Erhard as a real threat. Indeed, cartelization of heavy industry during the Weimar period seemed to confirm this view. Price controls during the Great Depression and the Nazi period had sought to improve relative prices of downstream producers, while capital market regulation drove heavy industry out of the market for finance. For evidence on Erhard's beliefs see Laitenberger (1986). The removal of these controls after the Korea crisis has been interpreted by Abelshauser (1984b, pp. 73-75) as a victory of heavy industry and a de-facto return to the pre-war system of organized capitalism.

But even if it is accepted that the reforms of mid-1948 boosted recovery and that this was helped by announcement effects of the Marshall Plan, some puzzles do remain, and it might well be argued that they support the revisionists' cause.

First, industrial output data for 1947 and 1948 exhibit a very unusual common pattern. In both years, the typical seasonal decline in output towards the end of the year is missing entirely, while it is very marked during 1946/7 and reappears in 1949/50. This points to some common underlying cause which cannot be explained either by Marshall aid or by the economic reforms of 1948, as both came too late to be anticipated in late 1947. It is precisely this spurt in late 1947 which has been identified by Abelshauser (1975) as a "break-through" to accelerated reconstruction, taking place long before the advent of currency reform.

A second disturbing fact is that during the heyday of the Marshall Plan, West Germany's economic performance was far from satisfactory. Mounting difficulties developed into a full-fledged balance-of- payments crisis, and it was only after its resolution that confidence in Erhard's free market approach built up. Being less enthusiastic about Erhard, revisionists have pointed to the German export surge in the wake of an international rearmament boom that the Korea crisis is held to have caused, again dismissing the Marshall Plan as an explanation.

Apparently, this puzzle cannot be solved entirely by looking at macroeconomic flow data alone. A different approach is needed that provides a paramount perspective of the process of German recovery, including the effects of policy credibility on the behavior of decision makers. We shall advance the hypothesis that the Marshall Plan, viewed in a broader context, was indispensable for Germany's reconstruction, and would have remained so even if effective transfers had been zero. To see this it is necessary to go back to the earlier commitments made by the allies - and even further to the economic record of Nazi Germany.

Dialogue of the Marshall Planners:
C: Where have you been? I haven't seen you lately.
K: I am not working on German matters any more. I have moved over and now work on the European recovery program.
C: Oh, that's the program which developed out of the Secretary's speech at Princeton.
K: Phil, where did you go to college?
C: Princeton, why?
K: That's what I thought.[8]

III. An agenda for reconstruction

Immediately after the occupation, allied authorities in the Western zones ordered most German businesses to close down. In September 1945, only some sawmills operated to cover the needs of the US army (OMGUS, January 1946). Gradually, shops and factories were permitted to reopen, often only after a lengthy licensing process. Industry is said to have returned to normal by the turn of 1946, as far as employment and the number of businesses in operation were concerned. But still, severe restrictions applied to politically sensitive sectors, and much of Germany's heavy industry remained idle, be it for economic or political reasons. In addition, the Nazi system of economic planning was maintained in principle, with the central planning boards having been dissolved and the whole structure re-erected on a zone-by-zone base. Economic cooperation between the four zones of occupation developed only slowly, as mutual deliveries had to be negotiated between the Four Powers and as the Allied Control Council failed to reach agreement on the implementation of the economic principles laid out in the Potsdam Treaty.

Thus, no attempt was made to remove the huge monetary overhang left by the suppressed inflation of Nazi Germany. As a result, industrial output stagnated at extremely low levels (see Figure 1 above), and farmers withheld their products from urban markets. Nutritional allowances often barely reached the nutritional subsistence level.[9] In the British and American zones, difficulties were aggravated by a huge inflow of refugees and expellees from former German territories lost to Poland and of ethnic Germans from all over Eastern Europe. Their share in West Germany's population reached 16% by the end of 1946 and increased to about 20% as of December, 1952 (Bundesminister für den Marshallplan, 1953, p. 185).[10]

At the same time, productive capital stock was in much better shape than had been anticipated by the victors. Total capacity loss due to bombing has been estimated at a mere 18% of existing stock (Krengel, 1958), whereas urban housing was hit much more severely. As net investment in industry during the war had been considerable, Germany's industrial capacity, although partially paralyzed by bombings of bottleneck suppliers and the transport system, was actually far higher at the time of the surrender than before the war. Hence, potentially good prospects for recovery were thwarted by restrictive policies on the part of the occupying powers and a highly inefficient allocative system.

In the face of this crisis and of mounting occupation costs, Britain and the U.S. agreed in December 1946 on merging their zones. It was understood that in order to achieve financial self-sufficiency of this so-called

[8]From: Foreign Records of the United States (Henceforth: FRUS) (1947/III, p. 245) (Memo by Charles Kindleberger). Marshall's speech was given at Harvard on June 5, 1947.

[9]This breakdown of exchange between agriculture and industry and its adverse consequences for nutrition also figured prominently in Marshall's Harvard speech of June 5, 1947. See FRUS (1947/III, p. 238).

[10]Most of the burden actually fell on the Bizonal area, as France accepted almost no refugees in its occupation zone.

Bizone, living conditions would have to be improved and production incentives created. The idea at this point was not so much to beef up performance by additional aid but rather to use the country's idle capacities more efficiently, thus helping to reduce the burden on US and British resources.

The first drafts of the Marshall Plan, however, originated in a different context. In early 1947, the Truman administration felt the need to gain Congressional support for additional aid to Greece and Turkey, then threatened by internal turmoil and communist infiltration. Study groups were installed to assess the various existing foreign aid programs, evaluate them in the light of America's national and security interests, and present these and additional ones to Congress as a package.[11] The first report, dated April 17, included lists of possible recipients of future U.S. aid, formulated tentative policy goals such as prevention of infiltration by hostile powers, and sketched what was plainly an export promotion program (see FRUS, 1947/III, p. 204-219, for more on this). Apparently written in a Keynesian mood, the report was based on a scenario of long-term unemployment in the US and stressed the beneficial demand effects of having additional exports. The scheme proposed by this report was plainly an export promotion program along New Deal lines. Consequently, it avoided discussion of how to sustain abnormally high export to income ratios should domestic employment and capacity utilization take a more favorable course.

This, however, seems to have been the concern of Under Secretary of State Acheson in a public address on May 8. There he mentioned the dollar shortage in Europe, the pressing needs of Europe's countries for critical commodities, and the check to American export possibilities presented by capacity constraints. He wondered about the implications of all this for U.S. foreign policies (ibid, p. 219). Similar concerns were expressed in a radio address by Marshall on April 28 in which he first deplored the sluggish recovery in Europe and then emphasized that Germany and Austria were "an area of large and skilled population, of great resources and industrial plants." (FRUS 1947/III, p. 219).

Both lines of thought were brought together in a series of memoranda by George Kennan, then director of the State Department's Policy Planning Staff. Kennan advanced a short-term strategy for creating confidence in Europe and a long-term strategy for introducing close economic and political cooperation among European countries. As to the first, he proposed to "select some suitable bottleneck or bottlenecks in Western European economy and institute immediate action (...)," emphasizing that "only by means of some such action can we gain time to deal with the long-term problem in an orderly manner." (FRUS 1947/III, p. 224). With respect to the long term problem he suggested moving toward creating close political and economic ties in Europe, although the formal initiative for this should come from Europe itself. His suggestions included gearing occupational policies in Germany toward a maximum contribution of its Western zones to European reconstruction and emphasized that both the support and the cooperation program ought to be embedded in a paramount long-term strategy (ibid, p. 221).

Economic historians appear to have interpreted the Marshall Plan mostly as an export promotion program along the lines of the first report mentioned above. Kennan's own memoranda tell a very different story. According to them, the Marshall Plan as a transfer scheme was no more than a sideshow to the true, less visible agenda behind it. Highly visible, public-relations oriented action was needed to produce some immediate effects

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[11]Foreign Records of the United States (FRUS), 1947/III, p. 197f. (Under Secretary of State Acheson to Secretary of War Patterson, March 5, 1947) points out that aid to Greece and Turkey against internal turmoil and communist infiltration was only part of a much wider problem growing out of the change in Great Britain's position. A group to undertake study of this wider agenda was proposed. On March 17, (ibid., pp. 198 f.) this group came up with a provisional list of questions to be studied. See also a memo of April 7, sent by the director of the budget to Acheson, pressing for a unifying concept, as Congress "wants to see the whole picture at once", and asking that clear priorities must be set, "otherwise, legislative and budgetary `credit' may be exhausted by the President before the highest priorities are met" (ibid., p. 200).

and to distract public attention from the long-term program it concealed. This also makes it clear that economic analysis of the Marshall Plan as a transfer scheme has mostly focused on its visible component, which was apparently peripherical to the true intentions. In contrast, political historians have realized the far-reaching implications of these concepts much more clearly. However, exaggerated emphasis has sometimes been placed on the differences between the various programs, which were interpreted as a struggle between the military administration and the State Department (see e.g. Gimbel, 1976, Hogan, 1987).

According to this literature, the focus of these debates was not so much on the need to reconstruct Germany but rather on how this idea could be sold to the smaller allies (on this, see Hogan, 1991). The basic conflict, in this view, was between the State Department's strategy of pursuing a "balanced" strategy of recovery in both Germany and Western Europe and the War Department's preference for the Hoover Plan which emphasized reconstruction in Germany as a locomotive for recovery in Europe.

Two main motives are attributed to the State Department. First, there was the beginning of containment policy in the light of mounting tensions with the USSR.[12] In order to prevent Western Europe from falling into communist hands, decisive action was needed which both documented the U.S. commitment to this region and provided better living conditions. A second concern was Western Europe's widening dollar gap in trade with the U.S. Driven by ambitious national economic policies, most Western European countries had reached full employment during the spring of 1947. Import demands were considerable, whereas export performance, hampered by modernization gaps, was relatively poor. In the absence of substantial real resource transfers from abroad, the countries of Western Europe would be forced to curb activity through deflationary pressure. In the light of the communist threat, the implications of this for political stabilization appeared gloomy.

