Part II. Human, Sustainable Development, Innovation, Open Market Economies, and Democratic Societies

Chapter 5. Lessons Learned from the Marshall Plan: A Corporate Experience

by Bertrand Collomb

For someone who is not an historian, and was only a child when the Marshall Plan helped Europe rebuild itself, it may seem awkward to write about it. Of course, I have been very much interested in the project passionately advocated by Candice Nancel to restore the prestigious *Hôtel de Talleyrand*, and I learned more about George C Marshall when my wife's uncle, Bernard Pujo, wrote his first French biography (Pujo, 2003). But this is hardly a qualification to discuss the historical significance of the Marshall Plan.

I will try to reflect about how, in my business experience, this type of solidarity between different geographical areas could be again envisaged. And there are indeed a number of good ideas in the Marshall Plan, which might be useful in the development of international relations with the emerging world, and which relate to the global experience of a company like Lafarge.

Lafarge and the Marshall Plan

When I looked into our archives, and asked some of our older retirees what the direct impact of the Marshall Plan in the history of our company was, I found only limited information.

In the 1947 annual report, there is a mention of significant investments planned, within the framework of the "Plan Monnet" – which was the French mirror plan of the Marshall Plan – to modernize several of our plants, and also develop the use of slag, a by-product of the steel manufacturing process. And there was apparently a trip to the United States to buy two cement kilns from Allis-Chalmer (Dubois, 1988). Others remember two American-built Marion front-end loaders in the quarry of the original Lafarge plant, in the Rhône Valley.

Later on, Lafarge took part in a "productivity mission", a visit to the United States organized in June 1951 for the French cement industry. One of the participants remembers a trip very professionally organized, where the American cement industry had shown its leadership both in social and technical issues.

On the social side, after the revolutionary strikes of 1947, France still had adversarial labor relations. In the United States, the French managers were shown that co-operative relationships with the unions could be established on the basis of a "pie-sharing" principle: productivity improvements were accepted, as long as they were enlarging the pie, allowing to distribute a larger piece to each stakeholder.

On the technical side, American companies were leaders in size and reliability of installations, as well as maintenance costs, but were not very concerned with reduction of energy consumption, as energy was considered abundant and cheap.

Ironically enough, 25 years later, the cozy relationship with the unions had bred inefficiencies, energy had become more expensive and environmental standards more demanding, making American plants largely obsolete, and paving the way for the take-over of the American cement industry by European and Japanese plants. But in the 1950's Lafarge had lessons to learn from the American industrial expertise, and the Marshall Plan had provided that help.

Doing good and doing well

Going beyond this brief historical reference, how do the main ideas of the Marshall Plan relate to our 21st century experience, and what can we learn?

The first basic idea I like in the Marshall Plan is that doing good and doing well are not necessarily contradictory. The Plan was based on the assumption that giving resources to Europe to allow it to buy goods from American companies would help Europe as well as the American economy.

It was a little like Henry Ford raising his workers salaries, so that they could buy more of his cars. Or like the Monopoly players giving money to a bankrupt player, so that the game could continue.

This idea is not self-evident, but it was more acceptable in an era of Keynesian economics, where protected or segmented economies were able to create demand, even by artificial means, to start up the growth engine and use idle capital resources.

It is more difficult now in an open and competitive world, where supply-side economics is the rule, and where segmentation of trade flows by preferential channels may lead to more negative than positive results.

But there is an enduring lesson, which is often forgotten in today's debate. The world economy is not a zero-sum game, and win-win solutions can be found, if one has the will to go off the beaten track.

That lesson is also increasingly important for companies like us, active in emerging, but still very poor economies. We have found that a large number of people could become our customers, if only we would help them to use our products wisely. In India for example, in the Kolkata area, we came to realize that poor people living in slums could build simple, cheap and decent homes, if they had and understood the technology, were allotted land, and found long—term financing. We designed a model home, simple to build with family or neighbors, and tried to organize land allotment with the state and micro-financing with existing financial institutions. This approach, widely known as "working at the bottom of the pyramid", or "doing business with the poor", is now part of the policies of many international companies.

More generally, the fact that bringing something to the communities where we operate is also a way to grow more and make more money is increasingly recognized. Helping oneself by helping others does work.

Corporate social responsibility can be and must be a win-win approach, where business long-term interests are being served by a proactive helping attitude.

Examples are abundant in the experience of a company like Lafarge, but the best example is probably the AIDS crisis, in Africa as well as in other emerging countries. A responsible company can hardly remain idle when 20-25% of its workforce in an African

country is HIV-positive. We have therefore launched a program to develop prevention, testing and treatment for our workers, their families and their immediate environment in our African operations. If initially the necessary commitment of resources looked out of proportion with the local salary and income levels, it now turns out that the benefits in reduced absenteeism, health costs and training of replacement workers exceed the costs of this program.

It would be naïve to believe that good ethical objectives automatically translate into economic advantage, but my own experience is that, more often than not, effective management can make both compatible. This does not fit well with the ideological attitude developed by some non-governmental organizations (NGOs), who cannot believe that anything good could be compatible with business economic interest. This belief is expressed, especially in the field of environment, in the slogan "no pain, no gain", inviting us to suffer in order to achieve the common good.

The Marshall Plan reminds us that an altruist attitude does not necessarily entail pain or suffering, and can even be rewarding for all.

Sharing power

A second key principle of the Marshall Plan was the role European countries themselves played. In the words of George C. Marshall, "It would be neither fitting nor efficacious for this Government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe […] The program should be a joint one, agreed to by a number, if not all European countries" (Congressional Record, 30 June 1947) In the words of Paul Hoffman, the administrator of the Economic Cooperation Agency, in charge of managing the funds of the Plan, "the essence of genuine leadership" was "to share power with people rather than to display power over people" (Machado, 2007).

At the same time there were clear rules on the way the money allocated to the program could be used. Conditionality was clearly spelled out, but managed in a flexible, not in a bureaucratic, way.

I will leave it to others to make a parallel to current political situations. But I would like to compare that approach with what a company like ours must do when going into a great variety of different countries and different cultures.

Our business, producing and selling building materials, is extremely local, as are our customers and their building habits. But we have expertise in our manufacturing or marketing techniques, as well as management skills adapted to our industry's business model. In that type of situation two risks must be avoided: one is to try and impose a uniform way, which will clash with our local environment; the other to accept relativism as a principle, and let each operation find its own way (which may not fully exploit our group's size, resources and experience).

Much like the Marshall Plan, we have elected to set up clear rules about the values of our company, and the basic principles on which its operations should be conducted. But we leave considerable room for initiative at the local level, to address the specific needs and peculiarities of each country.

In this process we must decide what the essential values of the business are, and what aspects in which local variances are acceptable. In the political arena, the Marshall Plan

faced the same issue. It was clearly based on American ideals of free markets and open economy, and was meant as a tool to fight communism. But it accepted co-operation with market-oriented as well as socialist governments, some of which had chosen, like France and the United Kingdom, nationalization and state-controlled economies as their best option.

In our business operations, we need to maintain the integrity of our principles, in dealing with people as well as maintaining ethical standards. If respecting people, of all gender, race or creed, is a fundamental principle, how do we deal with apartheid, political dictatorship or societies where the place of women has been restricted? What is the border between upholding fundamental values and displaying cultural imperialism?

International companies, like governments, have to make these choices, and they are not always easy. Very often civil rights advocates would like companies to not do business in countries where human rights standards are not acceptable. If we complied with such requests from different groups, we would not operate in many countries.

On the contrary, we believe we should stay and operate as long as we are not obliged to compromise our principles. For example, China is a country where political freedoms are quite restricted. But economic freedom exists, and business is not directly affected. And we have refused to let a cell of the communist party operate in our subsidiary, as this would be introducing political control within our operations.

In general, we believe an international company operating in a country is a window on the world. By promoting exchanges of information and experiences, it helps creating an open climate which eventually is favorable to democracy and respect for people. That is the way the Marshall Plan helped Europe to eventually become an open and free-market area, without coercing anybody.

To take another example, the situation of women, it is clear that we must respect cultures which give women a different role and place in society, whether we agree with them or not. Attempting to shake hands with a Muslim woman in one of our Malaysian offices may be considered inappropriate. But we will not make any difference in the way we deal with men and women in the workplace on business issues, whether it is about pay, responsibilities, or respect.

Beyond respecting the differences, a larger and more difficult issue for us is whether we can use these differences to foster a better and more effective management approach. While upholding our basic principles, can we adapt our management system to leverage cultural characteristics? For example, in a culture which values solidarity and the collective approach more than individual achievement, do we fight to keep the Western approach, with individual objectives, bonuses, etc., or do we try and base the effectiveness of our operations on the collective approach?

Despite years of international development, we do not have a clear answer to this question yet. We have been conducting experiments and even sociological studies, which hopefully will give us a better understanding of this type of issue. A French sociologist, Philippe d'Iribarne (1998), has studied cases of successful operations of Western companies in African countries, and has shown, for example, that very detailed rules, which would look excessively bureaucratic elsewhere, are effective in a culture where personal relationship is assumed to be under any decision, and where decision makers need to be protected from that pressure.

A current issue: climate change

We have seen that several characteristics of the Marshall Plan are relevant in our current experience. I believe that there is even a case for applying the Marshall Plan logic in our modern world. Specifically an approach similar to the Marshall Plan could be useful on the climate change issue.

We all know this is a very serious issue, which may have devastating consequences, especially for developing countries, but for the whole world as well. In the Kyoto Protocol, "rich" countries, who have been emitting most of the greenhouse gases so far, have accepted to commit to significant reductions. But the US Congress has refused to ratify the treaty, arguing *inter alia* that emerging countries, who are going to have an increasing share in the future emissions, were not undertaking any commitments.

