Lessons from the Marshall Plan for the European Recovery Plan

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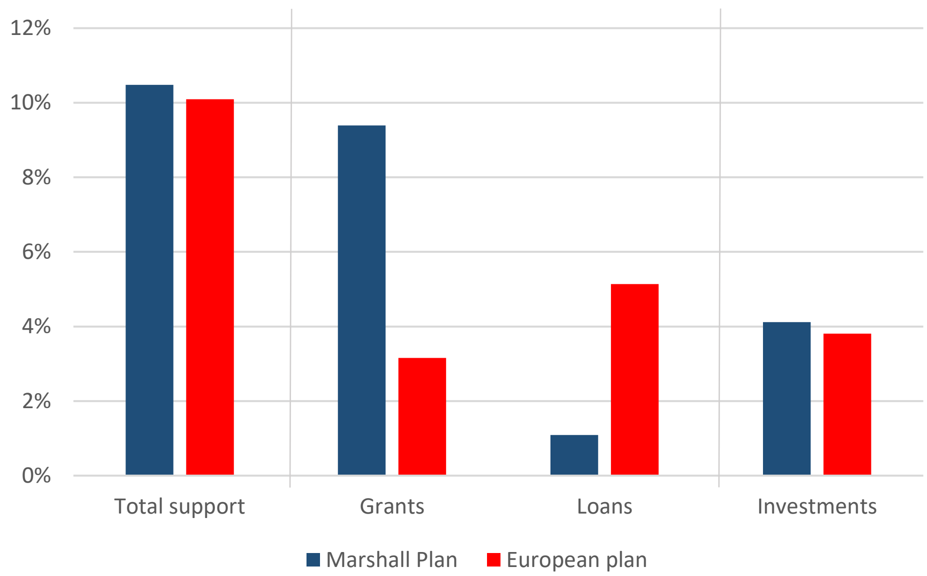
The EU post-Covid recovery plan is the largest European-wide fiscal stimulus in 70 years. This post revisits the experience of the Marshall Plan by highlighting the role of structural effects, conditionality design, the need to prepare the plan exit, the influence of fundamentals and the importance of the plan's success as a vector of European integration.

Chart 1: Marshall Plan and European plan by type of aid and size of investments financed (% of GDP of recipient countries)



Sources: Mutual Security Program, BIS, US Congress, ECA, FRED, Eurostat, Commission. Authors' calculations.
Note: Aid in $1948 and €2020 over GDP in 1948 and 2020, recovery plan investments estimated on the basis of the NRRP. In the case of the European recovery plan, aid consists of available loans and grants.

Two plans of similar magnitude, but different natures

As part of the Marshall Plan, between 1948 and 1952 the United States transferred to 16 European countries – not including Soviet bloc countries – an amount of close to 10.5% of their GDP. Today, the European Union's response to the Covid-19 crisis – including the potential disbursements under the NextGenerationEU (NGEU) recovery plan and the April 2020 support measures (SURE, ESM and EIB) – is of a similar magnitude, amounting to almost 10.1% of its GDP. The levels of long-term investment set out in the Marshall Plan and provided for by NGEU are also very similar (Chart 1), at around 4% of GDP.

However, the composition and origin of financing differ. The Marshall Plan was largely implemented through grants (90%) rather than loans (10%) and was financed externally by the United States. The European plan has a more heterogeneous composition, with potentially 54% loans, 31% grants and 15% of guarantees, financed by the EU.

The contexts in which the two plans were set up are also different. In 1948, the recipients of the plan were emerging from a centrally planned war economy and faced monetary instability, as well as budget and current account deficits (Bossuat, 2008; Crafts, 2011). This macroeconomic background made it particularly difficult to finance the necessary investment for post-war reconstruction (Eichengreen and Uzan, 1992). Additionally, there were significant political and social risks, including the threat of countries shifting towards the Soviet bloc. NGEU, on the other hand, aims to support countries whose public finances have been severely constrained by the Covid-19 crisis in their economic recovery and reform process, as well as in financing their green and digital transitions.

Both plans, however, have a common dual objective of providing macroeconomic stabilisation and supporting the renewal of the capital stock through public investment (Chart 2). We quantify the latter using, respectively, data from the Mutual Security Program for the Marshall Plan and data from the National Recovery and Resilience Plans (NRRP), which define the investment projects (fixed, human and natural capital) to be implemented until 2026.

Chart 2: Investments financed by the Marshall Plan and the European recovery plan (% of GDP of recipient countries)

Marshall Plan *European recovery plan*

Sources: MSP, BIS, US Congress, ECA, FRED, Eurostat, Commission. Authors' calculations.
Note: Includes investment in infrastructure, production modernisation and reconstruction for the Marshall Plan; NRRP amounts for the NGEU.