According to conventional interpretation, the Marshall Plan solved the State Department's problems and rescued Europe's young democracies from this dilemma by providing just these transfers, thus deepening American influence on Western Europe and setting the stage for the Cold War of the 1950s. However, revisionists have pointed out that Marshall aid was far too small to provide much leverage. Milward (1984, p. 90-125) argues that deliveries were often allocated according to the recipient countries' preferences rather than according to American guidelines.

Our own reading of the evidence is still different. From the published State Department records it emerges that two main elements of the Marshall Plan existed right from the beginning of the planning process. First, there is a sharp distinction to be made between Marshall aid itself and a wider political agenda behind it. The aim of Marshall aid was not to provide the means for European reconstruction but to restructure and advertize existing aid schemes and to set clear political priorities for the short run. Second, both Kennan's plan and the aforementioned statements of Acheson and Marshall make it clear that in the longer run, minimizing the dollar drain and substituting West Germany for the U.S. as the main supplier for the capital goods needed for

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[12]Several passages in Kennan's memo (FRUS 1947/III, p. 229) stress that the ERP ought not to be viewed just as an implication of the Truman doctrine. Nevertheless, reference to U.S. national security and to the threat of communist infiltration is made frequently in all of these documents. Citing these passages as evidence, Gimbel (1976) explicitly denies any link between the Marshall Plan and containment policies. For criticism of this, see Knapp (1977, 1981) and the insightful study of Daniel (1982).

recovery were a critical element of the program. Thus, at least as top officials were concerned, we conclude that the State Department was fully aware of the opportunities of Germany's reconstruction[13].

The presence of idle capacity in West German industry provided a clue to the problems of both the State and the War Departments. By setting Germany's economy into motion again, its potential could be utilized to both reduce the cost of occupation and provide real resource transfers to Western Europe without imposing an unsustainable drain on U.S. resources. Moreover, if some intra-European payment system was introduced to foster trade and secure input deliveries to Germany, Western Europe's import and export problems might be solved simultaneously: West Germany would absorb imports from other European countries that were difficult to sell elsewhere and deliver the desired capital goods in exchange. In this way, a self-sustained recovery process would be triggered off without imposing unpredictable burdens on U.S. taxpayers.[14]

If this interpretation, derived from the debate between Gimbel (1976), Knapp (1977, 1981) and Hogan (1987),[15] is correct, the success of the Marshall Plan as a broader political agenda is not so much to be measured by the size of Marshall aid but rather by the degree to which U.S. authorities managed to install West Germany as a source of permanent export surpluses vis-à-vis Western Europe. Therefore, U.S. Marshall aid to Western Europe does not provide the core of the program but rather an initial pump-primer and political palliative for the former victims of Nazi Germany.

Thus, several different "Marshall Plans" have to be distinguished: first, the well-known Marshall aid scheme that provided U.S. transfers; second, another Marshall Plan that provided for German deliveries to Western Europe; and finally, yet another Marshall Plan that aimed at providing a proper institutional framework and that paved the way for political acceptance of Germany's economic resurrection among America's European Allies.[16]

IV. American strategies and French objections

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[13]This notwithstanding, the precise balance between reconstruction of Germany and of other European countries remained the subject matter of bitter infighting between the U.S. military administration in Germany and the ECA. On this see Milward (1984, p. 155); Abelshauser (1989).

[14]For a more complete analysis, it would be interesting to contrast these views with those of the Treasury. Some of these are referred to in the contribution of Harold James (1994) to this volume.

[15]According to Gimbel's hypothesis the Marshall Plan was connected neither with a long-term strategy nor with the Truman doctrine and containment policy against communism. Accordingly, Gimbel takes some efforts at deemphasizing the importance of Kennan's first memorandum. Although this memo repeatedly stresses the tentative nature of its conclusions, we feel that Gimbel underestimates its impact on shaping U.S. policies in the subsequent period. As to the economic interpretation of the plan, Gimbel establishes a link between reparations and Marshall Aid, to the effect that the latter substituted for the former, which America's allies had expected to get out of Germany. At least with regard to long-run considerations, this is at variance with our own way of reading the evidence. In our view, Germany's economy was to be revitalized just in order to substitute for U.S. aid. Gimbel's view is possibly a consequence of mixing up reparations from current production (which the Americans opposed) with real resource transfers (which they endorsed).

[16]Abelshauser (1989) also introduces a related distinction. Daniel (1982) also emphasizes the need to distinguish between Marshall Aid and German reconstruction. However, in both studies the two programs seem unrelated to one another. In Daniel's case this is caused by her insistence on export promotion as the basic principle of US foreign trade policy at the time, which appears quite debatable.

This agenda for reconstruction was not uncontroversial in Europe. British policies aimed at a socialization of heavy industry in the Ruhr district, Germany's industrial heartland east of the Rhine. French reconstruction programs, as laid out in the Monnet plan, sought to secure the prime position in European heavy industry for France, assigning to the Ruhr only the minor role of France's main coal supplier. Soviet interests were apparently divided between extracting reparations from Germany and keeping its industrial potential low. What all these plans had in common was to give priority to a dismantling of German industrial capacity. Only Belgium and the Netherlands adopted a different perspective. As both countries were strongly dependent on trade with Germany, they sought to revive trade of some sort. For this reason they objected against the so-called dollar clause which the U.S. dominated Joint Import Export Agency (JEIA) had imposed on trade with the American and British zones to prevent them from accumulating deficits. The immediate effect of this was that trade could only be exerted on a cash-in-advance basis, which worked against the interest of Belgian and Dutch exporters.

But there was also another common interest which ultimately gave American decision makers strong bargaining power: the coal question. Coal from the Ruhr had traditionally been a prime export item in German trade with the BENELUX countries and France. In almost all countries of Western Europe, the ambitious recovery programs depended to a considerable degree on sufficiently large inflows of coal. Given the conditions of the early post-war period, such imports could only come from two sources, West Germany or the U.S. This way, the Americans found themselves to be in a key role. Neither France nor the Benelux countries could have made available sufficient foreign exchange for imports without U.S. assistance. Access to Germany's coal reserves depended on U.S. consent as well. When during the critical winter of 1946/47, coal had become a limiting factor, it became apparent that a formidable policy tool had fallen into U.S. hands.

The summer of 1947 witnessed a stormy conference in Moscow on a peace treaty with Germany. During this conference U.S. officials succeeded for the first time in establishing agreement between the Western occupation powers which indexed Germany's coal export obligations to coal output (Milward, 1984, p. 140). Ideology ran counter to efficiency: in order to obtain more coal, France had to accept the logic that Ruhr coal exports were a function of output. But in turn, coal output was a function of investment in the mines (which had been badly run down during the war), which in turn depended on a reconstruction of other bottleneck sectors of West Germany's economy.

The U.S. could also use a second lever. Most of West Germany's heavy industry, and along with it, most of its urban population were concentrated in the British zone of occupation. This soon theft British occupation authorities with the choice between allowing for self-sustained economic recovery beyond envisaged levels or having to provide financial support. Given Britain's ewakened economic potential, the transfer payments implied soon threatened to be large. Therefore, Britain soon adopted the less restrictive doctrines of the Truman administration towards german reconstruction and agreed to merge its occupation zone with the American one. This lead to the creation of "Bizonia", the kernel of the later german federal Republic, and to a common economic policy under U.S. leadership (see Gillingham (1991, pp. 121-137) for an account of U.S./U.K. quibbles).

French resistance was harder to overcome. In his outstanding review of Western Europe's reconstruction, Milward (1984) has advanced the hypothesis that the process of European integration in the 1950s is the story of a series of defeats of American concepts and of the ultimate victory of an entirely different agenda put together under French leadership. Certainly U.S. policy did suffer blows and setbacks[17]. However, this is not always the central issue. The perspective is often reversed if one recognizes the central importance of Germany for U.S. policies toward Europe[18]. What is amazing in this regard is the bluntness with which U.S. policies often confronted its allies. This soon interfered with France's interests in a field which was the main concern of all French economic planning after the war, the economic aspect of national security against a revived German state.[19]

Creating a fait accompli and then negotiating the technical details with the Allies was a strategy that the Americans employed several times. On the eve of the first session of the Paris conference in 1947, it was announced to the allies that the Level of Industry Plan of 1946 would no longer be regarded as binding (see e.g. Milward, 1984, p. 73). This was especially alarming to the French, as West Germany's industrial output at the time was still far below the levels set out in that scheme. Announcing that even higher levels were now envisaged clearly indicated a major change in U.S. policy toward Germany.[20]

In a short memorandom of July 18 (see on this FRUS 1947/III, p. 332), Kennan had put the policy objectives quite succinctly: "There is a serious gap between what is required of germany for European recovery and what is being produced there today. Unless this gap can be overcome no European recovery program will be realistic." After proposing to have talks on this with France, he continues: "In this way we could place squarely before the French the choice between a rise in Germa production or no European recovery financed by the US."

Given the scarcity of coal in continental Europe, this policy meant jeopardizing the most important element of the Monnet Plan for France's reconstruction, the idea of channeling Ruhr coal away from Germany's to France's heavy industry (see FRUS 1947/III, p. 995, for an intervention of Bidault in this regard).[21]

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[17]Milward's (1984) account of U.S. policy goals appears to follow largely the records of the ECA Marshall Plan administration, thus reflecting the views of its director, Paul Hoffman. There is little doubt that the far-reaching agenda of Hoffman was frustrated repeatedly. However, his policy stance was not quite representative of U.S. policies towards Western Europe in general.

[18]We read Chapter 4 of Milward's (1992) recent book, especially p. 155f., as remarkable evidence of convergence towards such a view.