These countries in turn refuse such commitments, fearing it could stifle their growth, and wanting to enjoy the same freedom that industrialized countries have had during their industrial development.

Lafarge has significant stakes in this issue, as the cement industry contributes significantly to world emissions. We understand that significant progress in energy efficiency, and therefore in CO^2 emissions reduction, could be achieved in countries like China by using the best available technologies, and by modernizing inefficient and obsolete plants. And it is not so much an issue of technology transfer or intellectual property as it is an issue of investment and management.

It should not be impossible to organize a system by which industrial countries would bring money, investment and management resources from their industries, to help emerging countries tackle the issue, to their benefit but also to the benefit of the industrial nations themselves.

The Marshall Plan experience shows us that the conditions for such a World Climate Change Plan to work would be a certain level of confidence between countries, and the acceptance that each country or region could design its own plan in order to benefit from global help.

These conditions do not seem to be met today, as even the United States has not formally decided to participate in a global effort. But it was also difficult to forecast, after the destruction of World War II, and the ideological fights in Europe, that a few wise men could design a Plan, based on helping others to help themselves, and spend a few percent of the American national product, with the success we have seen.

So the future may surprise us as well, and, in any case, there could not be a greater tribute paid to George C. Marshall than to save the planet through a "Marshall Plan Against Climate Change".

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Chapter 6. The Relevance of the Marshall Plan for the 21st Century

by John Killick

The Marshall Plan is important because it was a major part of the post-war "settlement", and because it helped start the process of globalization that has so increased international prosperity since 1950. The original Marshall Plan was the product of careful thinking by wise men. The problem for would be modern day Marshall Planners is that inevitably over 60 years, times have changed. Now some of the central assumptions of the postwar settlement are threatened, and postwar globalization is generating a reaction. Marshall Planners' task in the 21st century will be therefore be to perpetuate the most useful results of the previous settlement, to control the worst excesses of globalization, and to suggest new international arrangements to stabilize the international economy. If someday, nevertheless, there is a great new international economic crisis modern Marshall Planners will have to address it as effectively as possible, and once over, hammer out a new system that hopefully will work as well as the original post-World War II settlement (Isaacson and Thomas, 1986; O'Rourke and Williamson, 2000).

This chapter comments on Chapter 5, Mr. Bertrand Collomb's account of the lessons learned by his company, Lafarge, from the Marshall Plan. Lafarge is the largest international producer of building materials, and one of the world's leading multinationals. Mr. Collomb was Chairman of Lafarge between 1989 and 2007. He outlined Lafarge's experience during the Marshall Plan, and then explained his company policies on third world poverty, treating employees with AIDS, devolving decision making, living with cultural diversity and opposing climate change. He argued that Lafarge policies echoed the creative give and take spirit of the Marshall Plan. The Marshall Planners wanted to develop large effective companies on the American model in Europe and would have approved of Lafarge achievements and ambitions (Dubois, 1988; Barjot, 2005; Barjot, 2007).

Mr. Collomb, as Chief Executive, gave an effective exposition of his company's values, and neatly tied them to the Marshall Plan. However some of the main subjects of his talk – AIDS, climate change, etc. were inevitably not concerns of the historic Marshall Plan. Faced with them today Marshall Planners would have proposed solutions based on their experience of similar problems in their own period. As public servants they would probably have been as interested in the general environment in which Lafarge operated, how their general settlement had worked out over 60 years, and the problems it now faced. It is a truism that history never repeats itself – but actually often general patterns do repeat, as in stock market manias – it is the detail that varies. This chapter suggests modern Marshall Planners would examine how the late 19th century Victorian trade system degenerated into depression and war; the role of the Marshall Plan in postwar

reconstruction; the problems now threatening the international economy; and what lessons they could apply from this history to a new settlement (Kindleberger, 1973).

Historical background: the first globalization movement and its collapse, 1850-1941

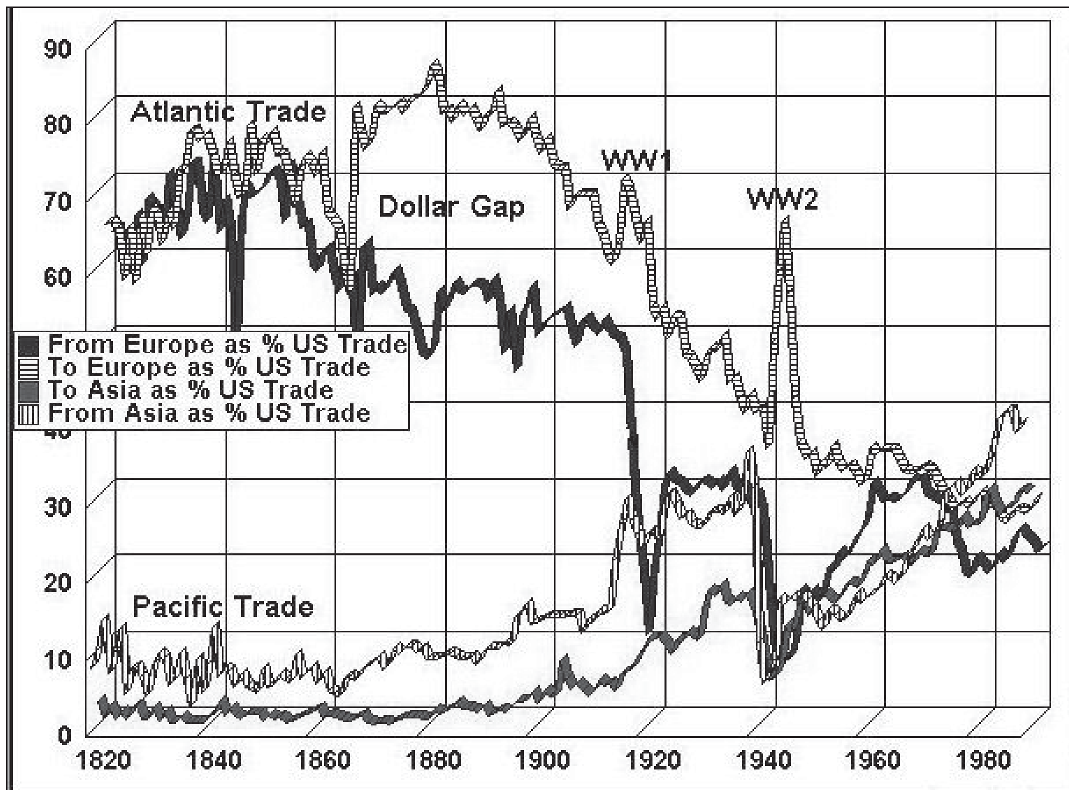
The central dilemma economists and politicians faced in the 1930s and 1940s was the failure of the Victorian free trade settlement. This had been founded on the widespread adoption of free trade following the repeal of the British Corn Laws in 1846, the new transport and communications technology of the period and the general acceptance of orthodox economic theory. The erosion of this settlement, after 1900, the widespread reaction to the Victorian globalization, the rise of socialism and nationalism the diplomatic failures that led to World War I and the botched postwar peace, led to the depression and World War II. The New Deal revolution in social policy and finance, the allied victory in World War II, the rise of the welfare state in Europe, the postwar diplomatic settlement, and the Marshall Plan created a new global world. Now after 60 years of hectic development it may be time for a new settlement (O'Rourke and Williamson, 2000; Nash, 1998; Killick, 1997a).

The mid-Victorian settlement underlay the massive growth of transcontinental trade, finance and migration between 1850 and 1914. This was the global world the Marshall Planners looked back to when they dreamed of normality, and wished to recreate in a modern setting. The United Kingdom, at the center of the world economy, purchased food and raw materials from the new world, especially the United States, but balanced her accounts by manufactured sales to the East, and by invisible earnings. Similarly the United States and the third world ran rapidly growing, interlocking and reasonably balanced accounts. The United Kingdom acted as the market and financial center of last resort, and the Bank of England and Gold Standard conventions of the day disciplined the system. In Europe a vibrant internal trade with Germany at its heart unified the continental economy. The problem was the differential growth of the major players which eventually destroyed the settlement first in World War I, and then in the depression (O'Rourke and Williamson, 2000; Killick, 1997a).

The massive growth of the United States from 1870 on, and the huge trade surpluses she developed in the late 19th century weakened the system. See Figure 6.1 which shows: US trade surpluses with Europe, the famous "dollar gap" in the top two lines; and – US trade deficits with Asia in the bottom two lines. Hence Asia cleared its deficits with Europe, mostly the United Kingdom, by sales – then principally of raw materials and exotics – to the United States. Although the United Kingdom prospered in the late 19th century, relatively she declined. The problem was exacerbated by World War I which vastly widened the dollar gap – temporarily covered by European, principally British – savings and huge American loans. See Figure 6.1. The war cost the United Kingdom and the other European imperial empires a substantial part of their savings and invisible earnings. As her empire, formal and informal, developed, the United Kingdom could no longer rely on her third world trade to balance her new world purchases. The more fundamental problem was the relative decline of European productivity *vis-à-vis* American, not only in food and raw materials, which was justified by comparative advantage, but also in manufacturing, where comparative advantage was less obvious (Killick, 1997a, pp. 1-13).

Figure 6.1. The dollar gap and its decline, 1820-1980

Total US merchandise trade as percent of US trade with Europe and Asia



Source: United States Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970*, United States Government Printing Office, Washington, DC, pp. 903-907; United States Bureau of the Census, *Statistical Abstracts of the United States*, Washington, DC, successive editions, 1970-1995.

