From Command to market Why Economic Theory Isn't Enough

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The Marshall Plan and American Investment
Mutually Dependent Factors in the Evolution of European Economic Integration?

Submitted to the University Honors Program by Jennifer E. Santoro on April 27, 1995
I. Technical foundation

1. Introduction

The recent emancipation of the nations of Eastern Europe and the former Soviet Union from the rigid economic isolation accompanied by central planning has prompted suggestions in the West for a Marshall Plan II to ease the nations' transition to market economies. Implied in this suggestion is the belief that the original Marshall Plan, designed to aid the recovery of Western Europe following World War II, represented a successful blueprint from which to build a foreign aid package. The plan has been regarded by some scholars as a decisive factor in the revival of intra-European trade, the integration of Western Europe in a newly established multilateral trading system, and as the engine of growth which drove the eventual integration of Western Europe into a single economic unit. In so doing, the U.S. government wove into the plan a complex web of agencies, committees, politicians, and businessmen who interacted both in the U.S. and Western Europe to produce an intricate collaborative recovery effort. A modern replication of the Marshall Plan applied to the economies in transition obviously would be an immense undertaking, but is this comparison justifiable? An historical analysis of both the public and private sector components of the Marshall Plan and the extent to which they fostered economic revival and integration within Western Europe during the post-war era is clearly not without pertinence in the field of international political economy today.

2. Theoretical framework and research methodology

The 1980's and 1990's have witnessed both remarkable achievements and setbacks in the process of deepening and solidifying the
integration efforts of the European Economic Community that began in 1957 with the signing of the Treaties of Rome. Developments such as the Single European Act, the Maastricht Treaty, and the disclosure of U.S. government documents after their mandatory thirty year storage in archives, set off a vigorous debate among historians and political economists, who now disagree over the extent to which American policy in the post-war era affected the integration process. Scholars have disputed the significance upon integration of public sector aid via the Marshall Plan and private sector involvement via American investors. This paper will seek first to prove, in line with historian Michael Hogan's argument, that there did exist American public-private sector cooperation in the post-war era regarding European recovery and that this cooperation was an international extension of corporatist ideology. However, under this corporatist rubric, the paper is next directed at establishing the depth of the relationship between the Marshall Plan and American investment and whether or not, taken together, they were significant factors responsible for bringing the goal of economic integration within Europe to fruition.

For purposes of clarity and depth, the paper will focus on a ten year time frame: 1947-1957. The body of the work is divided into four major sections subdivided and detailed in the Table of Contents. This is an appropriate decade for review because it can incorporate an adequate analysis of the immediate effects of the Marshall Plan with periodic shifts and/or trends in U.S. capital investment before the Treaties of Rome. This paper targets capital investment because considerable emphasis has already been given to the surge in American foreign direct investment (greenfield expansion) in Western Europe during this era, but little attention has been given to whether or not a comparable surge existed in
private sector portfolio diversification. Furthermore, an analysis of portfolio investment and possible links to the Marshall Plan provides an alternative account of the degree of American influence upon the integration process than one which has generally been associated with analyses of greenfield investments.

The analysis of these issues is conducted by drawing from a substantial body of literature that includes empirical evidence, first hand accounts of the period in review, and current historical commentary with specific consideration given to the Michael Hogan-Alan Milward debate over the utility of the Marshall Plan and their respective schools of thought. Unless otherwise noted, the background information pertaining to the period in review is considered to be a non-contentious issue. Also, the Marshall Plan is the unofficial name for the European Recovery Program (ERP) and the two terms are used interchangeably. For purposes of simplicity, the statistical information on recovery and investment within Europe pertains only to France, the United Kingdom, and West Germany. Furthermore, all analysis is confined to Western Europe as this was the area targeted for integration after Central and Eastern European nations became satellites of the Soviet Union.

As a final note, the author recognizes the immense scope of this issue, and as such acknowledges that many other factors contributed to the realization of economic integration in Europe. Yet, the depth and breadth of scholarly debate about the Marshall Plan prevent their inclusion.

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1 Also, these nations received the majority of U.S. aid under the Marshall Plan.
2 One of the prime motivations for Europeans to seek economic unity was the desire to avoid prolonged external intervention, particularly by the United States, in mediating conflict within Europe. By tying the nations of Europe together economically, especially Germany and France, Europeans felt that the resort to warfare during times of crisis would diminish and eventually disappear as an option.
Nevertheless, the narrow focus on the American role in recovery does not imply its pre-eminence as a factor behind the signing of the Treaties of Rome. This research, by omitting an analysis of these additional factors, in no way dismisses their importance, but merely attempts to illuminate a particular aspect of a tumultuous era in the field of international political economy.

3. Definition and development of corporatist ideology

Corporatism provides the most appropriate framework in which to ground this paper since at its core is an emphasis on how and to what degree the interactions between government and private sector interests affect both policy planning and outcomes. The application of corporatism to studies on the Marshall Plan is not new, but neither is it widespread. The most comprehensive and detailed research involving this combination is that of Michael Hogan, whose 1987 book *The Marshall Plan* provides a suitable working definition. Corporatism, as used in this paper, refers to:

"An American political economy founded on self-governing economic groups, integrated by institutional coordinators and normal market mechanisms, led by cooperating public and private elites, nourished by limited but positive government power, and geared to an economic growth in which all could share... (this was a) brand of corporative neo-capitalism that went beyond the laissez-faire political economy of classical theory but stopped short of a statist syndicalism."  

This American style of corporatism was embedded firmly within Washington's policy processes by the time the recovery plans were drafted and implemented. However, in a departure from Hogan's conclusion that the Marshall Plan was a triumph for corporatism, this paper, while

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agreeing that corporatist ideology is the most useful means of analyzing America's post-war recovery efforts regarding Europe, will challenge the extent to which the collaborative efforts of government and business were successful in nurturing private sector investment and fostering economic integration within Europe.

Modern corporatism has its roots in the Hoover Administration when cooperation between the government and industry, organized labor, and interest groups became more acceptable and commonplace. During and in the period immediately following the Depression, the ties that Hoover had sought to establish with the business community were emulated by Roosevelt. Of notable influence was the Business Council, a large committee of the CEOs of America's largest corporations who frequently advised the secretary of commerce. Furthermore, the structure of Roosevelt's New Deal presented him with the opportunity to remold the government-business relationship in a manner conducive to economic recovery. According to John Reardon, "The Depression had profoundly altered the attitude of business toward the Federal government and the attitude of the Federal government-particularly the executive branch-toward business." The Depression can then be seen as a driving force behind corporative collaboration, but conditions created by World War II cemented the relationship.