[19]Compare Eichengreen and Uzan (1992) for an interesting discussion of Marshall Aid conditionality in France which, however, centers around domestic macroeconomic policies alone. This has prompted comments by Hellwig (1992) who points to the need for an analysis of France's broader agenda in the context of Marshall Aid.

[20]In a protest note to Marshall (FRUS 1947/III, p. 991), the French Foreign Minister Bidault first mentions that in accepting the Marshall Plan at the Paris Council of Foreign Ministers in 1947, "France had burned its bridges". Mentioning that both France's communists and the Soviets had predicted that the first result of the Marshall Plan would be the reconstruction of Germany, he warned against weakening his position in the French public and even threatened to resign should the revised level of industry plan be implemented. See Gimbel (1976, p. 220-254) for an account of the bitter infighting in the American administration that followed.

[21]During the negotiations, Secretary of State Marshall dispatched a telegram to the embassy in London which very clearly states the ultimate goals behind the ERP program and the role envisaged for the German economy. Referring to initial British opposition against discussing revised production targets for West german Bizonia, he states: "... essence of Secretary's (i.e. Marshall's, HB/AR) proposals was preparation of program based on maximum European self-help and mutual aid and that such a program could only be prepared if the separate national programs and requirements statements were examined and coordinated such as to produce the greatest European contribution to recovery at the earliest moment. (...) Dept's impression (...) is that element of mutual aid and subordination of separate aims to cooperative approach has been generally lacking. The force of US pressure to achieve this cooperative approach is seriously weakened id that one European area in which the US has direct responsibility abstains. (...) If British position prevails and we withhold discussion of bizonal area, we can hardly be successful in opposing a French desire to protect the Monnet Plan, Scandinavian tendencies to withdraw from full participation and other centrifugal forces working against a coordinated area approach." This is followed by instructions to the ambassador authorizing him to cast doubt

American action followed suit. Increased efforts were made to reconstruct the German railroad system, one of the few sectors that had been badly hit during the war. Study groups were installed to improve the planning system, and bank notes for a new currency were secretly printed in the U.S. Reconstruction of the transport system and the subsequent "breakthrough" of the West German economy in late 1947, which is such a dominant theme in Abelshauser's (1975) early work (and which is also reflected in the output figures, see Section II above), was thus not independent of the Marshall Plan. Rather, it appears as a direct consequence - provided only that U.S. policies for German revitalization are given their proper weight in the plan.

Of course, certain concessions had to be made in exchange. In order to prevent the French from walking out of the Paris conference of 1947, the U.S. agreed to establish an international Ruhr coal authority, but only as part of a peace settlement in Germany, which was still far beyond reach at the time.[22]

The decisive blow to French ambitions came with the London conference on Germany of early 1948, which had been called to decide both on Germany's future shape and on the economic control of Ruhr industry. Again, the U.S. and Britain had created a fait accompli prior to the start of a conference, this time by installing the nucleus of the constitutional structures of the later Federal Republic. France was once again left with the choice of pulling out or avoiding the worst through continued cooperation.[23] In the end, France had to agree to a heavily curtailed dismantling program for German industry and to resume talks on merging its zone of occupation with the Bizone on American terms. This was also an instance when the U.S. successfully threatened to withdraw Marshall aid from France if it refused to go along.[24] Once again creating a fait accompli before negotiating technical details, the Bizonal Law No. 75, issued in November 1948, included a commitment to reprivatize Ruhr industry, thus jeopardizing French attempts to assume managerial control of heavy industry trusts in that region. Clearly this provoked bitter protests in France. Press reports at the time quoted General de Gaulle referring to Law No. 75 as the "gravest decision yet taken in the 20th century" (Milward, 1984, p. 153). Such were the conditions, created by American pressure, from which the Schuman Plan for Franco-German cooperation finally emerged.[25]

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on the acceptability of the ERP program to the US should British opposition on German output targets persist. (FRUS 1847/III, p. 418 f., telegram of September 8, 1947).

[22]Milward (1984) appears to regard this as a decisive setback for U.S. policies in Europe. However, the French were successfully prevented from raising this issue at an important juncture of the London Council of Foreign Ministers in November 1947. Evidence even suggests that the decision to break off this conference was influenced by American and British desires not to make differences on the Ruhr questions visible to the Russians. See FRUS (1947/III, pp. 769 f.).

[23]See FRUS (1948/II, pp. 26 f.) where Bidault is reported to have charged the U.S. and Great Britain for having created a fait accompli. After the London council of foreign ministers in late 1947, France had been informally invited to join talks on the future shape of the Western zones, (see e.g. FRUS (1947/III, pp. 811 ff.)). Although failure to consult the French was officially deplored by British officials as a technical mistake, the French were told confidentially that one had "to get on with matters and could not hold up things while the French ruminated on the other side of the fence," FRUS (1948/II, p. 22).

[24]Before and during the London conference the French repeatedly attempted to establish a link between their approval of trizonal fusion and international control of the Ruhr and a weakening of central government powers in a future West German state. At one point this was flatly refused by the U.S. pointing out that its desire in Trizonia (including the French zone of occupation) was not unlimited, FRUS (1948/II, p. 70). Instructions by the State Department to its embassy in France reiterated the principal position that Germany's economy should be rehabilitated such as to make the maximum contribution to European recovery. In these documents, the French position of regarding Germany as a continuing threat was termed outmoded and unrealistic.

[25]Interestingly, French authors have long adopted similar interpretations of the genesis of the Schuman Plan. See e.g. Lacroix-Riz (1986), Poidevin (1986). In contrast, German authors have emphasized elements of autonomy in shaping

V. U.S. policies and the German public

The aforementioned quibbles over Germany's future position already make it clear why the German public liked the Marshall Plan. Germany's military defeat had been so complete and as the U.S. was clearly the dominant power, no one in Germany doubted the capacity of the U.S. to rebuild the German economy. However, much would depend on the credibility of an American commitment to do so. Neither the original Morgenthau plan for reconverting Germany into an agrarian state nor U.S. stop-and-go policies during 1946 were strongly conducive to creating such confidence. What did create confidence was the announcement of the Marshall Plan and the immediate removal of the limits on industrial production that the Level of Industry Plan of 1946 had envisaged. Incentives were created for workers in bottleneck sectors, increased efforts were made to repair the transport system, and all talk of nationalization of heavy industry under allied control was suddenly over. Thus, it is precisely because of the Marshall Plan and not so much because of events before it that the improvement in the Bizone, which plays such a prominent role for Abelshauser's (1975) hypothesis, took place.

The commitment of the U.S. to bailing the country out of its import impasse by announcing real resource transfers had a special meaning in Germany. Nazi ideology had interpreted the war in Malthusian and Social Darwinist fashion as a struggle for scarce habitat and resources (Ritschl, 1991). The prediction of this doctrine was that after a military defeat, Germany would be exposed to losses of territory, destruction of its industrial potential, and mass starvation. Shortages and famine in Germany during the first two post-war years seemed to confirm this interpretation. Moreover, one of the central doctrines of Nazi ideology had been that both World War I and the struggle over reparations and debt obligations had served to curb Germany's international trade relations and narrow its economic Lebensraum, or habitat, as Nazi socio-biological language termed it. Indeed, most of Germany's autarky policies in the 1930s focused on substituting for imports from Germany's main creditors in the Anglo-Saxon world (Ritschl, 1992). Therefore, promising to supply inputs of vital importance to the German economy did not only open bottlenecks but also indicated a fundamental regime change, disproving Nazi propaganda among its own people.

The need for autarky as a safeguard against foreign trade embargos had figures prominently in Nazi propaganda. In the same vein, Germany's assault on Europe had been rationalized as a war for scarce resources that would be difficult to obtain through trade. The promise of assistance and of reconstruction under a new system of international trade may thus have provoked a fundamental change in expectations in the most important group of the German public, that is, export- oriented industry.

However, there was one case in point where aid was indeed substantial for survival, namely, the Soviet blockade of Berlin during the years 1948/49, when all supplies to the Western sectors of the city had to be brought in by air. The impressive pictures of the "raisin bombers", as the Berliners called them, provided ample evidence to the Germans that the U.S. and its allies were serious about their commitment and that aid to the former enemy was not just an empty phrase.

French policy toward Western Germany, see e.g. Schwabe (1988). Goschler/Buchheim/Bührer (1989) even argue that the Schuman Plan was rational from an economic point of view, as its idea of creating a European common market for steel was based on the idea of creating a comparative advantage of French over German steel industry. On this see also Lynch (1993).

In any case it is sure that the US side pressed very hard for more French initiative, again following the guidelines laid out Kennan's memoranda. In this spirit, a message from Acheson to Schuman of 30 October 1949 states: "Now is the time for French initiative and leadership of the type required to integrate the German federal Republic promptly and decisively into Western Europe. Delay will seriously weaken the possibilities of success." See FRUS 1949/III, pp. 622 f.

V. Reconstructing Intra-European trade

Reconstructing Germany and rebuilding the European division of labor heavily depended on one another. In retrospect, this task was a particularly difficult one, as the 1930s had witnessed a general disintegration of trade relations and Nazi Germany rebuilt its economy on an autarky platform. Moreover, Nazi Germany had defaulted on its foreign debt and channeled its financial relations into a host of bilateral trade and clearing agreements, which served to increase the degree of self-sufficiency and prepare the economic and military aggression against Eastern Europe (see Hirschman, 1945, and, e.g., Petzina, 1968, Teichert, 1984).