In the 1920s, the Marshall Planners knew, these problems had been concealed by the massive flows of US investment to Europe which balanced European trade deficits, and covered reparations and war debts. These flows stopped after the Wall Street Crash, and from 1929-32, faced with massive payments deficits the German and other governments, following the orthodoxy of the time, deflated their economies to rebalance their trade, hoping solvency would revive American investment. This harsh policy came within an ace of balancing the German fiscal and current accounts by 1932, but long before this, the depression had destroyed the 1920's prosperity in America, and communist and Nazi radicalism, enflamed by unemployment, had destroyed the democratic center in Germany. International trade in general and the intra trade in Europe collapsed in a thicket of tariffs and restrictions, and the dollar gap – see Figure 6.1 – necessarily narrowed (Lary, 1944; Kindleberger, 1973).

The war was caused by the ambitions of the dictators, but contemporaries argued that economic factors also played a part. Overwhelmed by the depression, governments desperately attempted to revive internal demand with experiments which varied from New Deal experimentation to German military Keynesianism. By 1937, however, it was obvious that internal recovery could only go so far without the revival of external trade. So short of international consensus, and pressed by hungry electorates, countries sought short-term mercantilist solutions. The United Kingdom and France attempted to revive

their empires. Germany unable to buy food and raw materials from America without incurring huge trade deficits looked to conquest in Eastern Europe. Japan similarly, denied full access to the European and American systems, sought a satisfactory external balance in an enclosed Far Eastern trading block (Ferguson, 2006, pp. 277-344; Gardner, 1956, pp. 8-9).

Internally World War II spending demonstrated how rapidly aggressive fiscal policy could reduce domestic unemployment, but this would not solve the problem of differential national employment and growth rates, and consequent international imbalances. The dollar gap was covered by Lend-Lease in World War II – see Figure 6.1 – but economists knew the imbalances would return with renewed force after the war, as Europe attempted to rebuild. Therefore Keynes and White devised the International Monetary Fund (IMF) to offer trade deficit countries emergency loans until they could improve their trade. However the IMF did not go into effect until the 1950s, after the great postwar boom had started. The United States financed the United Nations Relief and Rehabilitation Administration (UNRRA) for southern and eastern Europe and the American Loan for Britain. These provided breathing space, and financed a rapid early recovery, but did not provide the basis for a long-run postwar settlement. The Potsdam Conference in 1945 failed to conciliate Western relations with Russia, adding urgency for the United States to achieve a settlement at least in Western Europe (Gardner, 1956; Killick, 1997a).

The Marshall Plan and the origins of the second globalization movement, 1941-1960

The eventual settlement was the Marshall Plan which first provided emergency finance to Europe, and then encouraged the basic structural reorganization that underlay the 25-year European boom from 1948 to 1973. The problem of the dollar gap was finally resolved (see Figure 6.1). The Europeans were goaded to create an efficient internal trade, to emulate the United States, and to replace their lost imperial markets. Although they jibbed at the American proposal of a European federal state implicit in the OEEC, the huge growth of the "intra trade" from 1948 on, and the peaceful re-establishment of West Germany at the center of the European economic system led to the creation of the Common Market in 1956. The United Kingdom joined the European Economic Community (EEC) in 1972, when it appeared that the European system was growing faster than her traditional external trade. In the Far East, Japan was also incorporated into the American system, and in effect offered markets that she had been denied in the 1930s (Burk, 2001; Killick, 1997a).

Secondly the Marshall Planners encouraged European industry to increase its productivity. By early 1947, most European countries were near full employment, but could not pay for essential American imports. Even, if as in the case of the United Kingdom, their exports to their traditional third world markets increased rapidly, it was very difficult to earn dollars from these markets, or export to the United States. The swing in the terms of trade since the 1930s in favor of primary products exacerbated the problem. The only really effective long-term solution was to increase productivity per European worker nearer to American levels to secure the necessary exports. The Marshall Plan achieved this by exporting American know-how and machinery, and by exposing European entrepreneurs to the best American technology. The result was that over 30 years or so European technology rapidly caught up with the American norm, although it never overtook it. The Marshall Plan started the process but was only one cause. Later for instance, American companies invested heavily in Europe bringing their technology

with them, and European companies developed their own ideas and/ or copied American methods quite independently of the Marshall Plan (Zeitlin and Herrigel, 2000; Kipping and Bjarnar, 1998).

The Marshall Planners also tried to transfer American industrial organization and "industrial democracy" to Europe. They wanted strong transnational firms, but in the American tradition they opposed restrictive practices and monopoly. All the Economic Cooperation Administration (ECA) bilateral treaties between the United States and the European states contained commitments to antitrust, and the American occupation administrations broke up the Ruhr cartels and the Japanese zaibatsu. Since 1948, most international multi-national corporations (MNCs), like Lafarge, have developed on American managerial lines. They also wanted powerful, but co-operative unions on the American pattern to deliver high productivity and good wages through orderly collective bargaining. This would give status to workers, and hopefully produce an integrated European consumer society on the continental American model that would reject communism, and ensure social stability (Maier, 1987; Freyer, 1992; Mercer, 1995; Carew, 1987).

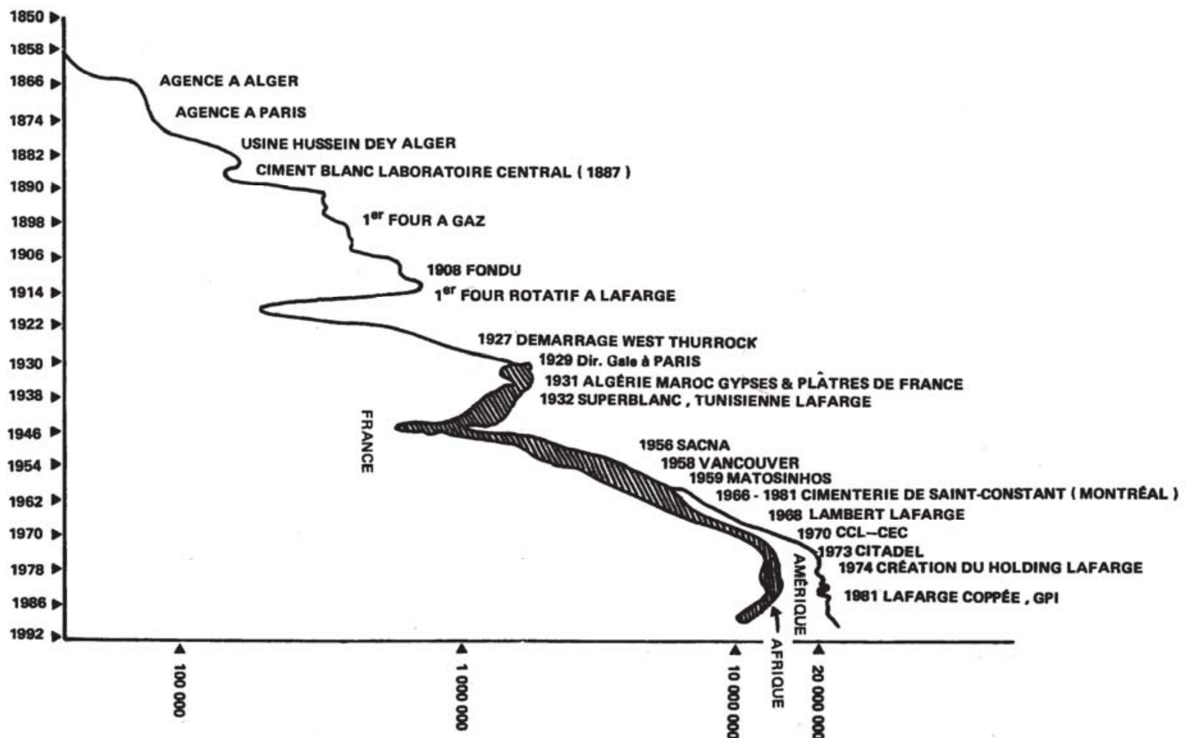
The Marshall Plan and the growth of Lafarge, 1831-2007

Lafarge's history mirrored almost exactly the growth and problems of the international economy – see Figure 6.2. It was founded in 1831 as a small lime producer with one kiln at Le Teil on the Rhone, but it expanded rapidly in the boom of the 1840s and 1850s. It established its reputation in 1864 when it won a very large contract to supply concrete blocks for the jetties of the Suez Canal. Lafarge grew very fast in the late 19th century, and by 1914 was selling 800,000 tons of cement products annually and was the world's largest lime producer. World War I knocked the company back savagely. In the 1920s, Lafarge's output recovered, and the company moved its headquarters to Paris. It adopted a modern divisional structure and developed new products, especially Portland cement. In the 1930s however demand slumped. During the war the Occupation ran the company, and in 1944, Lafarge's plant was sequestered by the Liberation. When it was returned in 1948, the accounts were in the red, the plants were run down, and the workers were depressed (Dubois, 1988; Barjot, 2005).

The Marshall Plan, and its French parallel, the Monnet Plan, involved huge construction works, and French consumption of concrete, and Lafarge production rose by leaps and bounds. Mr. Collomb discussed briefly Lafarge participation in the cement industry productivity visit to the United States, the purchase of new American cement kilns from Allis-Chalmer, and the lessons the company learned about more co-operative labor relations. Lafarge developed from a mostly French firm in 1950, to a global giant in 2005. In the 1970s and 1980s the firm invested in Canada and the United States. The company faced difficult problems between 1989 and 1993 because of the international recession, just at the time Mr. Collomb became Chairman, but renewed dynamic growth from 1993. This was a critical acceleration. The company strengthened its position in Europe, and invested in every continent, especially the emerging countries of Eastern Europe, China and India. Only Japan for a time, and the really poor countries in Africa and central Asia escaped its reach (Barjot, 2005; Barjot, 2007).