The need for increased industrial productivity and the accompanying need for increased natural resources during the war changed the government's position from one of mild verbal encouragement of foreign investment to one of active partnership in international operations with

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4 John J. Reardon, America and the Multinational Corporation (Westport: Praeger, 1992), p. 35.
American business. Two sectors, rubber and oil, witnessed unprecedented government involvement in foreign operations. In the rubber industry, the government permitted the cartelization of American rubber companies in Latin America when their resources from East Asian plantations were seized by Japanese troops. The Roosevelt Administration became even more involved with American oil companies who asked that aid be secured for Saudi Arabia the country under the Lend-Lease program. Eventually, the government came to possess more direct control over the oil industry through its funding of the Petroleum Reserve Corporation. By the end of the war, the amalgamation of government and business in the foreign policy sphere was complete. Consequently, this close relationship extended into planning for recovery in Europe. As Reardon has noted, "World War II had not only created, but really solidified and made viable a partnership between big business and the Federal government that was not going to dissolve when the dozens of temporary wartime agencies of industrial mobilization were abolished." As a result of these lingering wartime linkages, the public-private nexus permeated all aspects of the recovery planning process.

II. Manifestations of corporatism

1. Incorporation of integration in U.S. policy

The idea of integration in Europe was not a revolutionary concept born from the labor of analysts within the State Department at the close of World War II. Europeans themselves had considered forming a type of political or economic union on previous occasions, which dated back to the early Middle Ages. But, not until

5 ibid., p. 33-34.
6 ibid., p. 35.
the twentieth century did integration receive a significant amount of support. In the years immediately following World War I, talk of European political solidarity culminated in a proposal presented by Aristide Briand to the League of Nations in 1930 which emphasized collaboration and cooperation among European governments. Briand also had suggested the formation of a customs union but the economically tumultuous 1930's and the onset of World War II prevented further elaboration on this point for the time being. Nevertheless, "although Briand's proposal was not acted upon, the European idea lived on." The fact that integration "lived on" as a plausible catch-all solution to the woes of the Continent is attested by the number of influential junior members of the State Department who openly supported integration as essential to European post-war recovery as early as 1941. Men such as Charles Kindleberger, Walt Rostow, and Harold Van B. Cleveland championed the cause in the United States. Within Europe, figures such as Jean Monnet, together with former Resistance leaders gave strong support to unificationist ideas. These men initially sparked the vision of integration as the panacea for war-torn Europe, but in the United States, it was also seen as the meal to promote American economic and security interests abroad.

The State Department, in conjunction with the White House and the Treasury Department, began the process of planning for recovery in Europe before the United States entered the war. Eager to avoid a replication of a breakdown in both the international economic and political order that had followed World War I, recovery planners attempted to fashion a method of recovery that would succeed in addressing two main U.S. policy concerns: the possibility of a westward spread of Soviet communism and the establishment of a multilateral trading system. From

the outset, the recovery planning process was characterized less by altruistic tendencies toward the restoration of Europe than it was by American self-interest and a desire to influence the international institutions created at the close of the war. Luckily for the Administration, the sentiment was similar on Capitol Hill. "Considerable discussion took place in Congress on the effect that the assistance program would have on both the economic and the security interests of the United States." When the planning process took on a more substantive character in the mid-1940's, these concerns became transparent; they were the overridding factors in the decision to push for an integrated Europe.

The rapid spread of communism into Central and Eastern Europe and the Cold War were driving forces behind U.S. policy toward Western Europe in the post-war era. The importance of this influence can hardly be overstated. As Marshall planner Joseph Jones remarked in 1955, "No doubt the greatest stimulus to our policy development since 1947 has been the Soviet-Communist challenge." Recognizing the security threat posed to Western Europe by both the geographical proximity of Soviet Union and the noticeable advancement of Communist parties within the teetering political systems of the continental governments, the United States moved with innovative rapidity to spur recovery. To America, an economically and politically fragmented Europe would only provide fertile soil for the expansion of communist ideology; economic integration within Europe would serve to hold communism at bay.

9 It is important to note that during the early stages of recovery planning, integration was not forcefully promoted as a main objective because Roosevelt sought to avoid agitating the Soviets.
The 'Red Scare' took on a more substantive character when Great Britain announced in February 1947 that it would no longer be able to provide aid to Greece and Turkey, two countries where support for communism was visible and where armed conflict with guerillas was a security threat. This perceived crisis provided an opportunity for the United States to position itself at the doorstep of Europe's affairs. When discussing the launch of what came to be known as the Truman Doctrine, Jones remarks, "he (Truman) chose the occasion of Greece to accept in the name of the United States the world-wide responsibilities of great power." However, while Jones is correct in his assessment that the U.S. used its leverage deftly in this instance, he too readily attributes the decision to become involved to altruism. A more realistic appraisal of the situation is given by Fred Block, who argues that the political rhetoric embraced in the Truman Doctrine paved the way for making acceptable the idea of providing massive aid to Europe and tying it to an integration effort. Thus, the larger goal outlined by George Kennan of the containment of communism provided a needed rallying point to sell the integration idea. Yet, aside from these geopolitical concerns, the U.S. also viewed integration as a means of assuring greater stability in a multilateral trading system that lay at the heart of the post-war Bretton Woods negotiations.

By 1947, the United States perceived that the current piecemeal assistance it provided to the countries of Europe had not yet revived its productive capacity. This, coupled with the agricultural shortage that was a result of the harsh winter of 1946-1947, gave little assurance to the United States that the recovery efforts thus far were producing the desired

11 ibid., p. 12.
substantive results. Furthermore, Anglo-American negotiations on the issue of a multilateral trading order were proceeding slowly, with little agreement on how Europe, particularly Germany, would be reincorporated into the international system. Facing a situation that appeared to be growing bleaker by the day and having exhausted all other policy options, "American leaders (gave) the idea of European unification, or at least economic integration, a prominent place in their policy planning...(and) they turned to integration as a method of...promoting multilateralism."  

However, the precise means by which an integrated Europe might better ensure a stable multilateral system were never clearly defined by Marshall planners, although emphasis was placed on broadening the role of the private sector to generate increased economic interdependence.