Post-war trade policies, it is commonly argued, were still faced with the disruption of trade created by beggar-thy-neighbor and autarky policies, especially on the part of Nazi Germany. However, upon closer examination this position seems questionable. Despite the political commitment to economic self-sufficiency, most of the reduction of Germany's imports in the 1930s can be explained by terms-of-trade-effects, with the remaining real stagnation a consequence of foreign exchange shortage. The most prominent effect of Nazi trade policies in the pre-war years is on German trade deficits with its main creditors in the West (Ritschl, 1992).[26] But despite its autarky policies, around 1937/38 Germany still came in first on the list of the main trading partners of almost all countries of continental Europe.[27]

Under the New Order imposed on continental Europe after the military victories of 1940, Nazi Germany had already begun to introduce multilateral clearing, creating the nucleus of a centralized payments union with the <u>Deutsche Verrechnungskasse</u> in Berlin, a subsidiary of the <u>Reichsbank</u>, as its central clearinghouse.[28] Indeed, the creation of a unified economic trade zone in Europe (the Nazi <u>Grosswirtschaftsraum</u>, or Greater Economic Sphere, as political euphemism had it) played a considerable role in contemporary German writings, being advertised to Germany's involuntary allies as a Pareto improvement.[29]

However, in practice the system worked in a markedly different direction, providing the accounting facility of the economic exploitation of Western Europe under Nazi rule.[30] Looking at the records of the <u>Deutsche Verrechnungskasse</u>, it can be seen that despite all ideological commitment to an eastward orientation of Germany's economy, most of the resources transferred to Germany under the clearing system indeed came

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[26]Both the terms of trade effect and the elimination of trade deficits with Germany's Western creditors helped to reduce the vulnerability to retaliation and seizure of German exports, just as predicted by the literature on sovereign debt (Bulow and Rogoff, 1989).

[27]See the tables in Mitchell (1975). The main exceptions are Scandinavia and Switzerland, where trade with Germany and Britain was almost equally high. The other big exceptions are Belgium, where Germany ranks second behind France, and France itself. In spite of a marked reduction of Franco-German trade during the Nazi years, in French foreign trade of 1937/38 Germany still held the third position behind Algeria (then a French colony) and Belgium.

[28]This was based on an order by Göring of June 22, 1940. See German Federal Archives/ Bundesarchiv (BA) Koblenz, R2/230, fols. 115 ff., for the minutes of a meeting attended by almost all cabinet members concerned, which fixed the aims of a clearing union as part of controlling the German dominated trading block of Continental Europe.

[29]See e.g. Sarow (1940), von Mickwitz (1942), Ringel (1942), and Schiller (1942). An assessment of the political context is Volkmann (1977).

[30]On this see the report on clearing procedures for the end of 1941 in BA Koblenz, R 7/3283, fols. 135-139, which states that multilateral clearing was practiced only with the occupied countries, while its introduction vis-à-vis the "outer circle of self-governed countries" like Italy would have to be postponed to the postwar period.

from Western Europe, or more precisely from the countries that would eventually join West Germany in the EEC (Table 3):

Table 3
Germany's Cumulative Clearing Accounts as of End of 1944
Million reichsmarks

Group I: ("EEC")		Group II: (Scandinavia)		Group III: (Southeast. Europe)		Group IV: (Eastern Europe)	
F	- 8532.2	N	+ 21.5	YU	- 10.5	Poland	- 4712.7
NL	- 5989.6	DK	- 1421.2	Serb.	- 553.1	Eston.	+ 0.0
I	- 147.3	SF	+ 31.9	Croat.	- 1051.6	Lithuania	- 2.3
B/Lx	- 4976.2	S	.	Alban.	- 2.3	Ukraine	+ 292.8
				H	- 803.7	Russia	+ 204.0
	-19636.3		- 1367.8	RO	- 1126.4	Protectorate	- 3.6
						Slovakia	- 631.7
					- 4043.9		
							- 4851.2

Total "EEC" (F, NL, B/Lx, I) : - 19,636.3
Total "East" (Groups III, IV): - 8,895.1

Source: German Federal Archives Koblenz, R 7/3636, fol. 41.

In Table 3, Germany's cumulative deficits on clearing account by the end of 1944 are ordered by country groups. As can be seen, indebtedness vis-à-vis Western Europe was far higher than with Eastern Europe. Using clearing debt as a measure of integration, the resource drain from the BENELUX countries was by far the greatest, given the comparatively small size of their respective national economies.

Germany's wartime trade statistics include only such commodities as physically crossed German borders, whereas most of the clearing debt, reflecting part of the transfers to German military units abroad, was booked on capital account. Table 4 summarizes key data on German and West German trade balances between 1928 and 1960.

Table 4
The Structure of German Foreign Trade
Current reichsmarks / DM Bill., 1928-1950

	Commodity Structure: Share of Agriculture		Raw Materials		Semi-Finished		Finished		Country Structure: Share of "EEC" in European Trade		in Total Trade		total 100*(X-M)/X+M
	M	X	M	X	M	X	M	X	M	X	M	X	
1928	40.9	6.4	28.3	12.2	17.9	12.2	12.9	69.2	34.1	32.5	17.3	24.4	- 7.4
1938	39.5	1.2	32.9	9.5	18.8	8.4	7.9	80.8	26.4	32.7	14.4	22.8	- 1.8
1940	47.2	2.5	21.0	14.8	21.2	9.3	9.7	73.4	29.6	28.3	27.6	26.9	- 1.5
1943	40.0	6.8	13.5	13.1	13.1	13.0	32.4	66.9					
1950	44.1	2.3	29.6	14.0	13.7	18.8	12.6	64.9	47.0	48.3	25.5	36.4	-13.6
1960	26.3	2.3	21.7	4.6	18.9	10.4	32.2	82.4	55.9	48.9	32.4	32.9	5.8

Saar district excluded from 1928 and 1950 totals.
Source: Länderrat (1949), Statistisches Jahrbuch (1952, 1964)

As can be seen, commodity structures did not change dramatically, compared to either 1928 or 1950. One might expect that the Nazis simply used the occupied countries as a natural resource basis. Indeed, in 1940 there is a certain shift in imports toward raw materials. However, this tendency is soon reversed, and imports of finished goods become dominant in 1943. This "de-specialization" of Germany's import structure during the war seems to us as a remarkable phenomenon which has hitherto been neglected. Even under the horrible auspices of Nazi dominance over Europe there appears to be an anticipation of the later tendency toward intensified intra-industrial trade, which reappears in West Germany's import accounts only during the mid-1950s. Not until 1960 did the share of finished commodities in German imports recover to its significance of 1943. This indicates the magnitude of the potential for reconstruction which lay in revitalizing West German imports after the war.[31] Hence it is also debatable whether joining the EPU really meant a reorientation of German trade, as Milward (1984) has claimed[32], or whether it was something of a return to a previous pattern that had emerged during the war.

In contrast, the structure of wartime exports from Germany does not seem to be an anticipation of future trends. Rather, it is an obvious deviation from a long-term pattern that had existed before the war and that reemerged afterwards. However, surprising tendencies show up even in the export balance. Apparently the export structure of 1950 is quite similar to that of 1928. But there exist striking similarities between the commodity structure of German exports in 1960 and 1938. It is tempting to interpret this as a similar reconstruction gap, with the balance of 1950 as a sign of export structures having fallen back to outmoded patterns of the interwar years and indicating the potential for future reconstruction.

Examination of regional trade structures during the war is hampered by lack of data. Still it is apparent that despite Germany's eastward expansion, Western Europe's share in trade across German borders increased after 1938. However, as referred to above, the trade statistics underlying Table 4 reflect real resource transfers only indirectly. If clearing account balances are considered instead of trade statistics, the share of Western Europe is far higher than indicated by trade figures even in 1940.[33]

The short-term economic record of Western Europe at the time of the allied victory was thus not one of disintegration and national autarky but rather of forced integration in the war machinery of Nazi Germany. Apparently, the economies of occupied Western Europe did not so much supply raw material inputs for German industry as produce finished goods. In turn, they were provided with inputs and capital equipment from Germany, using the traditional input-output web of the Western European coal and steel region that extends from the Ruhr to Belgium and Lorraine (on this, see also Gillingham, 1991). Creating a continental trading block in Western Europe was thus by no means new, nor were the financial techniques employed. The legacy of Hitler's Reichsbank president Hjalmar Schacht was apparent, as policy makers were fully aware (see James, 1992, for an account of early post-war debates).

In any case, the problem faced by the late 1940s seemed to be the disruption not so much of trade in general but rather of trade with Germany. Outweighing most national economies of Western Europe and being centrally located, Germany had traditionally played a role as a supplier of capital goods that was hard to substitute for any other country except for the U.S. However, the economies of Western Europe lacked an established dollar-based market for their own products to pay for U.S. supplies, which makes the emergence of the dollar gap in Europe easier to understand (Buchheim, 1990, p. 174). Hence, reactivating the German economy was an obvious way to overcome the dollar shortage.

But still, this does not explain the need for another payments union, all the more so as the record of economic exploitation under the Nazi <u>Verrechnungskasse</u> system is was not very appealing. Conceptually it would have seemed more straightforward to close the post-war dollar gap by massive currency devaluation all over Europe and implementing convertibility under the Bretton Woods system. Eichengreen (1992) finds evidence in support of this view. However, such an approach would not necessarily have solved the German

[31]See now Milward (1992, p. 134 f.) for an appraisal of Germany's contribution as an export market to postwar recovery of Western Europe.

[32]See also Milward (1992, p. 143) for an interesting modification of his earlier hypothesis.

[33]In Table 3, the cumulative share of "EEC" countries in the sample total would be 65.2% in 1940 as compared to 65.7% in 1944.

problem. As we have seen, reconstructing European trade without Germany's participation had proven to be an illusion as early as 1947. But including Germany into post-war trade presented a number of problems beyond convertibility that seemed almost unsurmountable in the beginning. As we shall discuss at some length, the main raison d'etre of the EPU was precisely Germany's smooth reintegration into Europe's division of labor, something that could only hardly have been accomplished merely through convertibility and exchange rate realignment.