Figure 6.2. Lafarge production of lime and cement

In tons, 1850-1990



Source : Dubois, Léon (1988), *Lafarge Coppée : 150 ans d'industrie : Une mémoire pour demain*, Pierre Belfond, Paris, p. 85.

The Marshall Plan and third world poverty

Since 1970, modern Marshall Planners would have been delighted to see that the globalization that started in Europe post World War II had integrated huge areas of the world – especially China and India – into the international economy, and that their incomes were rising rapidly. MNCs are playing a vital role in this second globalization transferring technology and organizing distribution. Mr. Collomb explained that Lafarge is not only opening modern plants in many developing countries, but has also found resources to experiment with lower tech ways of selling its products, and helping its poorer clients. Secretary Burns reminded us at the conference marking the 60th anniversary of the Marshall Plan that there were still 500 million impoverished slum-dwellers and farmers in India. On the other hand, India already has a large population – say 250 million – of well-educated and motivated middle class. Therefore, while sections of the Indian economy clearly need help from internal and external sources, a modern organized state-to-state Marshall Plan would not be appropriate. On the contrary, China and India "on the march" seem almost unstoppable (Barjot, 2007; McGregor, 2007).

However large areas of the world, containing say 1 billion people, especially in Asia and Africa are still in dire straits, trapped by cycles of war, poor governments, geography

and the often perverse effects of natural resource wealth. Each year the growing competitive power of East Asia makes escape more difficult. Private enterprise, new technology and free trade, without state support, will only go so far. Iraq shows how difficult intervention can be. However modern Marshall Planners would not expect the developed world to turn its back. As in the original Marshall Plan, there are obvious charitable and precautionary motives to help. In addition, given the 1 billion people in the developed world, and the successful modernization of so much of the previous third world – with say 3 billion – underway, the resources should be available, if only they could be organized (Collier, 2007).

Many of these societies are so unstable and corrupt that a Marshall Plan would require not only aid, and trade protection to encourage industry and build infrastructure, but also determined military intervention to restore order, and democratic controls to impose honesty and responsibility. Actually the original Marshall Planners discovered a wide range of standards in Europe from the north-west to the south-east, but nothing like Afghanistan or Sahel Africa. Stability is critical. The original Marshall Planners faced occasional riots and strikes, but relief and reconstruction were not disrupted by violent disorder, except in Greece. The possibility is hardly mentioned in the Marshall Plan literature even though there were incendiary elements – Nationalists, Nazis, communists, as well as surplus weapons – in abundance (Collier, 2007; Killick, 1997a; Machado, 2007).

Possibly the German defeat in early 1945 was so terrible and decisive that potential terrorists were exhausted. Postwar stability was also aided by the general desire to rebuild – even by the communists – in 1945-46. A third factor was the very low unemployment between 1946 and 1951. Reconstruction demanded labor, demobilized soldiers almost immediately found jobs, and young men were fully occupied. By contrast many poor countries have very high youth unemployment. However they also all need masses of basic new housing and infrastructure which can sop up labor. Modern Marshall Planners might encourage Lafarge, and similar firms, to replicate their Indian building, and other experiments in those high-risk areas (Bessel, 2007; Killick, 1997a, p. 67; Collier, 2007).

The Marshall Plan and welfare capitalism

Poor countries also need improved health and welfare. The original Marshall Planners in Europe mostly found well established health and welfare programs such as the National Health Service (NHS) in the United Kingdom, although in south-eastern Europe Marshall Plan programs made an important contribution. Mr. Collomb raises the question of what modern companies can do. He cites Lafarge's interesting HIV experience in Africa. Lafarge's rapid growth and high profits in the last 20 years has enabled it to treat its employees well, and to gain from their good health and greater productivity. This, like the Marshall Plan, is enlightened self interest (Machado, 2007, pp. 69-70).

The debate about entrepreneurial paternalism goes back to British industrial pioneers such as Robert Owen who needed to attract good workers. However once industrialization had matured in the early 19th century, firms found that in relatively sophisticated and densely populated markets in western Europe and the eastern United States they could retain workers without special benefits. Modern corporate philanthropy and welfare capitalism developed in the United States between 1900 and 1930, after the great consolidation of industry had created giant oligopolies like

Carnegie and Ford with market power and surplus resources. However when the new giants were shaken by the depression, Roosevelt was obliged to expand government welfare. After the war, MNCs recovered their confidence, and increased their provision in good times, but focused on core activities in recession. Conservatives like Milton Friedman argued in 1970, "The social responsibility of business is to increase its profits." Since 2000 however most MNCs have made good profits and like Lafarge admit responsibilities not only to their investors, but also to their workers, and the community generally (Pollard, 1968; Friedman, 1970).

Health and welfare can be provided in different ways in different communities. It is not surprising that public health is deficient in poor third world communities. Mr. Collomb, in effect, asks to what extent MNCs should raise their employees' health and other benefits above local levels. In the modern world MNCs need to demonstrate that they are not just commercial actors but also good citizens. Modern Marshall Planners would argue that aid agencies, the state and private companies with resources and special knowledge should work together to provide welfare in poor countries (Collier, 2007).

The Marshall Plan and industrial organization

The original Marshall Planners wanted strong transnational firms balanced by effective unions, but opposed restrictive practices and monopoly. Since 1948 most international MNCs, like Lafarge, have developed on American managerial lines, but with greater geographical delegation, than the original Marshall Planners might initially have expected. Mr. Collomb argues one source of Lafarge's success was its ability to combine central direction with flexibility. Lafarge's main products – cement, plaster, gypsum, aggregates, roof tiles, etc. (unlike cars, grain or oil) – are heavy, bulky, low value products necessarily produced and traded in single markets. Lafarge needs global size and unity to establish its reputation and brand name, but the separate branches are only held together by careful management organization and human relations, and carefully husbanded industrial knowledge (Dubois, 1988; Barjot, 2007; Perrin *et al.*, 2006; Som, 2003; Esposito, 1995).

There are centralizing and centripetal forces in MNCs which must be negotiated and balanced. During the post-World War II boom, 1948-1973, some unchecked MNCs according to Mira Wilkins developed into labyrinthine conglomerates, which were ripe for "unbundling" by Wall Street financiers in the 1980s. Lafarge managers operating in a great range of cultures and economies are expected to demonstrate independent initiative, but always under the final control of the company. The original Marshall Planners, who had to deal with their own problems of guiding the 16 willful European nations, recognizing the industrial and personnel problems involved, would have understood and approved (Wilkins, 1974).

Since 1948 antitrust has become the norm nearly everywhere. Building materials firms tend towards cartels and monopoly – it is the nature of the product – and Lafarge has occasionally had problems with the authorities. However Lafarge in an international environment is generally subject to strong competition, and has to be efficient to earn good profits. The company aims to take a significant part of the market in each operating area to fulfill its legitimate reputation and brand needs – but has to balance these against the particular regulatory demands in each jurisdiction. Modern Marshall Planners would wish to maintain effective competition and to curb elite income and privileges where they seemed excessive (Barjot, 2007).

Mr. Collomb says little about unions. The New Deal Wagner Act, 1935, gave American workers the right to form unions in order to protect wages and consumer income. Although qualified by Taft Hartley, 1946, in the United States, the Marshall Plan transferred Wagner ideas to Europe. In the United States and United Kingdom, trade unions have declined since 1980, and formally negotiated "industrial democracy" has slowly been edged out of personnel relations in favor of legally backed human rights. These may protect minorities, but will not raise general wages. Marshall Planners, in the modern global era, would still wish to balance labor and capital, Not only for the sake of equity and democracy, but also to protect consumer demand (Lichtenstein and Harris, 1996).

The Marshall Plan, equity, and human rights

Globalization – the free movement of trade, finance and people has major effects on welfare and distribution. Mr. Collomb is concerned that the different nationalities and religions in his company should be treated fairly. Human rights however are only one important aspect of battles over distribution. Globalization raises income levels generally by giving full rein to comparative advantage according to classical economic theory, but discriminates between sectors. In the Victorian globalization, most urban Europeans benefited from plentiful frontier food, but competing European farmers suffered. Today Asian goods threaten American factory jobs. Unrestrained migration and unleashed financial mobility have similar complex offsetting effects (O'Rourke and Williamson, 2000).

Disadvantaged groups in democracies usually shout louder than the electors generally. The reaction to the first globalization began in Europe in the depression of the 1890s as farm prices fell – leading to the French Méline Tariff, and similar restrictions in Germany and Italy. The United Kingdom remained free trade for the time, but in the far greater crisis of the early 1930s, Europe generally imposed controls. Similarly limits on unrestricted migration began in the 1890s, but reached their peak in the US 1920s Quota Acts. Locked into Europe, selected alien or migrant groups were then massacred by the Nazis. More generally, globalization usually, but not always widened the distribution of income and wealth – provoking nationalist and socialist reactions (O'Rourke and Williamson, 2000; Williamson and Lindert, 1980).

This did not lead directly to the depression, since other factors were involved, but it did create an unfavorable environment which threatened to make the Victorian system unworkable. The Gold Standard for instance, to operate effectively, requires prompt market clearing. However from about 1920 onwards, disadvantaged groups were able to prevent the timely adjustment required to prevent, or even more serious, once started, to alleviate depression. The only solution was fiscal and monetary ease – the Keynesian revolution – permitting adjustments in other ways, stooping to conquer, but which in the long run, without careful controls, could cause inflation or introduce moral hazard (Eichengreen, 1992).