Scholars point to the increased efficiency that would result from the revival and integration of European production and trade and the possibility that a coordinated continental market could better resolve its imbalance with the dollar trading area than could the individual countries of Europe. But, political economist John H. Williams suggests that such conjecture was not necessarily a call to create a 'United States of Europe.' He notes that the planners were well aware of the inherent flaws of such an analogy and that to base a recovery program upon the assumption of similiarity would have been damaging to Europe. Any attempt to replicate the U.S. domestic structure in Europe would have required both that Europe turn inward at a time when its dependence on outside markets could hardly be questioned and that it begin the process of fashioning


some type of political union. Because of the undesirability of the former and the impracticality of the latter, the linkage between integration and multilateralism was made only to the extent that it focused on such economic considerations as a revival of production and trade and the formation of a payments union. Whatever references made by American policymakers with regard to deeper forms of integration, such as political union, were at this time more for the sake of the rhetoric of the multilateral debate than were reflective of actual short-term policy planning taking place in the Administration.

It was precisely this form of rhetoric—the talk of freedom, democracy, and trade liberalization—that clouded over the more likely reasons why American aid dollars were contingent upon integration efforts: the containment of communism and the desire to set and administer the rules of a multilateral system. For U.S. policymakers, integration was hardly an end in itself. It "had become a way to achieve all other American objectives in Europe."\(^{14}\) Against this backdrop, the Marshall Plan was created.

2. The Marshall Plan unveiled

The speech made by Secretary of State George C. Marshall at Harvard University's commencement exercises on June 5, 1947 outlining what would become the ERP was more the product of two months of feverish planning than a detailed plan of action. George Kennan of the Policy Planning Staff, Walt Rostow, an economist in the German-Austrian division of the State Department, and Joseph Jones of the Foreign Aid Committee at

the State Department were among many who had been collaborating to produce an aid program designed to achieve recovery in Europe and address America's political and economic concerns via economic integration. In fact, Jones penned Dean Acheson's speech at the Delta Council in May 1947 which presaged the recovery program that Marshall would speak of at Harvard, although neither speech provided specific details of what such a program would entail and how much aid would be provided.

Furthermore, the press had provided some indication that a recovery program was in the planning process. Charles Kindleberger credits Scotty Reston (a writer for *The New York Times*) with having had a hand in stimulating public support and interest in a recovery program. Reston would discuss European recovery with Acheson and draw Acheson into discussing plans under way in the Administration. Inevitably, a front-page article on the subject would appear in *The Times* on the following day.\(^{15}\) Thus, there was considerable evidence both behind the closed doors of Washington and in the public arena that America was preparing to launch some form of a recovery program. Marshall simply announced these plans officially. He did, however, emphasize that the U.S. would be prepared to substantially aid Europe only if Europe would help itself by providing a blueprint for recovery. As Acheson had remarked earlier, the United States "must assist free peoples to work out their own destinies in their own way."\(^{16}\) Europe did not hesitate to respond. Within a few short months after Marshall's speech and after intense negotiations, the nations


of Europe had formed their first regional institution: the Committee for European Economic Cooperation (CEEC) and had submitted a recovery proposal to Washington.

The speed with which Europe organized the CEEC has recently led scholars to infer that Marshall and the Congress forced Europe into planning unwillingly for economic integration by the threat of withholding or not providing aid at all. These intimations are dubious at best. By this point, Europeans themselves had realized the possible strength that could lay in self-determined unity. As Harry Price remarks,

"In Europe there was a gradual increase in understanding of the necessity-with or without American aid-for association to build up common efforts toward economic welfare and toward political development through whatever manifestations they might come to take."17

From both sides of the Atlantic, there appeared to be consensus that substantive changes in the European economic structure would be a necessary component of any recovery program. What exactly those changes would consist of and the extent to which they would be influenced by American planners had yet to manifest themselves.

One change that was certain to take place with the implementation of the ERP was the division of the continent into rival blocs. Initially, U.S. policymakers offered to include the Soviet Union and the nations of Eastern Europe in the post-war aid program, but aware that the Soviet Union would never endorse the proposition. Such a position entailed a dual advantage. If the countries accepted the aid and the conditions linked to it, a stronger foothold for U.S. influence in the region would be imminent. Or, if officials in Moscow refused to allow the satellites to accept the aid, then the refusal would be seen as a rebuff to the goodwill of the

Washington. The Administration then would have established ample justification in the eyes of the international community for implementing its agenda regarding the restoration of Western Europe. If Europe were to be divided, it would be seen as an unfortunate consequence caused by the failure of the Soviet Union to cooperate. This decision to extend aid to the eastern part of the continent was a strategic diplomatic move.

Consequently, when Stalin recalled his foreign secretary V.M. Molotov from the Paris Conference in July 1947 convened to discuss possible responses to the aid offer, the division of Europe was a foregone conclusion.

After the conference, the immediate task that lay before the Truman Administration was to find a way to consolidate the requests for aid that Marshall had solicited from the Europeans into a package that it could sell to a cautious, Republican-dominated Congress. The Administration called upon three appointed committees and standing committees within the various departments to study different plans for recovery and to engage in cost-benefit analyses. Additionally, the private sector was solicited for advice and was instrumental in shaping policy. Secretary of Commerce W. Averell Harriman headed the Committee on Foreign Aid composed of businessmen charged with the responsibility of determining America's ability to undertake such a massive aid effort. During these initial stages, there could have been little doubt that the private sector would figure prominently in any aid plan that the Congress would approve.

All in all, $29 billion had been requested by the CEEC, a sum which was not even in the realm of congressional consideration. In order to convince Congress of the necessity of such an expensive plan, the 'United States of Europe' rhetoric was used as a goading device. The plan was sold as a means to "refashion Western Europe in the image of the United..."
States" even though the Administration's inner circle knew of the distant likelihood that Europe would accept that imposition as a condition for aid. But Truman's men were not alone in the negotiations with Congress. The business community also was influential in persuading Capitol Hill to pass the aid package. Groups such as the American Association of Manufacturers and the U.S. Chamber of Commerce exerted considerable pressure on Congress that was keenly felt in both chambers. What emerged from Congress in the spring of 1948 was the Foreign Assistance Act, Title I of which was the Economic Cooperation Act that provided the ERP $5 billion in the first twelve months of its existence. Originally, the ERP was to last until 1952, with an aid evaluation and congressional renewal in each year in between. This represented the bare bones of the plan; a plan characterized by corporatism and a focus on economic integration.