Despite their particularly bad experience with clearing arrangements under the Nazi New Order, it was the delegates from the Benelux countries who proposed to make the transition from bilateral to multilateral clearing again, and who pressed for a quick reintegration of Germany into such a scheme (see e.g. Hogan, 1987. pp. 63-4). The reasons for this are easy to understand. The first Belgian and Dutch proposals for resumption of trade with Germany that Germany should be compelled this way to serve its wartime clearing debt (Buchheim, 1990, p. 10). Somehow the idea of setting Schacht's financial machinery into motion again seemed intriguing, as it could equally well supply the needs for reconstruction as it had provided guns and butter for Hitler's war.

Recipients of deliveries from Germany during 1945/46 were accordingly shocked when the Americans insisted on dollar payment and refused any linkage with claims against Germany on wartime clearing account. Doing so, the U.S. administration certainly blocked the way to increasing intra-European trade. However, as Buchheim (1990) has argued, this so-called dollar clause, which remained in effect until late 1949, may have actually served German interests, as it effectively prevented an untimely resource drain from Germany caused by reparation claims.

The American motivations for introducing the dollar clause become more apparent in the light of the theory of debt overhangs (Bulow and Rogoff, 1989). American and British officials were horrified by the current account deficits of Weimar Germany and its reparation payments on credit (Gimbel, 1976). Soon it had proven impossible to extract both reparation payments and accumulated debt service from the Germans. Schacht's debt default of 1933 and his subsequent autarky policies had left Germany's creditors with very little room for retaliation, a fact well explained by the Bulow/Rogoff model. Hence, U.S. administrators sought to avoid running into similar traps again. In order to protect its own financial position in West Germany, the U.S. had to give protection to Germany against its creditors on wartime debt and against reparation demands as well. In the absence of such measures, German foreign exchange revenues from trade would have been exposed to the risk of seizure by the authorities of the recipient countries. Therefore, the dollar clause's primary goal was to secure the solvency of their zones of occupation.

However, in 1946 it turned out that financial independence could not be attained without more pump-priming aid. To be able to secure assistance aid without indirectly financing future reparations, a link between claims on Germany and Marshall aid was established: future U.S. help to Germany would be given only under a seniority clause giving U.S. credits priority over all other claims. Indeed the London Council of Foreign Ministers agreed on this seniority clause, thus paving the way for both Marshall aid and a removal of the dollar clause in trade with West Germany. As ERP aid to Germany was shaped as a credit, it constituted a claim on Germany which had priority over all other existing debt and reparation claims. In the American administration it was understood that the main "value of this claim (is) in treaty negotiations as (a) basis for keeping other claims down."[34]

As long as the U.S. accepted a standstill on the service of its claim, all other claims on Germany would be blocked automatically. This way it was guaranteed that future German foreign exchange receipts would be protected against seizure by Germany's wartime creditors. However, despite this device the continuing existence

[34]FRUS (1947/III, pp. 758 ff.).

of claims on Germany would make it impossible for Germany to obtain commercial credit, as claims of exporters into Germany would range at the bottom of the list, their marginal value being zero. Hence, convertibility was not a solution, and some device was needed to reinstitute commercial credit irrespective of the debt overhang. The solution was found in the European Payments Union which provided fresh money and new credibility to West Germany, making it possible to deal with the restoration of credit and the settlement of debts and reparations separately.

The EPU, established in 1950, strongly resembled the original proposals of the BENELUX states, save that the U.S. dollar became the backing currency of the system and that any connection with Germany's war debts had been removed. Under U.S. pressure, the settlement of German debt was delegated to a separate conference which reached an agreement in 1953 (on the latter see Buchheim, 1990).

Milward (1984) has pointed out that the protectionist bias of EPU agreements marked yet another defeat of U.S. planners in their struggle with their French counterparts. Again, our perspective is slightly different. Germany's reintegration into the economy of Western Europe was a main concern of U.S. officials. Also, the dollar shortage in Europe and the bad record of the gold standard in the 1920s gave clear hints of how the currency system of the future should not look like.

In this situation, devising a clearing scheme like the EPU and backing it with the dollar and Marshall aid was like killing two birds with one stone. First, including Germany provided an incentive for the other members to cooperate, although this meant getting access to German resources on American terms only. However, without a EPU-type system, trade with Germany would have exposed each country to the risks of dealing with Germany's debt overhang independently. As German foreign exchange receipts would have been likely to seizure, it would have been a dominant strategy for any single German trading partner to avoid financing a bilateral surplus by additional credits. On the other hand, it was collectively rational for the Europeans to provide such credits because without them Germany could not rebuild its factor stocks and eventually earn its debts by establishing an export surplus on its own. Therefore, in order to get out of this formidable Prisoners Dilemma, Western Europe needed a centralized institution like the EPU that would establish rules and sanctions to secure a cooperative solution. Compared to the EPU, a scenario like in the 1930s, when trade relations were characterized by bilateral standstill and clearing arrangements, was clearly inferior. This, however, was the historical alternative, as immediate transition to free convertibility under the Bretton Woods standard would have invoked cooperation problems that were even more difficult to solve.

As to the U.S., it played the double part of the creator and a guarantor of the system, enforcing cooperation through its economic levers and transferring much of its direct influence on German economic policy to the now European collective. That is, it provided the EPU as a collective with a leverage against the revival of unsound financial and monetary practices in Germany.

Second, the prospect of getting access to the European marketplace again created complementary incentives in Germany itself. America's role as a benevolent hegemon, e.g. its aforementioned pressure on France, lent credibility within Germany to the soundness of the European approach to free trade, which made the Germans wholeheartedly embrace a strict policy of trade liberalization. The dollar gap, US influence, and the credibility of US politics in West Germany thus worked together to provide the leverage by which economic cooperation, not reverse exploitation, was enforced in Western Europe.

VII. The EPU as a commitment technology: A new perspective on the German crisis of 1950/51

Our hypothesis, which links German and European reconstruction to one another in a framework of institutions imposed on Western Europe by a benevolent hegemon, is still to be confronted with empirical evidence on just how these institutions worked. This section will focus on Germany's performance within the OEEC and EPU between 1949 and 1951. It shall be argued that these institutions helped to reintegrate West Germany into the traditional European division of labor, thus strengthening Europe's reconstruction and helping to close the dollar gap in the long run (on the latter see already Buchheim, 1990). The OEEC and EPU both caused and solved a major adaptation crisis which occurred during this process. This crisis, known as the German EPU crisis of 1950/51, will be shown to have been more or less a consequence of the need to restock Germany's economy before it could deliver the commodities wanted. It was not, as some have it, merely the result of a political gamble on the part of German decision makers. Not having access to any significant commercial credit other than EPU drawing rights, Germany lacked a sufficiently strong fall-back position and was thus left without sensible alternatives. In our view, the EPU as a European collective enabled Germany to commit itself to free trade and to stick to this commitment at least in principle.

This last proposition is non-trivial, for in its early phase, the EPU faced rather stern circumstances (see Figure 2).

(Figure 2)

Figure 2 shows a substantial accumulation of German trade deficits with EPU countries,[35] which is amazing in the light of the record of the Nazi Verrechnungskasse system and the huge transfers it set into motion. But Germany's deficit did not build up steadily. Three stages can be discerned. The first ranges from early 1949 to May 1950, when a German trade deficit mounted but then disappeared, all within the span of the second OEEC payment agreement. The second, critical phase extends from July 1950 to March 1951, revealing a sharp and continuous increase of German deficits, whereas the last phase from April 1951 on shows a reversal of this trend.

It is noteworthy that in contrast to this development, German import and export values from non-EPU countries (net of imports financed by dollar aid) stay neatly balanced, not showing a significant deficit before mid-1951. To a large extent this is easily explained by the constraints imposed on trade by bilateral clearing agreements. The former phenomenon, however, requires further analysis.

In 1949, German imports from the later EPU area increased significantly due to two factors. First, liberalization within the OEEC successively freed about 50% of import restrictions existing in 1948. Second, the asymmetric devaluations of the EPU currencies against the dollar in September 1949 amounted to a relative appreciation of the deutschmark vis-à-vis most other European currencies. Although the allocation of drawing rights and conditional aid (Abelshauser, 1984a, pp. 215 ff.) had been based on anticipated German surpluses, the so-called second multilateral payment agreement under the auspices of the OEEC granted coverage of Germany's deficits. Germany could also draw on some $70 Mill. of accumulated surpluses from trade under the JEIA dollar clause system in 1948/49.

After March 1950, however, the value of imports declined again. This was predominantly caused by domestic conditions. After the first rush on imported primary products that had long been in shortage, growing orders for raw materials and intermediate products had fuelled the surge in imports from later EPU countries in

[35]The terms "EPU-imports" or "EPU-exports" refer to West German imports from and exports to the countries that joined the EPU in 1950.

1949. Then, until May 1950, growth of industrial production exceeded raw material imports, as producers appear to have decided against investing further in expensive input stocks (BdL Monatsbericht, May 1950, pp.30 ff., August 1950, pp. 17 ff.).

The EPU was founded on August 18, 1950, to go into effect retroactively by July 1. It substituted the second payment agreement and also secured the bilateral consolidation of German debts accumulated under that agreement. But, more important, the provisions agreed upon included first a commitment to further trade liberalization (60% of 1948 regulations until December, 75% until the end of 1951), and second the introduction of multilateral clearing and credit. The EPU granted Germany multilateral clearing of its balances-of-payments and a quota of $ 320 Mill. Accumulation of deficits up to this sum was possible, of which $ 128 Mill. had to be paid in gold or dollars immediately, while the remaining $ 192 Mill. would be credited by the EPU. As we will see, it was the utilization of these credits that allowed liberalizations to have a significant effect on German imports. Unexpectedly, German EPU imports began to surge right away. This tendency, which was to last up until the end of the year, was to a great extent caused by orders of primary goods and inputs, particularly of raw materials (see Figure 3 below). Non-EPU imports of raw materials rose rather more steadily during the period in question, the pattern being, as Figure 2 already suggested, quite different from those from EPU countries. Adding to surging import values was speculation about a possible Sterling devaluation, and price increases in the wake of the Korean War.[36] The rise in the prices of raw materials accounted for increased imports worth DM 75.5 Mill. in the third, and DM 271.8 Mill. in the fourth quarter of 1950, as compared to prices in the fourth quarter of 1949 (BdL Monatsbericht, March 1951, p.36).