The Marshall Plan directly contributed to the modernisation of European means of production

Thanks to the Marshall Plan, significant investments were made for the reconstruction and modernisation of the European capital stock. Most of the plan was allocated through counterparty funds, financed by the sale of US equipment and raw materials to domestic agents and managed jointly with the administrators of the US Economic Cooperation Administration (ECA) in Europe.

The ECA's conditionality strategy was characterised by its flexibility, which made it possible to use counterparty funds differently in each country (Table 1). While the United Kingdom employed most of the plan for fiscal and monetary stabilisation purposes, Italy, Germany, and France largely increased public investment.

Table 1: Breakdown of counterparty funds aid by purpose of approval

	Investment				Monetary and Financial Stabilisation	Other	Total (Mn USD)
	Total	*Infrastructure*	*Modernisation of capital stocks*	*Construction*			
France	**83%**	*38%*	*33%*	*12%*	**6%**	**11%**	**2703**
Italy and Trieste	**96%**	*35%*	*44%*	*16%*	**0%**	**4%**	**1075**
Germany	**84%**	*27%*	*48%*	*10%*	**0%**	**16%**	**1009**
United Kingdom	**0%**	*0%*	*0%*	*0%*	**97%**	**3%**	**1763**
Other	**53%**	*14%*	*30%*	*9%*	**34%**	**14%**	**2134**
Total	**60%**	*23%*	*29%*	*9%*	**30%**	**10%**	**8651**

Source: Mutual Security Program, 1952, Second report to Congress.
Note: The other countries are Austria, Benelux, Denmark, Greece, Iceland, Ireland, Norway, Turkey and Yugoslavia.

However, the success of the Marshall Plan did not rest primarily on its direct macroeconomic effect. Indeed, the amounts committed can only mechanically explain a small share of the large growth acceleration of the 1950s (Eichengreen and Uzan, 1992). Crafts (2011) suggests a direct effect of around 0.3 points of growth on average over 1948-51 for every 2 points of GDP transferred through the plan.

The structural effects of the plan played a key role in post-war growth

The structural component of the Marshall Plan played a key role in the growth of the recipient countries, making it the "most successful adjustment plan in history" (De Long and Eichengreen, 1991). First, the plan was conditioned on a minimum level of macroeconomic stabilisation, including ending price and production controls. This helped provide a solution to the supply shortages that justified wartime economy measures in the first place.

Second, the plan promoted the liberalisation of intra-European trade. Part of the counterparty funds were allocated to the multilateral settlement of this trade, while the creation of the European Payments Union (EPU) in 1950 laid the foundation for further European integration. Finally, US technical assistance and training programmes also contributed significantly to raising productivity (Giorcelli, 2019).

The plan's financial aid created an environment conducive to stabilisation and reform. External aid enabled recipient countries to secure the fiscal space and political capital needed to ensure institutional stability in the context of the Cold War. This provided the foundation for the strong growth of the *Trente Glorieuses*, largely based on a social model combining labour productivity and high levels of investment (Crafts, 2011).

What lessons can be drawn from the success of the Marshall Plan for the current European recovery plan?

1. The ECA's management of the Marshall Plan was characterised by conditionality adapted to the specific context of each recipient country. This contributed directly – by raising the quality of the capital stock – and indirectly – by helping to build a political consensus for reform – to the strong European growth of the 1950s. Thus, beyond the direct effect of the European recovery plan, a key factor against which to measure the plan's success will be the implementation of conditionality. The latter should focus on fostering each country's individual reform process, as well as tackling future common challenges, such as climate change.
2. The success of the Marshall Plan, when compared to more recent external aid initiatives in emerging countries, was partly linked to better fundamentals in terms of human capital and the quality of institutions in the recipient countries (Crafts, 2011). These fundamentals are now generally strong in the EU, which should contribute to the success of the NGEU recovery plan. However, some countries will need to improve their capacity to make use of European funds (Darvas, 2020).
3. The Marshall Plan was designed as a temporary support for investment, avoiding the risk of aid dependency. The European recovery plan is also temporary in nature, and it seems essential to prepare the exit from the recovery plan as of today. In this respect, additional measures aimed at intensifying intra-European financial flows in the long term – such as the development of the Capital Markets Union – would help to promote a sustained financing of investments.
4. The Marshall Plan was an important step in the European integration process. It laid the foundations for institutional cooperation with the creation of the EPU and promoted a first phase of integration. The successful implementation of the NGEU recovery plan could also represent a new step in European integration. It would provide a first concrete attempt at centralising fiscal capacity at the EU level, potentially laying the foundations for a more permanent arrangement.