The depression reduced international flows to 20th century minima reducing the external pressure on internal equality, but at the cost, of course, of a massive contraction of welfare. The New Deal, World War II, and the postwar recovery narrowed American wealth and income differences to a 20th century low, and increased national solidarity. The postwar welfare state in Western Europe similarly provided an effective European settlement between social classes. The Marshall Plan contributed by successfully

deflecting communist agitation and convincing Europeans that with reasonable effort and sensible compromises they could achieve American standards of living and reduce class and national rivalries. As Paul Hoffman said, "You too can be like us." Implicit in "consumer society" was more than cars and washing machines, but also a range of values, *e.g.* egalitarianism, style and homogeneity, meritocracy, legal rights and rationality (Williamson and Lindert, 1980; Maier, 1987; Hoffman, 1951; Carew, 1987; Ellwood, 1992).

"Civil rights" did not become an issue in the United States until the 1950s and 1960s, a decade say after the "great migration" of African Americans off southern farms to northern (and southern) cities had resumed. The turning points were the 1954 Brown decision, and the long hot summers of the 1960s. More recently gender, religion and age have been added to US civil rights, and are being copied overseas. American companies began to accept that corporate responsibility for good human relations was important in the 1980s, and in the 1990s these ideas were spread to France by large French MNCs like Lafarge with branches in the United States, and substantial American share-holding sensitive to human values issues (Spar, 1998; Colonomos and Santiso, 2005).

There is now a growing reaction to modern globalization. The huge imports of East Asian consumer goods and the growing export of service jobs offshore threaten many western workers. Immigration, assimilation and multiculturalism have become issues in most Western countries, especially after 9/11. Global capitalism is now seen as a threat by many, and the postwar institutions (or their modern successors) such as the IMF and the World Trade Organization (WTO) are increasingly attacked by radicals. The flows of international capital are now so large that they often dwarf the postwar institutions like the IMF designed to control them. Globalization, while raising average incomes generally as in the late 19th century, also seems to be creating far more powerful MNCs, and a new, wealthy elite, on the one hand, and in some areas, a new underclass on the other (O'Rourke and Williamson, 2000; Krugman, 2002).

Modern Marshall Planners therefore should address a range of equity and human issues. They should be concerned about widening differences between the international elite and the new poor. They should ask who is gaining from the industrialization in the developing countries, and how this will affect the demand for consumer goods in those countries, and the impact on the balance of payments. In their own societies they should attempt to balance the traditional civic values of the European enlightenment as embodied in European and American law, and the requirements and practices of Western consumer societies, with the needs of diversity. Diversity should be respected, but there are core Western values – as Mr. Collomb implies – that modern Marshall Planners should not sacrifice (Wolf, 2006a; Wolf, 2004).

The Marshall Plan and the environment

Globalization, and the rapid industrialization of China and Japan, on top of the existing large emissions from North America and Europe, are according to leading scientists threatening to unbalance the world's climate. Mr. Collomb argues modern Marshall Planners would take the risks necessary to tackle the consequent climate change. The cement industry produces an abundance of carbon, and Lafarge has become a leader in emissions control. If directed appropriately Lafarge could work with the new large scale builders like India and China to install and manage the best industrial technologies.

Other major companies, such as Wal-Mart, would spread best practice in their industries, and among their suppliers, and everyone would gain (Stern, 2006; Birchall, 2007).

The original Marshall Planners' main aim was increased production, full employment and exports. They wanted clean modern equipment, but environmental costs were not a priority. European governments and populations however hoped Europe could be re-planned and rebuilt to much higher standards than before. The wartime destruction gave the town planners their chance, and there were some major success stories such as the British new towns. However quickly built postwar building in Europe was often poorly planned, and has often since had to be torn down. Similarly rapid industrial recovery often created environmental problems such as terrible winter smogs. As the problems in Europe evolved however, they were gradually solved (Donovan, 1987; Machado, 2007).

The United States, such as other land- and resource-rich economies like Argentina, Australia, Canada, etc. has historically sacrificed the environment to save labor and raise wages, and the same countries opposed Kyoto. However in the West relatively slowly rising gross national product (GNP) since 1900 has been partly offset by reduced fuel and natural resource inputs per unit of GNP, as technology has improved, and tastes have changed. Recently new high-tech microelectronic innovations like computers save resources at work and leisure, and suggest the possibilities of general swings in consumption patterns. A new vision of welfare is required, substituting high-skilled service inputs – for instance in medicine, education and the arts – for natural resources, and unnecessary technological obsolescence. The real problem for the climate is the explosive growth of output in Asia, as the new developing countries attempt to emulate traditional Western consumption patterns (Habakkuk, 1962 Wolf, 2006b).

Nevertheless the United States and Europe have a history of strong environmental movements. Americans responded positively to crusades in the 1900s, 1930s and 1960s. The real political problem is convincing them, and the Western public generally, of the more remote and uncertain dangers involved in the present environmental crisis. The devastation of trees in the late 19th century, soil in the 1930s, and industrial pollution in the 1960s was obvious for all to see. Like Franklin D. Roosevelt in 1940, politicians have been scared to get too far ahead of really hard evidence or public opinion. However thanks to increasing scientific certainty and brave campaigns by Al Gore and many others, the Western public is now far better informed (Andrews, 1999; Stern, 2006).

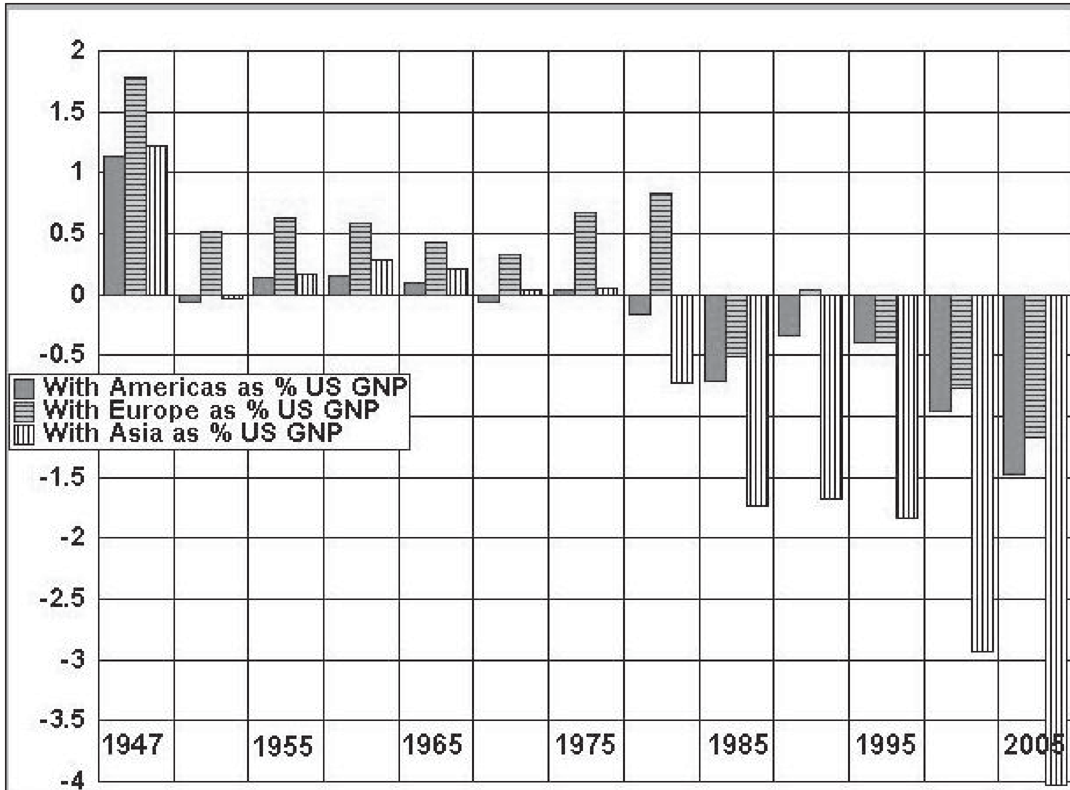
The recent British Stern report suggests that the costs of mitigating the worst effects of emissions may be relatively small if governments act promptly. Some sort of carbon permit scheme, or even far higher fuel taxes would encourage economy. Huge carbon savings could easily be made in North American transport or Chinese heavy industry. Trade surplus countries like China could pay well informed companies like Lafarge for technical assistance. Asian leaders now understand their countries will probably suffer earlier and heavier than in the West. The poorest countries would need aid. A Marshall Plan-like deal therefore should be possible (Stern, 2006).

The Marshall Plan and economic stability

Modern Marshall Planners would, undoubtedly be delighted by the rapid spread of prosperity around the globe since 1950, and by the creative activities of Lafarge and other MNCs. However they would be concerned about some aspects of globalization and desperately worried by the associated trade and financial imbalances which the

United States has developed since 1970. Figure 6.3 shows the massive swing in US trade from surplus in 1947 to deficit by 1985. Table 6.1 shows how the deficit was covered. Figure 6.4 shows the associated exchange rate changes. Looking back from 2007, but with memories of 1929, 1947, and 1971, modern Marshall Planners would note how trade imbalances had helped cause the Great Depression, had threatened European recovery in 1947, and had precipitated the collapse of the Bretton Woods agreements in 1971. As good Keynesians they would be satisfied that the authorities had so far kept the economy on course, but concerned that one day the balancing act would fail (Killick, 1997b).

Figure 6.3. United States trade balance by regions as % US GDP, 1947-2005



Source: United States Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970*, United States Government Printing Office, Washington, DC, pp. 903-907; United States Bureau of the Census, *Statistical Abstracts of the United States*, Washington, DC, successive editions, 1970-2006.