As early as September 1950, Germany had exhausted the first three tranches of its quota with the EPU and was obliged to pay back part of its debt ($ 31 Mill.) in hard currency. Lacking any sizeable foreign exchange reserves, the new German republic was thus at the brink of a payments crisis. Doubtlessly political action was needed. However, in order examine the scope for policy reactions we should point out what in our eyes was at the heart of this crisis and therefore also the key to its solution. As outlined above, the EPU much more than its predecessors provided Germany with financial and reputational credit.[37] Together with trade liberalization this allowed for a reorientation in the regional structure of German imports. Besides rearranging the regional pattern of German imports, the EPU framework also changed the commodity structure of imports.

(Figure 3)

Agricultural imports from EPU countries started to rise, as they had done after the second payments agreement of 1949/50. What was distinctive about imports after July 1950 was the widening of the share of raw materials (Figure 3). This was helped by imports from the Sterling area and, above all, by commodity transfers via EPU countries, primarily Great Britain, which underlines the importance of the EPU as a financial creditor. Changing the import structure toward inputs was complementary to the expanding share of manufactures, especially of machines, in exports. With this return of German trade to the specialization pattern of the 1930s, the integration of West Germany into the U.S.-initiated Western European payments system restored precisely

[36]See the letter BdL's Vocke sent to Adenauer October, 14 (Ludwig-Erhard-Stiftung (1986, pp. 193 ff.)).

[37]The term "reputational credit" refers to the provision (through an institution) of the possibility for some economic agent to commit itself credibly, e.g. to free trade. In the absence of binding rules, i.e. time consistency of commitments as such, this means the possibility to accumulate a reputation of sticking to one's commitment.

the division of labor that the Marshall planners had envisaged. In turn, this freed the U.S. from the need to provide food to Germany, capital goods to Western Europe, and dollars to all of them.

This process did not work smoothly at the start. As early as October 1950 the German government faced the imminent exhaustion of its entire EPU quota, which by the rules of the game meant cancellation of its EPU membership. What was to be done?

We have already argued that the dynamics of German foreign trade after July 1950 had their roots in the institutional framework created by the Marshall plan. One could deduce that the German balance-of-payments crisis was thus a problem of the EPU and that the EPU was intrinsically needed to overcome it. Besides trade policy, however, there were two other instruments available to solve the crisis, monetary and fiscal policy. During late 1950, it was yet open an open question to decision makers which of these would be the adequate choice.

Monetary policy was assigned to the autonomous central bank by allied law. The Bank deutscher Länder (BdL) was already trying to promote exports and curb demand. Restrictive action was taken in September and again in October (Kaplan and Schleiminger, 1989, p. 102), the latter step being fiercely opposed by Germany's chancellor, Konrad Adenauer.[38] But monetary policy was not, as it is sometimes argued, profoundly restricting German imports in the period in question.[39] This becomes visible by looking at the dynamics of West German imports in figure 2 above. EPU and non-EPU import values do not follow one another closely, which points against an influence of monetary policy, as it should have affected both categories equally. Whereas imports from EPU countries reached their peak in October 1950 (DM 971.7 Mill.), non-EPU import values from countries with other clearing agreements and hard currency areas (net of dollar aid) steadily increased through October and peaked in December at DM 196.9 Mill. If restrictive global monetary policy had an influence on EPU imports in October, it is difficult to explain these obvious asymmetries.

As far as fiscal policy is concerned, the government was confronted with the same dilemma as the BdL. A restrictive policy might have helped ease payment problems but it would also have increased unemployment. And the Adenauer government was under political pressure to do something about employment and production since late 1949, when unemployment reached nearly 2 million while employment still stagnated around 13,5 million as it had done since September 1948. Rejecting the Keynesian analysis of the problem of some economists and parts of the press, especially of a series of memoranda of the Bipartite Control Office and later the ECA (see e.g. Schwarz, 1991, pp.192 ff.), Erhard was reluctant to take expansionist measures. He was strongly supported in his views by the majority of his advisory board (Wissenschaftlicher Beirat, 1950, pp.65 ff.), which pointed to the huge inflow of refugees and to structural inertia as the main reasons for unemployment. But then the question of unemployment overtook housing in public polls as the most urgent problem (Schenkluhn, 1985, p.72), and the opposition produced specified Keynesian employment proposals that found a majority in parliament, a job creation program was launched in February 1950[40]. Having a supply-side orientation and being

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[38]Jacobsson and Erhard encouraged the BdL. See the report by Cairncross on the events prior to his arrival in Germany on October, 27, 1950 (Ludwig-Erhard-Stiftung (1986, pp. 207 ff.)). On Adenauer see Emminger (1986, pp.53 ff.).

[39]See e.g. Kaplan and Schleiminger (1989, p. 116). It is worth noting that these were not the views held by Germany's central bank itself (Monatsbericht (May 1951, p. 44)). German advisors to the Economic Ministry also denied major effects of the monetary taken by the BdL, see Beirat (1951, pp. 115-119).

[40]It is interesting that these measures already included the provision of DM 300 Mill. of credit for export promotion - explicitly as a means to enhance import of raw materials for consumer industries (Regierungsprogramm February 18, 1950 (Federal Archives (B102/12593), Hagemann (1984, pp.93 ff.)).

badly handled, it hardly had any short-term results. As political pressure continued, the department of commerce prepared a second program to be implemented if unemployment should again increase in winter.[41] But, possibly to Erhard's relief, planning came to an end when the EPU called for a more restrictive policy to stop the surge in imports after October 1950.

Fiscal policy, it seemed, would have to change gear, as did monetary policy when confronted with the EPU crisis. The EPU wanted the German government to enforce a package of restrictive fiscal measures: taxes on sales and income were to be raised, depreciation allowances to be lowered, and a tax on luxury goods to be introduced. At least on paper, Adenauer and Erhard took the advice. A German memorandum to the EPU in November promised a fiscal policy along these lines that, if implemented, would have created an extra annual revenue of approximately DM 2.3 Bill.[42] The appropriate legal steps were taken mostly in early 1951. But when the OEEC evaluated proposals and efforts in May 1951, not a single fiscal measure intended to overcome the balance-of-payments crisis had as yet really come into effect.[43] Confidentially, it was noted in Paris that German efforts to speed up the budgetary process had been weak and disappointing[44]. As we will show below, however, the problem had already been solved otherwise.

As a matter of fact, tax revenues had increased during the first quarter of 1951 by DM 835.2 Mill. (BdL Monatsbericht, March 1951, pp.14 ff.). But this was due to the built-in flexibility of the tax system and not to policy action. The only tax rates which increased during that period were the "Notopfer Berlin" and the "Mineralölausgleichsteuer" (a special support scheme for Berlin and a gas tax). Both were of minor importance and accompanied by complementary expenditure programs. Without any budget cuts or significant tax increases, fiscal policy thus underwent no change during the EPU crisis. One could even argue that the announcements of tax increases probably increased demand, making situation worse.

Given the German commitment to a more restrictive overall policy in late 1950, this course of events calls for an explanation. Besides domestic political pressure, the reason why restrictive policy was confined to the BdL, i.e. to monetary policy, was that both European and U.S. officials did not press too hard. As Kaplan and Schleiminger (1989) have already stated, both the EPU and the OEEC expected monetary rather than fiscal policy to have an effect on the problem, as the federal structure of the West German republic made short-term

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[41]See the minutes of a cross-department conference on the matter July, 6, 1950 (Federal Archives (B102/12593)).

[42]DM 1.3 Bill. would have been allocated to the "Bund", DM 1.0 Bill. to the "Länder" (BdL Monatsbericht (December 1950, pp. 17 ff.)). For the memorandum (November 27, 1950) and discussion of its effects see the documents of Erhard's department of commerce (Federal Archives (B 102/12783 Heft 1)).

[43]The measures planned mostly became effective during summer. For the detailed OEEC analysis see OEEC-document MBC(51)48, May 19, 1951 (Federal Archives (B102/12783 Heft 1)).

[44]OEEC Document MBC(51)48 of May 18, 1951, BA Koblenz B 102/12783. The Central Bank Council had received a report from Paris raising similar charges against the Federal Government. (Central Bundesbank Archives/Hauptarchiv der Deutschen Bundesbank B 330/39, p.6 f.).

changes in public budgets difficult. In Paris officials even signalled their willingness to permit German deficit spending, should economic stabilization and the need for rearmament call for it.[45]

Thus, there was a gradual adaptation of fiscal policy, but not a complete and in-time change towards outright contraction that could have had an influence on the EPU deficit. That deflationary monetary policies were at least employed to solve the balance-of-payments crisis was indeed a distinctive feature of Germany's political efforts as compared to practice in other countries (Triffin, 1957, p.181; Kaplan and Schleiminger, 1989, p.116). But considering their effects, both monetary and fiscal policies merely provided signals of goodwill, not a solution. Trade policy thus held the key to the crisis, and it was here that the EPU took center stage.