If the ERP's integrative efforts were the means to recovery, and recovery was the means to a unified Europe that was a stable participant in a multilateral system, the assistance provided by the Marshall Plan had to be targeted toward specific areas that were crucial to the recovery process. Marshall planners cited the need for a payments union and both technical and managerial assistance aimed at the revival and increased efficiency of production and the restoration of intra-European trade. Monetary aid alone, regardless of its amount, would have been insufficient to address adequately these concerns. Williams wisely noted at the time that "American dollars should not be the main reliance." Aware of this possible pitfall, Marshall planners sought to supplement the aid by

18 Hogan (1), p. 89.
19 op. cit.
20 Williams, p. 86.
encouraging the active participation of the American private sector in recovery by including businessmen in the oversight of the program and encouraging investment in Europe. In fact, the Economic Cooperation Act required that investment be targeted and it provided guaranty funds as an enticement to investors. Marshall planners had recognized that the amount of official aid provided would be insufficient to accommodate Europe's needs, so they stressed the need for private sector input. If the plan was to be judged a success in the manner that the planners had hoped for, then collaboration was viewed as a sine qua non for stimulating the needed additional investment. For this reason, the private sector was welcomed into the corporatist fold which came to characterize the ERP.

3. Public-private sector collaboration in the recovery effort

Although planning for recovery began before the war had ended, in its early stages, the process was not definitively corporatist. The attention later given to the importance of private investment was not initially substantial. Nevertheless, the private sector was determined early on to keep its hand in the game. In 1942, the prestigious Committee for Economic Development (CED) was formed by leading executives and academics to address issues pertinent to a recovery effort. When Marshall extended the offer of aid to Europe, the CED had firmly entrenched itself in the recovery process. In fact, one of the founders of the CED, Paul Hoffman, was selected to head the Economic Cooperation Administration (ECA) charged with implementation of the ERP. It was through the ECA that private interests were included in the drive to integrate Europe.

From the outset, the ECA was meant to be a corporatist alliance with a somewhat heavier tilt toward the role of the private sector. When
Congress was in the process of determining exactly how the ERP would be administered, the Brookings Institution (an independent Washington think tank), at the request of Senator Arthur Vandenberg, issued a report calling for an independent agency which would report directly to the President and would be composed of men from the private sector. Vandenberg was heavily influenced by the report and endorsed the recommendations of the Brookings Institution on Capitol Hill. This resulted in the corporative structure of the ECA. In assessing the congressional mandate which officially created the ECA, Immanuel Wexler remarks that "in the final analysis, the administrative organization of the aid program was as much a product of nongovernmental contributions as were some of its essential elements."21

These "nongovernmental contributions" encompassed by the ECA included: the Public Advisory Board (PAB), numerous committees staffed by individuals from the private sector, and industry-specific divisions. Representatives from organized business, labor, and agriculture were appointed to the PAB by Hoffman and the committees were staffed by businessmen with extensive backgrounds in finance, law, and corporate governance. Men were recruited from General Motors, Standard Oil, Inland Steel, Detroit-Edison, and Merck and Company to head the industrial divisions based in the United States and to aid in the implementation of the ECA's missions abroad.22 And, aside from these representatives of big business, the ECA was successful in obtaining the cooperation of American trade unions. According to Hoffman, "The trade unions of America (had) a

status of full partnership in the ECA not only from the standpoint of operations but from the standpoint of making policy. "23 Quite obviously, Hoffman had established himself as an ardent supporter of bipartisan, arguably nonpartisan, corporatist collaboration and was determined to have the ECA reflect that position. That the ECA's structure, procedures, and resulting policies were impacted significantly by such corporatism within the United States is hardly questionable; this is a strong and supportable argument offered by Hogan. However, the extent to which this tight collaboration, in its American form, was replicated in Europe is slightly more tenuous.

The ECA did succeed in providing an organizational framework for the continental participants in the ERP in which corporatism was a core element. It channeled efforts to establish a network of European business, interest, and trade groups that were linked directly to the OEEC and the ERP through advisory committees. But the most visible linkages that the ECA forged or supported were not those aimed at collaboration among the Europeans involved in the recovery program, but a trans-Atlantic linkage whereby the ECA would organize various American groups who were to ally themselves with particular interests in Europe. The ECA sponsored a technical assistance program that began in 1948 and was responsible for sending American managers, corporate executives, and academics to Europe to offer advice and assistance to their European counterparts. Hogan, exhibiting strains of paternalism, refers to them as "roving

23 Hoffman, qtd. in Hogan (3), p. 61. Whether or not the trade unions agreed with this lofty appraisal of their status in the ECA is the subject of another debate outside the scope of this paper, but nevertheless significant.
ambassadors"\textsuperscript{24} while overlooking a less prosaic but more likely
description.

Those Americans dispatched by the ECA under the technical
assistance program were not goodwill volunteers as much as they were
recruits sent to ensure that American aid dollars were spent the American
way. Also, it is plausible to view them as a means to assuage the concerns
of private investors who were unsure of the Europeans' ability to maintain
stability and to provide a less risky atmosphere for the efficient and
profitable transfer of capital. The ECA, albeit a supposed independent
body, was no less interested in promoting rapid economic integration,
stimulating investment and contributing to the achievement of America's
overall goals of political security and multilateralism than was the
Administration or Congress. Since the ECA reported directly to the
President and operated with congressional funding provided under the
ERP, it would be naive to assume that the ECA conducted its business in a
vacuum, neither mindful of nor influenced by either branch's agenda.

Thus, although the ECA had the responsibility of managing the
practical aspects of the recovery program, it did so with an eye toward
promoting private American interests in Europe in a way that would be
beneficial to both the investors and to the integration process. A
noteworthy example was the support given by the ECA to the efforts of the
Aldrich committee in matching up three American investment groups with
similar groups in Belgium, France, and Britain whose purpose was to
suggest development projects for American investors.\textsuperscript{25} Yet, once again,
Marshall planners shied away from a detailed plan of action and declined

\textsuperscript{24} ibid., p. 62.
\textsuperscript{25} Hogan (3), p. 60.
to set a numerical target that specified by what amount they had hoped to increase the flow of private investment to Europe. In fact, they never clearly defined what type of investment was sought. They were guided by a "broad interpretation" of investment that included:

"Contributions of capital goods, materials, equipment, services, patents, processes, and techniques in the form of loans; the purchase of a share of ownership in a foreign enterprise; and the participation in royalties, earnings, or profits."^{26}

Given this vague framework, for purposes of clarity and simplicity, this paper will define private investment in terms of loanable capital. The emphasis the planners placed on achieving integration, the depth of collaboration in all major aspects of the recovery program, and the perceived dependence on private investment were all significant aspects of post-war corporatism; whether or not this corporatism which characterized the Marshall Plan was directly responsible for triggering increased portfolio investment in Europe is now the focus.