Table 6.1.US balance of payments, 1949-2005

In constant USD

	1949	1960	1970	1980	1990	2000	2005
BALANCE ON G+S+I	**38**	**27**	**15**	**20**	**-63**	**-391**	**-650**
Exports G+S+I	96	138	233	649	872	1419	1612
Imports G+S+I	-59	-111	-218	-629	-935	-1809	-2261
UNILATERAL TRANSFERS	**-35**	**-38**	**-11**	**-16**	**-33**	**-54**	**-79**
US govt grants & pensions	-32	-34	-7	-14	-17	-22	-35
Private gifts	-3	-3	-4	-2	-16	-33	-45
US ASSETS ABROAD	**-8**	**-24**	**-30**	**-162**	**-100**	**-581**	**-393**
Govt Assets	-	-	-7	-23	0	-1	18
Direct Investment	-	-	-15	-36	-46	-152	-8
Foreign Securities	-	-	-4	-7	-35	-125	-166
US bank & other lending	-	-	-4	-96	-19	-302	-237
FOREIGN ASSETS IN US	**0**	**12**	**22**	**109**	**152**	**1024**	**1116**
Foreign official assets net	-	-	-	29	42	38	184
Foreign private assets net	-	-	22	80	110	987	933
Direct investment	-	-	-	32	60	288	101
US Treasuries	-	-	-	5	-3	-53	184
Other US securities	-	-	15	10	2	486	437
US bank & other liabilities	-		7	33	51	266	211
RESIDUAL	**-5**	**-22**	**-4**	**-48**	**-45**	**-1**	**-6**
GDP at 2000 prices	**1634**	**2471**	**3747**	**5133**	**7061**	**9708**	**11091**
Price index. 2000=1.00	**0.17**	**0.21**	**0.27**	**0.53**	**0.81**	**1.00**	**1.09**

Notes: The table has been indexed against prices to more accurately present the relative size of the flows between 1949 and 2005. Financial flows and foreign trade have grown far faster than GDP or government transfers since 1950.

Section 1: Balance on goods, services and investment income.

Section 2: Unilateral transfers – *i.e.* gifts. Including Marshall Aid in 1949.

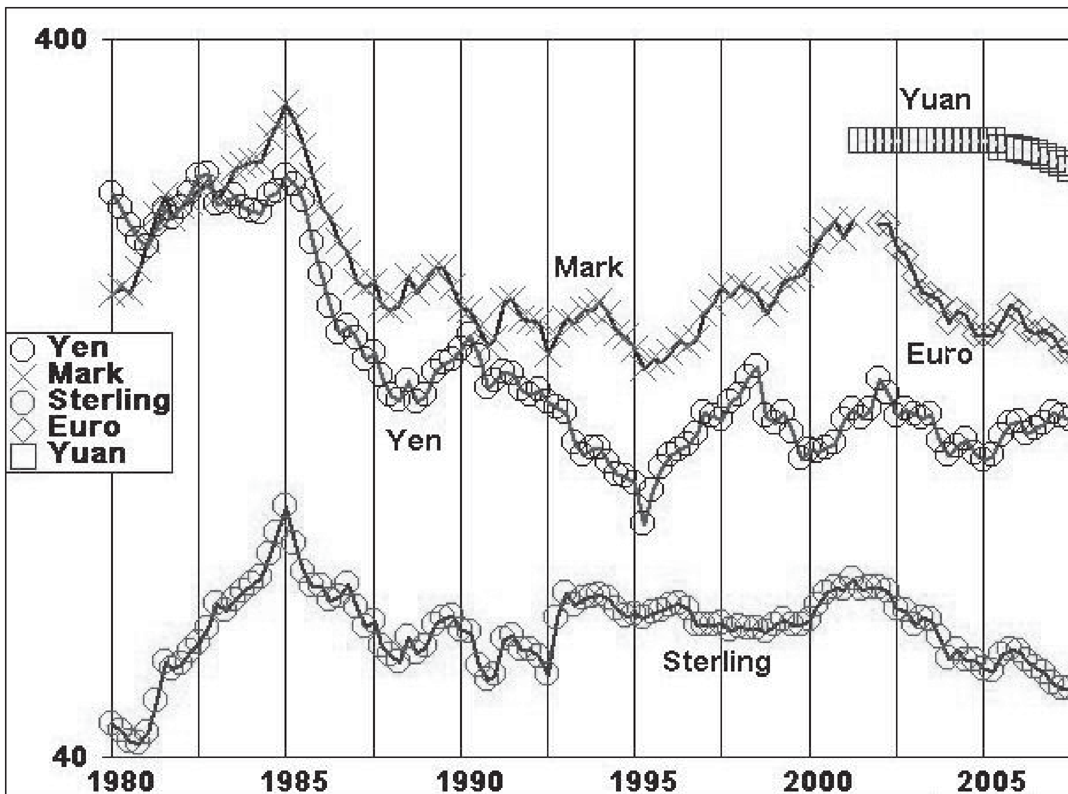
Section 3: Change in US holdings of foreign assets.

Section 4: Change in foreign holdings of US assets.

Residual. Not included or unexplained. For instance gold movements in 1949.

Source: United States Bureau of the Census, *Statistical Abstracts of the United States*, Washington, DC, successive editions, 1950-2006.

Figure 6.4. The dollar relative to leading international currencies, 1981-2007



Note: This logarithmic figure exhibits changes solely in the value of the dollar relative to the other main international currencies, not general relationships. Note the rise in the dollar in the early 1980s during the Reagan boom; the fall of the dollar after the Plaza agreement, 1985; the gradual recovery of the dollar in the late 1990s; the fall of the dollar against the Euro and Sterling since 2001; the recent behavior of the Yen, and the controlled stability of the Yuan.

Source: International Monetary Fund, *International Financial Statistics*, successive editions, 1980-2007.

They would have been surprised by the dollar's surprising ability to weather growing US trade deficits between 1960 and 2007. See Figure 6.4. Previous experience was that countries like the United Kingdom with trade problems had to adjust quickly or face rapid depreciation, but the United States has proved the great exception. America was partly less sensitive to current account imbalances because its foreign trade proportion was historically small. The US authorities' main concern therefore was to maintain momentum at all costs. Secondly, as the dollar was the almost sole "key currency" in the international system after 1960, the United States was able to run a continuous deficit as long as its trade partners were prepared to buy and hold dollars – in order to keep their currencies undervalued. Finally the United States, as the world's largest economy, had a great variety of assets to offer foreign investors, and excellent markets and legal systems to arrange and protect their purchases. Hence the system, up to a certain point, was self-correcting – the worse the crisis, the more foreign investors purchased US Treasuries (Eichengreen, 2006).

Modern Marshall Planners would be aware, much to their surprise, so soon after the original Marshall Plan, that the US current account became a problem in the late 1960s. Between 1950 and 1970, Europe and Japan recovered quickly and increased their exports

to the United States far more rapidly than the United States could reciprocate. Consequently the huge payments surpluses the United States had enjoyed in the 1920s and 1940s faded away and were replaced in the early 1970s by growing deficits. Actually America retained small trade surpluses in the 1970s, except in bad trade years such as 1971-73, but US overseas military spending and US foreign direct investment weakened its overall balance of payments. Table 6.1 above summarizes the main constituents. Ultimately the Bretton Woods system of fixed exchange rates – tying the leading currencies to the dollar and the dollar to gold at fixed rates – which had been one important element of the postwar settlement, failed in 1971, and with associated problems led to a decade of slow growth and inflation (Block, 1977).

The system lasted through the 1960s because Europe and Japan were enjoying export-led booms which they did not wish to disturb and which were partly based on the overvaluation of the dollar The Americans also valued their key currency privileges, and the spread of US foreign direct investment overseas. As the US balance of payments worsened during the mid 1960s boom and the Vietnam War, America's leading trade partners accumulated increasing dollar reserves, and co-operated closely to maintain the existing system. For instance between 1961 and 1968, the Gold Pool attempted to hold the gold price down against the dollar. The United Kingdom and the United States understood one another, and the continental Europeans were used to working together in the EEC. In the late 19th century, and between the wars, several currencies had competed for key reserve status, but the United Kingdom lost her key currency role in the 1960s, and neither Europe nor Japan wanted to challenge the dollar (Block, 1977; Eichengreen, 2007).

Modern Marshall Planners would regret the opportunity for a more fundamental reorganization of the international monetary system was lost in the economic and political turmoil of 1972-75. Unfortunately President Nixon had other concerns. Consequently the United States abandoned the gold parity, and the dollar floated against the other leading currencies, allowing America more flexibility to borrow. However although the tensions and uncertainty caused by the end of the fixed rate system led to substantial inflation and prolonged recession in the 1970s, the essentials of the system remained unchanged. Encouraged by the Reagan boom in the 1980s, Japan and Europe poured consumer goods into the United States. American assets were so attractive to a wide range of foreign investors that the United States had no problems financing its current account. The capital inflows were so large between 1981 and 1985 that they actually had the perverse effect of raising the dollar rate despite the Reagan deficits - see Figure 6.4 (Killick, 1997b).

The Plaza Agreement of 1985, devalued the dollar against the yen, mark, and sterling and stimulated American exports. See Figure 6.4. The Reagan boom ended in the late 1980s, reducing imports, and the US current account temporarily improved. Europe however had lost its postwar impetus since 1980, and Japan entered a long period of stagnation from 1990. The main new beneficiaries of the American market and continued globalization were the developing East Asian countries, China and India. See Figure 6.3. As the US economy accelerated again in the late 1990s, they undercut European and Japanese wage and currency rates and soon developed massive trade surpluses. The Chinese yuan was kept purposefully stable and undervalued compared with the euro, the yen and sterling which all rose against the dollar, 2001-2007 (see Figure 6.4). As had Europe and Japan in the 1960s, the new East Asian economies accepted dollars and other US assets such as Treasury Bills to maintain their exchange rate advantage, and accumulated huge dollar reserves. The figures are staggering. For the last few years the

US trade deficit has been running at 5-6% of US GNP, or equal to say one ninth of total world savings (Mann, 1999; Killick, 2001).