On October 10, 1950, the German government and the BdL faced a stock of $ 1.15 billion of already approved applications for both liberalized and regulated imports, which was approximately six times the monthly value of overall imports at this point (BdL Monatsbericht, December 1951, p. 23). On the advice of the central bank, the government cancelled about half of these allowances, aiming especially at those which had been applied for with no immediate urgency since the outbreak of the Korean War. In addition a 50% cash deposit on most import applications was introduced (lowered to 25% in December), and the BdL restricted credit for imports. The results of these measures are visible in Figure 2 above, which shows that EPU imports indeed stagnated from October 1950 on. However, the liberalized sector was not really affected, as every action to restrict imports here would have violated the rules of the game under EPU regulations. Moreover, industrial production and along with it, German exports, lost momentum due to shortages of coal (see e.g. Abelshauser, 1984b). In sum, the German handling of trade policy at this stage definitely failed to put an end to the deficits.

It is appropriate at this point to discuss two closely related arguments. Schwarz (1991, p. 206) calls the German policy a "calculated gamble" to acquire more credit from the ECA or the EPU. In fact, the German government signalled similar intentions as early as August 1950, and Erhard seemed to ignore the severity of the problem (Schwarz, 1991, pp.202 ff., Hentschel, 1989, pp.738 ff.). But was the German Government really taking a calculated risk for the chance of collective action on its behalf? Probably not. The ECA had left few doubts that any kind of "gambling" (Hentschel ibid.) would be thoroughly rejected. Lacking alternatives, Germany simply wished to avoid the necessity of interrupting imports for as long as possible. First of all it needed further imports to sustain production and future exports.[46] Moreover, Erhard had tied himself vigorously to a commitment to free enterprise that definitely included free trade and even utilized imports as an instrument to strengthen domestic competition. He had every reason not to risk the results achieved so far, and his political career along with them, by turning to protectionism now, especially as it was unclear in October 1950 that unilateral deliberalizations could proceed on terms as favorable as they actually did in February 1951. In particular, no one could anticipate at this point that both the OEEC and the EPU would involve themselves

[45]See the report on ECA's Hubert F. Havlik's remarks in the Joint Trade and Intra-Europe Payments Committee on November 8, 1950, in German documents (Federal Archives (B102/12783 Heft 2)). There also was a series of informal meetings in Paris during November 14/15, 1950 (ibid. (B102/12783 Heft 1), between German officials and ECA's Figgures, U.S. ambassador Wood, Triffin, and Cairncross. The latter called the Cairncross/Jacobson report optimistic in its assumptions. If necessary restrictive monetary policy should be lifted. He still said that deficit spending was to be avoided. But he did so pointing to anticipated occupation costs, not to the existing EPU deficit. Wood stressed the importance of stabilizing production and employment in the light of coming defense efforts.

[46]Erhard's department found that the volume of deliveries of raw materials and semi-manufactures ceased to increase in October - so if there was a gamble, it was played rather conservatively. See the report of January 25, 1951 (Federal Archives (B102/12783 Heft 1)).

directly with the allocation of these restrictions, as they later did, thus helping Germany save its commitment to a market economy and circumvent retaliation against its exports. Therefore, avoiding unilateral restrictions as long as possible and not just another gamble of a regime notorious for gambling, as Kaplan and Schleiminger (1989, pp.102 ff.) seem to suggest.

Before returning to October 1950 we should briefly discuss a related point. Undoubtedly the crisis was mainly of a "short term" nature (Milward, 1984, p.429). Exports were rising, making a balanced trade account a eventual possibility. But to doubt the severity of the crisis by pointing to that smooth upward trend of exports (Giersch and Paqué and Schmieding, 1992, pp. 103 ff.) ignores the time dimension. Before balanced trade with the EPU could be achieved, the accumulation of debt vis-à-vis the EPU emerged as a reality that had to be tackled within the given institutional setting. This setting included a credit ceiling and thus a time constraint. Confronted with this dilemma, one might think of trade restrictions on the part of Germany as the proper short cut to reduce the trade deficit. Yet such a policy, if imposed unilaterally against the consent of the other EPU members, would have presented long term difficulties, and provoked retaliation. This is also what the Germans themselves appear to have believed at the time: the BdL considered "strong countermeasures" to be "highly possible" in the case of unilateral import cuts.[47]

This eventuality was at least postponed when the optimistic and liberal-minded reports of Jacobsson and Cairncross induced EPU members to extend an additional credit of $ 120 Mill. to Germany (Kaplan and Schleiminger, 1989, pp.104 ff.). This implied an extra quota of $ 180 Mill. that increased the total to $ 500 Mill.[48] Although these credits were to be repaid after May 1951 and were granted only in exchange for a commitment to more restrictive fiscal policies, the German government happily endorsed the inflow of fresh money. However, as we have shown above, the German pledge of more restrictive policies had no visible short-term effects.

In an internal report on the credit extension in November 1950, the department of commerce pointed to an anticipated renegotiation of the EPU quotas in July 1951, should repayment prove difficult.[49] However, during the first two months of 1951, accumulation of debt even accelerated again, and the crisis escalated faster than anticipated. By the end of February, Germany's utilization of its extended quota had risen to $ 457 Mill., not including $ 611 Mill. of outstanding import allowances. As $ 425 Mill. of these licenses referred to liberalized imports, the government, facing the imminent exhaustion of Germany's credit lines, could no longer wait for the import surge to subside. Referring to article 3 of the OEEC liberalization codex it therefore decided to suspend liberalized imports and to stop issuing new licenses for regulated imports. The new restrictions were to

[47] It said so even though it was bearing most of the policy burden alone and had therefore to gain most by a deliberalization (BdL Monatsbericht (October 1950, p.27)). See Kaplan and Schleiminger (1989, p. 117) for a quotation of Vocke stressing the same argument.

[48] The proposal was not accepted without criticism. At least the Danish and Turkish delegations opted for general German import restrictions, arguing that this would allow for a different allocation of the incidence of the necessary cuts. But deliberalization was found to be too strong a solution to the problem and turned down for the time being. See the committee-report mentioned above (Federal Archives (B102/12783 Heft 2), also Kaplan and Schleiminger (1989, pp. 96 ff.), and Hentschel (1989, pp. 740 ff.)).

[49] Report to Erhard, November 7, 1950 (Federal Archives (B102/12783 Heft 2).

be reviewed in March and to be interpreted not as "default on the principle of liberalization" but as a short-term "technical measure" to save the very principle.[50]

There can be little doubt that this forced import reversal was unavoidable at this point. The trade policy measures taken in October 1950 had only postponed the necessary steps, and the credit extension merely bought the needed time. Another credit was out of question. German exports to OEEC countries being the conditio sine qua non for the Marshall Plan framework to function, intervention had to be on the import side. That was the basic rationale for the manner in which the EPU handled the crisis in February/ March 1951.

Confronted ex post with Germany's unilateral import restrictions, the EPU approved of them. It decided to handle the import procedure itself, substituting retaliation against German exports with a cooperative strategy toward allocating Germany's reduced import allowances among its member countries. In addition to not enacting any countermeasures, EPU members obliged themselves to promote German exports in their own national economies. The protectionist move was regarded as temporary and would be reversed as soon as possible (Hentschel, 1989, pp. 751 ff.)[51].

With regard to the voices pointing at the similarities to the 1930s and accusing Germany of playing a "gamble" again, this was certainly an exceptional reaction. The EPU enabled the German government to maintain its free trade commitment in principle while violating it in the short run. Avoiding retaliation, it solved Germany's long-term problem by promoting German exports and its short-run problem by cutting imports. In doing so the EPU actually ended a prolonged period of real resource transfers to Germany. But the decision to restrict imports came late enough not to endanger the process set into motion. With its stocks rebuilt, Germany was now able to both supply Europe with the capital goods needed and earn the money to pay back its debt.

As import regulation was now handled by the EPU, the German government was only left with the task of promoting exports and avoiding further bottlenecks in coal and steel. To signal its willingness to overcome the need for import regulations, the Adenauer administration pointedly encouraged the BdL to push ahead with strong restrictions on short-term credits. The measures were aimed toward exports rather than toward hard-currency imports: manufacturers would be restricted in domestic sales and therefore be encouraged to turn to exports.[52] The "Wirtschaftssicherungsgesetz" act made intervention in resource allocation legally possible and added to the commitment to end the crisis at this time (Schwarz, 1991, pp.208 ff.).

As far as the EPU was concerned, the policies did work out well. Import values fell to pre-EPU levels as early as April 1951. This was, first of all, due to the strictly handled regulations. Restrictions on outstanding licenses were only gradually lifted. But adding to this was, secondly, a credibility effect. When the BdL announced it would again accept import applications in May 1951, excess demand was much lower than expected (BdL Monatsbericht, May 1951, pp.43 ff.).[53] German importers obviously had little doubt that the

[50] BDL Monatsberichte (January/February 1951, pp. 19 ff.) and (March 1951, pp.35 ff.). For the quotes see Hentschel (1989, p. 751/note 10).

[51] It is noteworthy that exchange rate realignment was apparently not even considered.

[52] The BdL had the banks reduce their short-term credits by DM 1.0 Bill. Given a stock of only DM 14.3 Bill. of commercial short-term lending this amounted to a significant reduction to about the level of October 1950 (BdL Monatsberichte (January/February 1951, pp. 7 ff.)).

[53] Considering the time lag, there might have been an additional effect on import applications (mind: not imports carried out) by the credit rationing measures in February.

EPU policies would solve the problem successfully and secure the inflow of essential inputs.[54] Since exports continued to increase as anticipated, Germany's trade balance with the EPU turned positive in April. Because of additional BdL measures to influence the terms of payment, the clearing balance vis-à-vis the EPU became positive even sooner. The continuing surpluses that Germany earned in EPU trading after this crisis eventually turned the EPU's first major debtor into a net creditor. The continuously rise of exports eventually allowed the EPU imports to expand, albeit way below exports, and to substitute for falling imports out of dollar aid.