III. U.S. investment in Europe

1. The investment climate: prospects, flashbacks, and incentives

At the end of the war, the overall flow of American capital into western Europe was not significant. Capital investment was on the decline in 1947 when only ten American corporations were responsible for 75% of investment outflow.^{27} Milward attributes this hesitancy among Americans to invest to wariness over either the "security or profitability" that such investments could offer, although he disputes the existence of any "crisis"

^{26} Brown, p. 172.

during 1947 that would have either made increased investment unlikely or the Marshall Plan necessary. In analyzing the post-war climate of Europe, he asserts, "All that was immediately at stake was a malfunction of international trade and payments..."28 Surely such a situation would be enough to make any potential investor wary! Even though European productivity had begun to recover and grow by 1947, the depth of the wartime destruction of Europe's political, capital, and physical infrastructures did not present potential investors with a favorable atmosphere for investment.29 Williams concurred with this assessment when he wrote at the close of the war, "Europe really is not a fit place now for investment, conditions being what they are."30 Also, new challenges were arising as a result of the Cold War.

In mid-1948, responding to support among the former Allies for a democratic West German government, Soviet troops denied all overland access to Berlin. When the North Atlantic Treaty Organization (NATO) was formed a year later, a total blockade of Berlin was instituted. The rapidity with which the postwar world divided into competing ideological blocs painted a rather bleak picture for investment. In analyzing these events, Reardon remarks that "the postwar world was not a particularly friendly place for...investment."31 Finding mechanisms for stimulating investment in this type of environment was not an easy task for the ECA, but in addition to the obstacles presented by a lack of infrastructure and the Cold

28 ibid., p. 55.
30 Williams, p. 267
31 Reardon, p. 43.
War, the ECA had to overcome painful memories among investors of the losses they incurred during the interwar era.

The 1920's were characterized by a growing U.S. economy with a rise in domestic savings that contributed to a willingness among individuals and corporations to supply Europe with needed capital in what Williams has termed "the big decade of American private international investment." Investors were more than eager to provide loans for reconstruction, as evidenced by the approximately $1 billion that was invested abroad, mainly in Europe. Such activity was endorsed throughout the twenties by the U.S. government which recognized how its role in credit provision could be narrowed if the private role of providing needed capital was widened. Accordingly, the government specifically refrained from restricting capital outflow. The passage of the Federal Reserve Act also aided this goal; regulations governing the operations of foreign bank branches were relaxed. Furthermore, the government supplied Europe, particularly loans to Germany for reparations payments, with credit substantive enough to have enticed investors into hedging their bets on what appeared to be a relatively stable environment in which to extend private loans. When the U.S. abruptly cut this line of credit in 1928-29, the instability previously masked was revealed as many of the investments formerly encouraged had been converted into gaping losses. Eichengreen estimates that three-fourths of all foreign securities that U.S. investors purchased in the twenties were in default by the end of the 1930s. The severity of the blow felt by investors leads Williams to

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32 Williams, p. 76.
33 De Long, p. 15.
conclude that the government "went too far after the first World War by encouraging private investment in Europe." However, to place the blame on the government for failed investments ignores the equally important factor of immense miscalculations on the part of the private sector itself. Still, the memory of the losses incurred and the government's adjunct role was one fresh in investors' minds twenty years later and proved a formidable barrier for the ECA to overcome.

One of the methods that the government used to entice investors back to Europe was the guaranty funds provided in the Economic Cooperation Act. Hoffman was given authorization to extend up to $300 million to back private investments, which was not a particularly high amount, but was significant enough to highlight the government's intention to support private investors. The Act also specified that the Europeans themselves ought to back U.S. investors. Under these European-based guarantees, authorization was further extended to include coverage for profits as well as initial investment costs. American businessmen, however, were not quick to take advantage of the funds. At the end of 1949, only $3.9 million in investments was guaranteed, and of that $3.5 million was in the United Kingdom. This sum was meager compared to the amount that was provided for, but it was still early on in the recovery process. Given the hesitancy still felt by investors, any expectations of massive capital outflow, regardless of guarantees, were both unrealistic and excessively optimistic. Yet, in order to promote the corporative framework and to convince Vandenberg and his colleagues that a serious effort was being made to shift part of the burden for recovery from the

35 Williams, p. 267.
36 Milward (1), p. 120.
public coffers to the private pockets, the funds were a necessary initiative on the part of the ECA. The funds, though, were not the only means by which planners attempted to stimulate investment.

There had been a growing sense of frustration in the Congress over this failure to stimulate investment that matched the aid set aside for that purpose. Public pressure mounted with each consecutive year that funding for the ERP had to be renewed while a greater degree of private sector involvement had not been achieved. An option which would not require additional appropriations was sought. By 1950, the Administration had presented Congress with a request to liberalize the tax laws on foreign investment (both direct and portfolio) as another incentive. But by 1951, this risk-underwriting by the government did not produce levels of investment that the guaranty funds supplemented by tax law revisions could have covered. This should not lead to the assumption that increased U.S. investment in Europe was not taking place, but merely illustrates that it was not taking place to a significant degree by investors taking advantage of the guaranty funds. Judgment on this matter must be reserved following a more detailed analysis of investment flows.