In China, vast new forces have been released and popular expectations raised. Huge numbers of former peasants migrate annually to the cities to enter manufacturing. Farm incomes are so low, that even though industry pays much larger wages, the major share of the income from Chinese manufacturing goes into heavy industrial and urban investment, and into profits. Investment in China is about 40% of GNP – considerably higher than in Europe during its industrialization or during the postwar reconstruction. The general Chinese population does not, and probably could not, receive all the advantages. Similarly in Japan, but for very different reasons, because of the age structure of the population, savings are also high. It is these surplus profits and savings that help fund the US trade deficit, and allow the US domestic and business savings rates to be artificially low (McGregor, 2007; Wolf, 2007a).

Modern Marshall Planners would note that economists have been crying wolf about American trade and financial imbalances for years. So far, however, except for relatively short-lived crises in 1990, 1997 and 2001 – the authorities have successfully kept the economy near full employment. However the stimulus required to maintain full employment has progressively increased as imports have risen. In the United States, consumer goods prices were generally held down by cheap imports, but these easy fiscal and monetary polices have induced asset speculation with potentially adverse results. For instance after the dot com collapse in 2000, President Bush eased government accounts sharply by about 7% of GNP. The Federal Reserve simultaneously reduced rates to encourage domestic spending. Consequently house prices rose rapidly, and householders leveraged cheap, and sometimes risky, mortgage debt into much higher consumer spending, while cutting savings. The Federal Reserve consequently gradually increased rates from 2005-07, leading to the crisis in the sub-prime mortgage market in mid 2007 (Wolf, 2007b).

A critical question Modern Marshall Planners would ask is how long Asian central banks would continue to buy dollars in such large quantities to balance the American trade deficit, and if their withdrawal would be sufficiently gradual to allow the US authorities to engineer a soft landing. Comparing the situation today with the American exit from Bretton Woods they would not take too much comfort from the apparent willingness of Asian central banks to hold US Treasuries indefinitely despite the possibilities of depreciation. Now the US deficit is far larger in proportion to GNP than in the 1960s, and the situation is more delicate. In the 1960s, the Europeans and Japan were a far tighter group with stronger common interests than the Asian central banks today. Misunderstandings between the political and financial leaders in the United States and Europe was one of the features of 1929-33. The great postwar success was in creating common interests and understanding across the Atlantic. In addition, whereas in the 1960s the dollar was the only effective reserve currency, now there is the euro which also potentially has great strengths. In the late 19th century and the inter-war period, investors had the choice of several reserve currencies to choose between – sterling, the franc, the mark, and after World War I, the dollar. In such a competitive regime it would be impossible for one country, even the United States, to play the market as it has since 1960 (Eichengreen, 2006; Kindleberger, 1973).

In the United States and Europe, it has always been assumed that since Keynes, modern economies are depression-proof. In the United States currently (September 2007), a combination of an apparently growing liquidity crisis, serious declines in the housing

market, and the continued foreign trade imbalances trouble observers. Even if this blow is soon over, there is a danger that weak management of the US economy will one day induce a major crisis. Major economies are still susceptible. The Japanese economy stagnated in the 1990s, despite modern management, because of the collapse of the cheap money-induced property boom in 1987, the appreciation of the yen against the dollar following the Plaza Agreement, East Asian competition, and demography. Fortunately Japan's problems did not spread too far, perhaps because the West and China were so buoyant, and because she was not a critical market for western goods. By contrast China currently is export dependant, is allocating 40% of GNP into heavy investment, and is a major purchaser of western capital goods. Hence reductions in US demand for Chinese consumer goods would soon reciprocate back. A stop on a society in the middle of such a major transformation, and with such massive popular expectations would have major political as well as economic effects (McKinnon and Ohno, 2001).

Modern Marshall Planners would argue that the present trajectory of growing trade imbalances cannot continue and must be tackled by both creditor and debtor countries. First American/ Far Eastern/ European exchange rates should change in such a way as to encourage American, moderate Far Eastern, and respect European trade. Secondly the US government, industry and families should increase savings to fund modernization, and divert resources from imports. At some point, the short-term gains of cheap capital are less than the long-term risks of instability. Finally the Far Eastern countries should increase domestic consumption of goods and services, reduce industrial, but increase social investment, cease to rely so much on export-led growth, and trade more with regional partners (Wolf, 2007c).

Conclusion

Modern Marshall Planners' main concern in 2007 would be America's relations with the new developing countries in Asia. East Asia's rush to industrialize, like America's a century ago, clearly has the potential to destabilize the international economy. Lafarge may currently be living through a golden age for multinationals that may not persist. Relations with China and East Asia however are not the only problem. Marshall Planners would argue that current trends could lead to several disasters – economic, climate, terror, etc., and there is an urgent need for new international agreements like the Victorian Free trade or the post-World War II settlements to achieve the required adjustments and to set new ground rules for competition and co-operation. The Marshall Plan was projected by the United States as insurance against further disorder. America cannot probably now propose a sole solution, and maybe parties are only bought to the table by fear. However, the earlier in the process of economic conflict and adjustment a settlement can be conceived and agreed, the better.

A successful settlement generally is constructed from a web of mutually supporting concessions, compromises, and market adjustments, maybe over several years. Centrally, there is need for a new vision of what welfare is – since it will be impossible to satisfy the massive populations in the developing world with the products of the traditional consumer society without destroying the planet. Reduction of American imports of consumer goods and natural resources would help climate change as well as the US current account. A shift in Chinese production from export markets to domestic consumer and social welfare and services could raise welfare for ordinary Chinese and moderate consumption of natural resources. New Asian countries could learn cleaner technologies from high-tech producers like Lafarge, whose service earnings could raise the US and

European payments. Agreement between Western and Asian economies to help poor, failed economies could reduce poverty, employ MNCs, control terrorist cells, and moderate excessive migration between countries.

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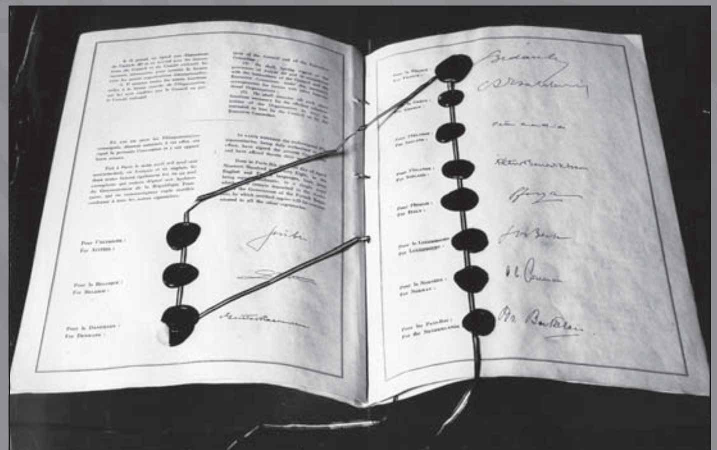
The Marshall Plan in Pictures

The Marshall Plan Speech

©OECD - Harvard University, USA 5.6.1947

General George C. Marshall, U.S. Secretary of State, at Harvard University on the occasion of his address to the graduating class, which became known as the Marshall Plan Speech.



1948: Charter of the OEEC

The signed charter of the Organisation for European Economic Co-operation (OEEC), which was organised to administer the Marshall Plan, on display at the French Ministry of Foreign Affairs.Quai d'Orsay, Paris, 16 April 1948.

1948: European Recovery Programme Labour Meeting

A meeting hosted by the European Recovery Programme, attended by (from left) Eleanor Roosevelt, Chairman of the United Nations Human Rights Commission; Ambassador W. Averill Harriman, U.S. Special Representative in Europe; John Foster Dulles, U.S. Delegate to the United Nations; and General George C.Marhsall, U.S. Secretary of State.

Paris, October 1948 ©USIS Paris 17 OECD ref 48-5

Caen destroyed 1945

Marshall Plan signing

April 3, 1948 - Watching President Truman sign the Foreign Assistance Act, which authorized the Marshall Plan, are (left to right) Under Secretary of State Robert A. Lovett, Senator Arthur Vandenberg, Treasury Secretary John Snyder, Representative Charles Eaton, Senator Tom Connally, Secretary of the Interior Julius A. Krug, Representative Joseph Martin, Secretary of Agriculture Clinton Anderson, Representative Sol Bloom, Attorney General Tom Clark, and Postmaster General Jesse M. Donaldson.

1948: Meeting at the Quai d'Orsay

U.K. Foreign Secretary Ernest Bevin (l), U.S. Secretary of State George C Marshall (c) and French Foreign Minister Robert Schuman (r) meeting at the French Ministry of Foreign Affairs following the Soviet Union's veto concerning the situation in Berlin.

Quai d'Orsay, Paris, 27 October 1948 © USIS 847 ref OECD 48-7

1949: OEEC First Anniversary Broadcast Paris, 16 April 1949

Robert Marjolin, OEEC Secretary-General, broadcasting from the Voice of America radio studios to commemorate the first anniversary of the Marshall Plan and the OEEC.

1949: The OEEC Ministerial Council

©OECD

Foreground, from left to right:
- *Max Petitpierre, Swiss Federal Council for Foreign Affairs*
- *Östen Undén, Swedish Minister of Foreign Affairs*
- *Joseph Bech, Luxembourg Minister of Foreign Affairs*
- *Robert Schuman, French Minister of Foreign Affairs*
- *Paul-Henri Spaak, Belgian Prime Minister and Minister of Foreign Affairs*
- *Sir Stafford Cripps, U.K. Minister of Economic Affairs*
- *Count Carlo Sforza, Italian Minister of Foreign Affairs*

Paris, 1949

1950: European Payments Union

US Special Representative Milton Katz (l), Herbert Prack, Head of the Austrian Delegation (c), and OEEC Secretary General Robert Marjolin (r) discussing the agreement on the European Payments Union, which facilitated financial transactions among European countries during reconstruction following World War II.