VIII. Conclusion

Our analysis intended to bring out four points. First, historians and political scientists have argued that the Marshall Plan entailed a broad agenda for European economic cooperation, and that this, in turn, had significance for the economics of the Plan as well. The Plan envisioned Germany's reconstruction as a workshop for European recovery. It would also take into account the security needs and fears of Germany's former victims in Western Europe. Interpreting the Marshall Plan this way, the common practice of evaluating its effects on the basis of real resource transfers it set into motion is likely to be misleading. The main idea of the Plan lay in utilizing German rather than U.S. capacities to provide for Europe's reconstruction. From this it is also obvious that the Marshall Plan as a political agenda operated mainly to the detriment of schemes to restore French predominance in Europe at Germany's cost, as laid out in the Monnet Plan.

Second, we view the Marshall Plan and its concomitant institutions as a device to lend credibility to Germany. On the one hand, U.S. policies deliberately protected West Germany from its wartime creditors and thus prevented them from retaliating against the wartime exploitation policies of Nazi Germany. On the other, the institutions created by the Americans or through U.S. pressure assured the former victims of Nazi Germany that rebuilding the German economy and its complex web of trade with Europe would not endanger their national security again.

Our third point concerns the credibility effects of the Marshall Plan within Germany. It is argued that, in the light of Germany's previous record of Nazi "New Order" policies, the main task of U.S. policy was to establish international cooperation as a credible alternative within Germany. Events such as the currency reform and the Berlin airlift helped convince the German leadership of the credibility of the commitments made by the U.S. administration.

The fourth argument is that the Marshall Plan and the creation of the EPU, both being part of a broader strategy of U.S. policies, cannot be separated from one another. Given the dollar gap, and particularly Germany's total lack of credit and of reserves, trade had to be implemented on a cashless basis. Installing the EPU provided the means for a stable system of financial cooperation and free trade within Europe that encompassed West Germany. The Marshall Plan thus enabled Germany to credibly commit itself to free trade, which it could hardly have done on its own, and to cast its balance-of-payments crisis as a "EPU crisis" within the European institutional framework. With German monetary and especially fiscal policy merely providing signals of good will, it was indeed the EPU that allowed trade policy to put an end to the problem without endangering European cooperation. The crisis overcome, Germany's EPU exports continued to rise throughout

[54] The restriction of import values at this time was aided by a fall in prices. The sudden rise in September 1951 is due to a anticipated introduction of ad valorem tariffs in October: 80 % of the 31% rise in total import values came out of EPU countries (BdL Monatsbericht, September 1951, pp. 44 ff.). The slump of exports in the fourth quarter of 1951 was caused in part by the previous restrictions imposed upon imports, which caused input shortages. This fact emphasizes again that during the crisis Germany did not act as a gambler but out of necessities (BdL Monatsbericht, December 1951, pp. 28 ff.).

the 1950s. With exports leading growth and given the history of the "German crisis" in 1950/51, it is safe to say that the Marshall Plan born institutions contributed significantly to the ultimate success of German y's Wirtschaftswunder.

Viewed this way, the common analysis of the early Marshall Plan years as the period of greatest impact on Europe needs to be modified. The Marshall Plan as a long-term agenda gained significance after 1951. From this year on, the regime change brought about by the EPU restrictions induced Germany to assume the position of a net exporter. This way, it began supplying capital goods for Europe's reconstruction in just the way the Marshall Planners had anticipated.

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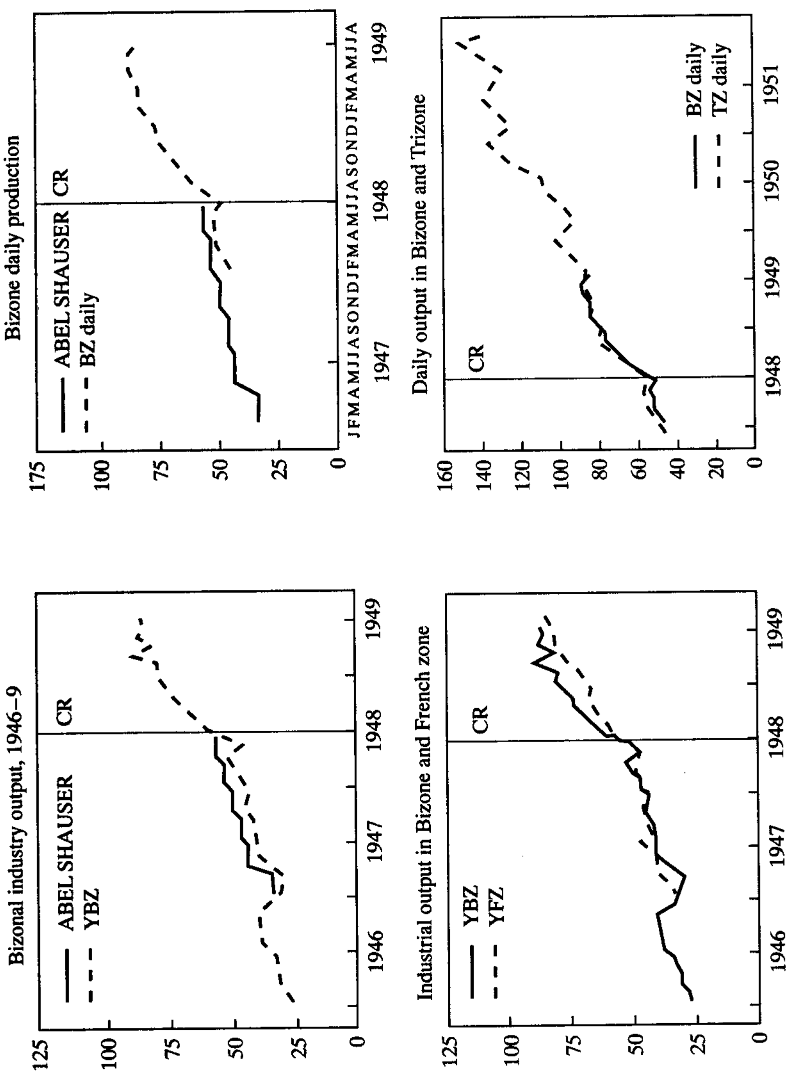
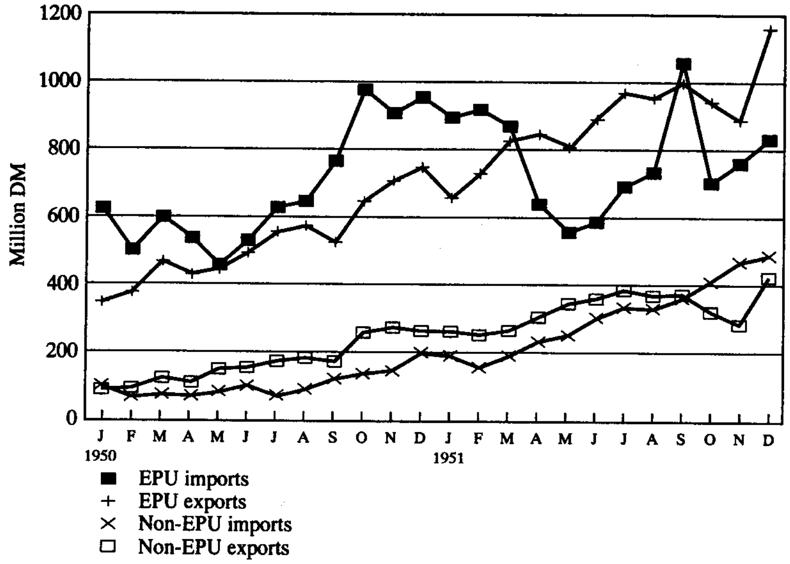
Figure 1



Industrial output in Western Germany *Source:* Ritschl (1985).

Figure 2



German import and export values, 1950–1

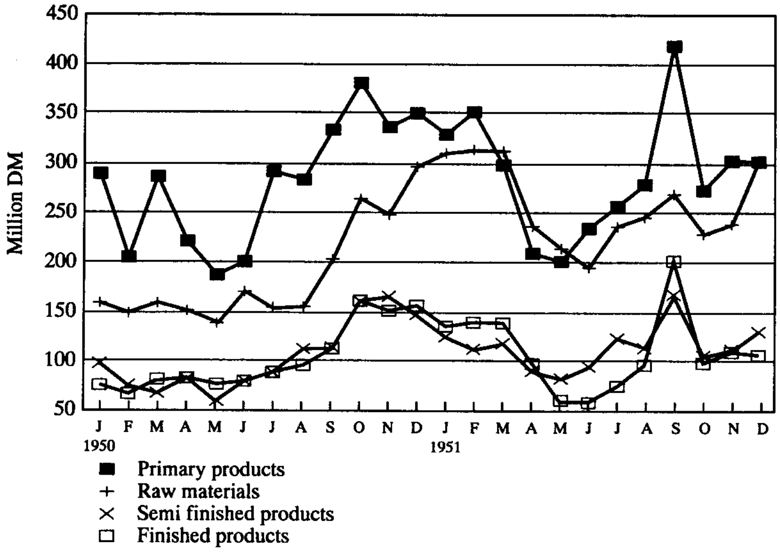
Notes: EPU-IM and EPU-EX: German exports and imports to/from the EPU.

Non-EPU-IM and Non-EPU-EX: German exports and imports (i) to/from countries covered by non-EPU clearing agreements, and (ii) exports and imports paid for in dollars (total dollar imports have been corrected by subtracting imports financed by dollar aid).

Import values are regionally differentiated on the basis of the country of purchase, that is, the numbers include transfers of non-EPU goods via countries within the EPU.

Sources: BdL, Aussenwirtschaft (II/10, II/12), and BdL, Monatsberichte.

Figure 3



Structure of German EPU imports, 1950–1

Note: Import values are regionally differentiated on the basis of the country of purchase, that is, the numbers include transfers of non-EPU goods via countries within the EPU.

Source: see Figure 2.