2. Economic and political arguments for increased investment

Marshall planners had pinned their hopes on investment as an additional boon to integration for both economic and political reasons. In the first respect, capital investment was recognized as a key component of sustained economic growth that would supplement and enhance efforts underway to revitalize intra-European trade, improve Europe's balance of payments position, and draw Europe into a multilateral trading system. The strength of this argument linking investment and growth had been
acknowledged and supported by economic theorists with increased attention given to studies on the business cycle that emerged during the plan years. Investment patterns in the short run were seen as determinants of growth trends in the long run and as crucial to the reconstruction of the European economy. The consistency and sustainability of any increased investment was dependent upon four variables: derived demand for capital goods, profit incentive and expectation, money market conditions (including interest rates and monetary liquidity), and government policies of subsidization and taxation. Another concern, reflected in the establishment of the EPU in 1950, was Europe's balance of payments position. It was recognized that unless this problem was rectified, Europe's money market would remain distorted, which would deter the flow of loanable capital from potential American investors. Marshall planners, through devices such as the assistance program, guaranty funds, and tax law revisions, attempted to manipulate those variables and market conditions in an effort to create an atmosphere conducive to investment. Yet these theoretical underpinnings were only half of the rationale for the encouragement of investment. The political rationale underlying this focus on investment was equally important.

The oft-repeated remark that Marshall planners were striving to 'make the world safe for American capitalism' is not far from the truth, given the political climate in which they operated. In order to resell the


38 Svennilson, pp. 6-7.
plan on Capitol Hill each successive congressional year and to assure taxpayers that ERP aid would be a benefit, rather than a detriment, to a booming post-war domestic economy, planners also had to incorporate a vision of how the private sector could profit from the assistance program. They described investment as not only a means by which integration could be encouraged, but also as a means for American business to exert greater influence in a multilateral system. Seen in this light, corporative collaboration in this era did not occur solely to put Europe back on its feet; corporatism occurred because it was politically necessary. Marshall planners thus were faced with a dilemma: on the one hand, the situation in Europe had to be presented to Congress as so serious that the need for aid was unquestionable. Yet on the other, they had to reassure investors that their money was relatively safe in the European market. With the experiences of the interwar era, this was indeed an arduous task. But, the significant differences between the post WWI recovery and conditions in 1947-8 reveal that perhaps the picture of Europe painted by the Administration was not entirely accurate.

By all accounts, the recovery in Europe after World War II was faster than it had been following the first World War. De Long and Eichengreen compare recovery levels after both wars in terms of a per capita GDP average of Britain, France, and Germany (West after WWII) and estimate that the degree of recovery achieved by Europe in the sixteen years immediately following WWI was replicated after WWII in only six years, and half of that had been achieved by 1949.\(^{39}\) They also compare the recovery of Western European coal, steel, and cement production for both periods and note that in all three sectors, production rates had been

\(^{39}\) De Long, p. 17.
steadily rising between 1947-1949 and had increased dramatically following 1949, leading them to conclude that recovery was much more rapid the second time around. Furthermore, dollar imports to western Europe for capital goods rose between 1946 and 1947; this evidence lends credence to Milward's argument that when the ERP came into effect in 1948, it did more to sustain a production boom already under way than to cause one to occur. Nevertheless, it must not be forgotten that despite such promising figures, Europe was still struggling with a severe balance of payments crisis due in large part to a dollar shortage and the effects of the ERP ought not yet to be minimized without an adequate analysis of additional statistics relating to European recovery and growth and U.S. investment in Europe during the decade in question.

3. Statistical evidence-See Appendix for tables

Table I: Gross National Product and Capital Formation (GNP and CF)
Table II: Total U.S. Foreign Lending
Table III: Value of U.S. Direct Investment by Area
Table IV: Deposits in Savings Banks

4. Analysis of statistical data

First, it is necessary to evaluate the process of recovery and growth in Western Europe in the immediate post-war era from the data in Table I before a comparison can be made to investment levels. A cursory glance at the national account data reveals that in France, West Germany and the United Kingdom, GNP rose steadily each consecutive year in the decade following the war, except for a brief dip in France's GNP between 1947-48.

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During the last three years of actual aid transfers by the ERP, France's GNP rose by 109%, the United Kingdom's by 102%, and West Germany's by 120%. It is not surprising that West Germany posted higher growth rates in GNP than the other two since large amounts of Marshall Plan aid had been targeted specifically to the revival of its coal production which had been decimated during the war. Milward notes that during this period, "the increase in output in West Germany continued unabated" although overall coal production in Europe was still below plan targets. It is also important to note that during the ERP years, there does not exist a drastic upward shift in any of the three countries' GNPs. The climb each year was significant and relatively smooth. Furthermore, the termination of Marshall aid in 1952 does not appear to have had a negative effect on GNP; figures continued to rise steadily between 1953 and 1957. In these five years, French GNP rose by 122%, British by 111%, and German by 135%. Combining these two stages (1950-1957) gives the following overall increases in GNP: France, 137%; United Kingdom, 123%; and Germany, 174%.

A review of the figures for growth in capital formation reveals results similar to the rising trend noted for GNP growth. As before, a comparison of the three countries will begin with 1950 due to the absence of data for France and Germany in the three years prior and due to the fact that a large proportion of Marshall funds prior to 1950 were used for food purchases rather than capital formation, especially in the United

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41 It is difficult to compare all three countries until 1950 since data for West Germany is not available on GNP for the first two years of the ERP.
42 All percentage changes were calculated by dividing the figures \( n + (1...7\)-depending on the years of comparison) years by base year \( n \) and multiplying by 100. For example, France's GNP growth of 109% during 1950-52: \( \frac{202.1}{184.9} = 1.09 \times 100 = 109\% \).
Overall capital formation was high during the post-war decade throughout all of Europe. For the entire period 1950-57, CF levels rose each consecutive year for both the United Kingdom and Germany. France's CF levels rose overall, but dropped during the last two years of the ERP before picking up again in 1954.

During the remaining ERP years, British CF levels moved upward, adding a total of only £21 million over those three years. Similarly, Germany had rising CF levels at this time, but like the United Kingdom, the actual increased value was relatively small: 3.6 million deutschmarks. For France, 1950-52 was a period of decline in CF as it posted two consecutive declines totaling one million francs. In the following year, CF declined by another 2 million francs before rebounding again in 1954. The figures for France are peculiar in that they present a paradox: France spent more of its ERP counterpart funds on capital investment than any other European country and half of all counterpart funding under the ERP was spent in France. Yet, it is the one country whose CF levels decline over the course of the ERP. A rather sketchy, but perhaps only acceptable explanation is that the funding for capital investment from ERP funds remained the same in France while funding from the French government and private capital market declined to a degree greater than the amount of the aid funds. This could have easily been the case considering that investments targeted under France's Modernization Plan created conflict between the private capital market which could not service all of the demand and public banks which were unwilling to underwrite many of the investment projects.45

Moreover, the French figures illuminate why the entire analysis of capital

44 ibid., p. 104.
45 ibid., p. 109.
formation throughout Europe and its relationship to ERP aid is a contentious one. Milward explains:

"What proportion of Marshall Aid funds did actually contribute to capital formation cannot be determined, because all of them could theoretically have had the effect, no matter how it was deployed within the economy, of releasing other funds for investment."\(^{46}\)

In any case, a more detailed analysis of these figures is beyond the scope of this paper, but having established that a steady growth in GNP and capital formation occurred over the years before, after and during the ERP, it is safe to concur with Milward's analysis that the dollar aid provided under the Marshall Plan supplemented, but did not necessarily create an upward recovery trend.

Dissecting the data on investment from Table II presents the same problem. Eichengreen's data are all-inclusive and non Euro-specific as he addresses the difficulties in conducting his analysis, "consistent country data on the extent of total foreign borrowing after World War II are notoriously difficult to obtain."\(^{47}\) Thus, although it is known that private investors used only 1.3% of the guaranty funds by 1951 for investment in Europe, trying to attribute that investment to specific Marshall plan dollars is much like searching for a needle in a haystack. Nevertheless, Eichengreen's data does provide significant insight into post-war investment trends that can be analyzed against the recovery figures.

Direct long-term lending (DLT) by U.S. investors declined from 1947-1955, with a sharp decline of 57% between the plan years 1947-51. At the end of 1952, which corresponded with the end of Marshall aid to Western Europe, that percentage decline had been fully restored before falling

\(^{46}\) ibid., p. 107
\(^{47}\) Eichengreen, p. 243.
again in both 1953 and 1954, suggesting that no link, or a very weak one at best, was created between the Marshall Plan and private investment. At the end of 1955, DLT rose again, but not by enough to restore it to immediate post-war levels. It settled at only 95% of what it had been in 1947. Unlike DLT, which was characterized by a semi-smooth trend of falling investment, other long-term lending (OLT) by private investors initially rose swiftly and sharply, posting a 938% increase between 1947-1950. Yet, by the end of 1953, OLT had plummeted, only to again rise dramatically in 1954 and 1955. Overall, OLT increased by 425% in the post-war decade. Short-term lending (SLT) followed a rollercoaster-like path, a path which reflects the inability of ERP funding to stabilize consistent upward growth in this sector. It dropped almost 200% between 1947-49 then rose 130% in 1950. SLT dropped slightly between 1951-52 before sinking again in 1953. The next year witnessed a remarkable increase of 477.5% in SLT which was quickly offset in 1955 by a 334% decrease. Throughout all of these rapid shifts, however, SLT in 1955 measured a modest 88% of 1947 levels. Finally, private unilateral transfers dropped during most of the ERP years, rising only between 1951-52 and 1952-53 before dropping again and leveling off at 58% of 1947 levels. The inference drawn here, even allowing for the increase in OLT, is that certain divisions of private American investment during this decade were depressed to a degree, but not altogether invisible. Eichengreen attributes this decline to the effect that inter-war defaults had on U.S. investors rather than on particular post-war conditions abroad.48 However, data from Mitchell in Table III suggest that post-war conditions in Europe did contribute to wariness among U.S. investors. The comparison

48 ibid., p. 246.
in Table III of investment in Canada, Latin America, and Western Europe reals that although U.S. investment was increasing slowly in Europe, the majority of funds flowing out of the United States were being invested elsewhere during the post-war decade. Between 1950 and 1957, U.S. investments in Canada and Latin America were relatively on par with one another and each were double the amount of the funds being channeled to Europe. Thus, although Mitchell corroborates Eichengreen's conclusion that substantial flows of private capital to Europe did not exist at this time, his data refutes Eichengreen's contention that investors were too nervous to invest anywhere and suggests that they may have been acutely affected by conditions particular to Europe.

A conclusion of this rudimentary analysis suggests that there does not exist a causal relationship between U.S. private investment and the remarkable recovery of France, the United Kingdom, and Germany. An interesting correlation, however, does exist between these recovery levels and domestic savings in these countries. A brief look at the savings data for France and Germany reveals that in each country, deposits in savings banks rose each consecutive year without falling once, increasing over the decade by 678% and 1768%, respectively! In the United Kingdom, deposits in trustee savings banks rose each year while deposits in Post Office Savings banks (POS) steadily declined, although not to a large degree. Deposits in the trustee accounts rose by 156% and the POS deposits in 1957 stood at 86% of 1947 levels. Given the basic correlation that exists between domestic savings rates and sustained economic growth,49 it is not implausible to conclude that savings, viewed against what U.S. private investment did exist, may have made a more direct contribution to the

49 For elaboration, see Svennilson.
recovery process in Western Europe than did the products of U.S. corporatism. Furthermore, the vagueness which characterized the Marshall planners overall goal of increased investment makes it even more difficult to arrive at a benchmark for determining a specific numerical link between dollars from the ERP and dollars from the private sector. However, it is reasonable to infer from the foregoing analysis that a high, or even steadily climbing, rate of overall U.S. private investment was largely absent during and immediately after the plan years. Even so, drawing on their own resources, official dollar aid and other aspects of the Marshall Plan, Europeans did not deviate far from the path to economic integration.

IV. The Road to Rome
1. European efforts toward economic integration

Although the Marshall Plan's corporative structure provided an additional impetus, both economic and political, to the push toward economic integration on the Continent, Europeans were clearly determined to set their own agenda on this issue. Three significant developments took place within western Europe in the post-war decades that were harbingers of the Common Market.

First, the establishment of a customs union received serious attention at the conclusion of the war, but "this was, in a sense, only a continuation of the discussion at the point where it had been broken off in the 'thirties."50 The Benelux countries (Belgium, Netherlands, and Luxembourg) made significant headway in this area absent of American

support as their efforts to "come together in a close economic union, without trade barriers and with free movements of labour and capital, goes back to 1943,"\textsuperscript{51} years before the words 'Marshall Plan' had been spoken on the lips of anyone in Washington. By 1948, customs duties among the three had been abolished and a common tariff was erected, although the effective implementation of these measures was not felt immediately. Next, in 1949, all quantitative restrictions had been removed and by 1952, the United Nations observed that "the establishment of the Benelux union has, so far, been accompanied by some increase in the relative importance of each partner in the trade of the other country."\textsuperscript{52} Thus, the decision to create a customs union for all of Western Europe was not without a guiding precedent.

Second, the establishment in 1950 of the European Coal and Steel Community (ECSC) was another crucial forerunner of the Common Market that was achieved largely independent of direct American persuasion, economic or political. Obviously, Marshall Planners exerted influence upon the formation process of the ECSC, but it was still a distinctively European institution. European politicians recognized that an indefinite presence of an international Ruhr authority would not be preferable and that Europeans themselves needed to find a solution which would insure long-term stability in the region. This meant that the possibility of another war between Germany and France had to be rendered, "not merely unthinkable, but materially impossible."\textsuperscript{53} Under Schuman's proposal, the resources and productive capabilities in coal and steel of France, Germany,

\textsuperscript{51} ibid., p. 225.
\textsuperscript{52} 53 op. cit.
Italy, Belgium, the Netherlands, and Luxembourg were consolidated under a common authority—the ECSC.

The third distinctly European effort toward integration occurred at the 1955 Messina Conference in Sicily where the six foreign ministers of the ECSC met to consider the recommendations to found "a common organization to develop nuclear energy for peaceful purposes and the initiation of a common European market, free from all customs duties and all quantitative restrictions." Messina was the last conference that Monnet attended in his capacity as president of the ECSC's High Authority. Monnet then founded the 'Action Committee for the United States of Europe' whose purpose was to contribute to a more substantial effort toward integration, which he thought was lacking at Messina. The committee, composed of European politicians directly courted by Monnet, first convened on January 18, 1956 and reaffirmed the decision to create a supranational nuclear energy authority by asking its members to present the recommendation to their respective national parliaments. Within five months, the six foreign ministers had given consideration to the Action Committee's proposals, and on May 29-30, they voted to support both an energy union and a Common Market.

These steps led to the passage of the Treaties of Rome, which officially created Euratom and the European Economic Community (EEC), on March 25, 1957. On January 1, 1958 the treaties came into effect and the largest major step toward European economic integration had been realized.

2. Concluding remarks

The question posed in the title of this paper does not lend itself to a simple resolution. But having considered the analysis within the confines of this study, the answer must be a qualified no for two reasons: first, as was just discussed, it is highly likely that some form of economic integration would have evolved as a result of intra-European initiative with or without assistance as far-reaching as the Marshall Plan and second, steadily increasing U.S. private investment during and immediately after the plan years was not established.

The lack of a causal relationship between Marshall Plan dollars and private investment negates the concept of the two being dependent upon one another for their success in the post-war era. The evidence is unmistakably clear that ERP aid did little to instill confidence within the minds, and more importantly, the pockets, of private investors. The absence of any credible contrary data further diminishes the importance of U.S. portfolio investment as a factor in European economic integration. However, although the two factors taken together and portfolio investment considered on its own merit did not substantially contribute to the integration process, the Marshall Plan taken by itself appears to have had important ramifications in this regard.

The Marshall Plan was a remarkable corporative achievement that succeeded in laying a stable foundation for the eventual economic integration of Europe, although it did not do so by dramatically affecting the flow of private dollars onto the continent. It did not need to. Private investment was not a necessary condition for the Marshall Plan to be judged as a success, nor was the plan dependent on that investment to promote integration. Economic integration evolved despite the immediate absence of investment in the post-war era. But, investment aside, there
did exist substantive achievements of the ERP which supplemented and enhanced the efforts made within Europe.

Planners at the ECA, appointees within the Administration, officials within the State Department, and citizens from the private sector rigorously encouraged the development of corporative collaboration in Europe, even if it was being achieved in a manner distinct from the style which had evolved in the United States. They encouraged the development of European corporatism through the linkages it established with groups such as the OEEC. The ECA provided technical and managerial assistance, coordinated plans for investment (even though the dollars were slow to follow), and continuously monitored progress toward integration. This conclusion simultaneously vindicates the arguments of both the Hogan and Milward, while recognizing the limitations of each. Hogan is correct to assess the recovery decade as one characterized by a corporative structure throughout both the political and economic aspects of the ERP, but the emphasis he places on the necessity of the mutual participation of both the American public and private sectors in the recreation of Europe's economies is exaggerated. Milward has illuminated and refuted several misconceptions about the depth of economic devastation in Europe at the end of the war. He is correct in suggesting that the recovery process was well under way prior to the establishment of the ERP. Yet, he exaggerates his argument as well, taking it to the other extreme—Europe would have recovered without the Marshall Plan. A more logical conclusion would be that the Marshall Plan may not have been Europe's salvation, but neither was it useless.

When political economists today consider the feasibility of a 'Marshall Plan II' for the nations of Eastern Europe, they would be well
advised to consider the implications of the first one. At the end of the day, the socio-political framework established through, and sometimes independent of corporative collaboration, appears to have had a more lasting effect upon economic transformation in Europe than any amount of short-term monetary assistance—public or private.
Appendix

I. National Accounts Totals: Gross National Product and Capital Formation

<table>
<thead>
<tr>
<th>France</th>
<th>Germany</th>
<th>United Kingdom</th>
</tr>
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<tr>
<td></td>
<td>GNP/CF</td>
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<tr>
<td>(1938)</td>
<td>(...)</td>
<td>(1938)</td>
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<tr>
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<td>6336/650</td>
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<td>6521/600</td>
</tr>
<tr>
<td></td>
<td>(1959)</td>
<td></td>
</tr>
<tr>
<td>1949</td>
<td>3360/...</td>
<td>20880/2497</td>
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<tr>
<td></td>
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II. Total Private U.S. Foreign Lending

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<td>204</td>
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<tr>
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<td>523</td>
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</table>


56 Eichengreen, p. 244. All figures are in millions of current dollars at 1919-28 prices as he had also included lending statistics during the post World War I decade. DLT is direct long term lending, OLT is other long term lending, SLT is short term lending, and UT is unilateral transfers.
III. Value of U.S. Direct Investment by Area\textsuperscript{57}

<table>
<thead>
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<th></th>
<th>Canada</th>
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<td>8332</td>
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IV. Deposits in Savings Banks\textsuperscript{58}

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<td>(c)/(d)</td>
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<td>1098/823</td>
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\textsuperscript{58} Mitchell, pp. 693-695. (a) is private savings, (b) National Savings Bank, (c) Post Office Savings Bank, (d) trustee savings banks, (e) all savings. All figures are in thousand million francs, million pounds, and million deutschmarks, respectively.
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**Works Consulted**