Chateau de la Muette, Paris, 19 September 1950 ©OECD

1950: "All Our Colours to the Mast"

As part of it's public relations campaign, the European Recovery Programme sponsored an international poster contest on the theme, "Intra-European Co-operation for a Better Standard of Living". Over ten thousand entries from thirteen countries were submitted in local country competitions from which the twenty-five award-winning posters were selected. Prominent graphic arts experts, each representing a different Marshall Plan country, made up the jury. First prize went to Reijn Ddirksen from The Netherlands.

©Marshall Plan Poster Competition ref C97-33

1951: Thank You Marshall

A parade float at the Dutch Flower Festival, expressing appreciation for the efforts of the Marshall Plan.

More than 15 million dollars worth of Marshall Plan shipments of coal re ached Holland during the first   year of the programme designed for the recover of free nations. Dutch industry needed that primary impetus for the still low production of their home mines. The steady increase of of domestic production has gradually reduced the amount needed from the US as Netherlands'industry resumes its'pre-war level. Sassenheim flower festival sayhs : “Thank you Marshall”

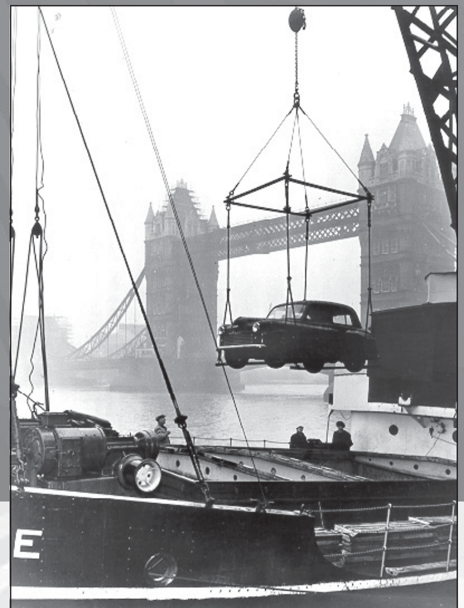
1950: Sir Hugh Ellis Rees

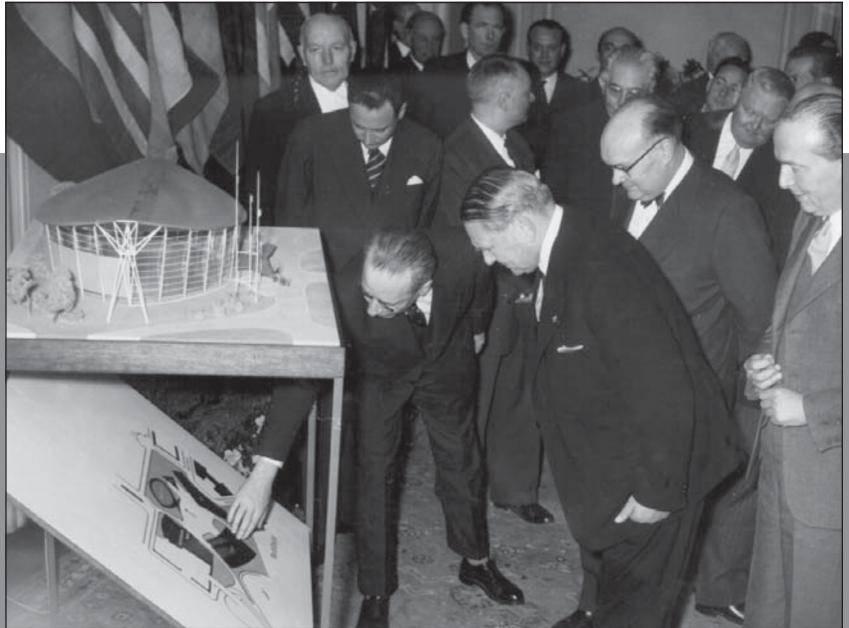
Sir Hugh Ellis Rees, Permanent Representative of the United Kingdom to the OEEC arriving at OEEC headquarters.

Chateau de la Muette, Paris, 1950

1951: The Marshall Plan in Action

Aid provided under the Marshall plan being unloaded at the Port of London.





1957: An OEEC Pavilion for the Brussels Universal Exhibition

OEEC Secretary General René Sergent (l), Paul-Henri Spaak, Belgian Prime Minister and Minister of Foreign Affairs (c), and Peter Thorneycroft , U.K. Chancellor of the Exchequer and Chairman of the OEEC Council (r), examining a model of the OEEC pavilion for the Brussels Universal Exhibition.

Chateau de la Muette, Paris 12 February 1957

1957: OEEC Ministerial Council Meeting

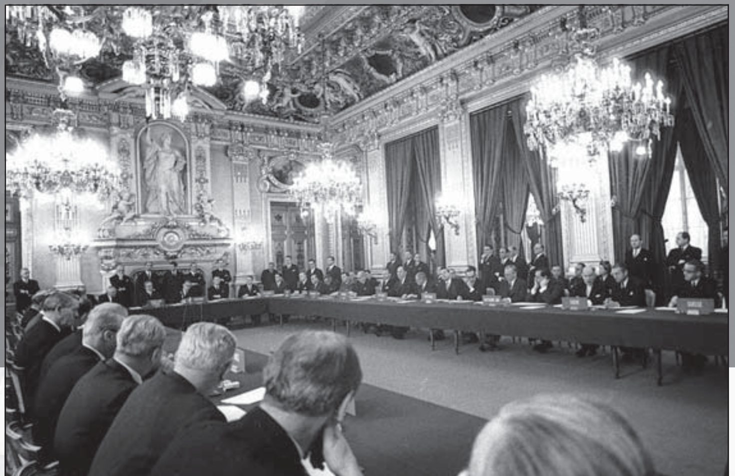
German Minister of Economics Ludwig Erhard attending the OEEC Ministerial Council Meeting.

Chateau de la Muette, Paris, 17 October 1957

1960: Signing of the OECD Convention

Member countries gather in the Salon de l'Horloge at the French Ministry of Foreign Affairs to sign the convention establishing the OECD.

Quai d'Orsay, Paris, 14 December 1960



Robert Schuman and Jean Monnet

© Parlement européen

Source : Médiatheque de la Fondation Jean Monnet pour l'Europe, Lausanne.

Netherlands-bombed homes

Netherlands-rebuilt homes

Sixtieth Anniversary
of
the Marshall Plan

U.S. OECD Ambassador Constance Morella (second to right) and U.S. UNESCO Ambassador Louise Oliver (far right) greet retired U.S. Ambassador and Marshall Planner Arthur A. Hartman (far left) and his wife Donna during the evening reception at the Hotel De Talleyrand.

U.S. Ambassador to France Craig R. Stapleton speaks with Marshall Planner Dr. Thomas Schelling, economist and 2005 Nobel Prize Laureate, and his wife Alice Coleman-Schelling at the reception.

U.S. OECD Ambassador Constance Morella (right) opens the first plenary session of the Paris symposium organized by the Marshall Foundation, the OECD, UNESCO and George Washington University. Seated from left to right are Dr. Barry Machado, Deputy of the Sejm (lower chamber of Polish Parliament) Bronislaw Geremek, Dr. Volker Berghahn, Dr. Gérard Bossuat, Ambassador Louise V. Oliver, and moderator Dr. Eliot Sorel.

U.S. OECD Ambassador Constance Morella (far left), U.S. UNESCO Ambassador Louise V. Oliver (middle front) and U.S. Ambassador to France Craig R. Stapleton (right) join Marshall Planners (left to right) Dr. Thomas Schelling, Mr. Pierre Vallee, retired U.S. Ambassador John Gunther-Dean, retired U.S. Ambassador James Lowenstein, and retired U.S. Ambassador Arthur A. Hartman.

Guests at the reception listen to comments by U.S. Ambassador to France Craig R. Stapleton about the multi-year project undertaken to restore the historic rooms of the George C. Marshall Center located in the Hôtel de Talleyrand.

U.S. Under Secretary of State for Political Affairs Nicholas Burns (right) speaks with George C. Marshall Foundation Trustee Jay Adams (center) and Marshall Foundation President Brian D. Shaw (left).

Seated from left to right are first plenary session panelists Dr. Barry Machado, Deputy of the Sejm (lower chamber of Polish Parliament) Bronislaw Geremek, Dr. Volker Berghahn, Dr. Gérard Bossuat, U.S. UNESCO Ambassador Louise V. Oliver, and moderator Dr. Eliot Sorel.

Front row audience includes from left to right Dr. Gerard Bossuat, journalist/professor Nicole Bacharan, Dr. Eliot Sorel, U.S. Under Secretary of State for Political Affairs Nicholas Burns and U.S. OECD Ambassador Constance Morella.

U.S. OECD Ambassador Constance Morella (second to right) welcomes U.S. Under Secretary of State for Political Affairs Nicholas Burns as he honors the 60th anniversary of the Marshall Plan speech. Second plenary session panelists seated from left to right are Dr. Daniel Daianu, OECD Deputy Secretary-General Pier Carlo Padoan, Dr. John Killick and LaFarge Chairman Bertrand Collomb.

Chapter 7. A 21st Century OECD Vision for Europe and the World

by Pier Carlo Padoan, Deputy Secretary-General, OECD

Introduction

"We need a Marshall plan for …" How many times have we heard or perhaps even pronounced a sentence like this when dealing with a complex international issue?

This comes as no surprise. The Marshall Plan has become a synonym for successful international co-operation. Even more than this: an example of successful "international regime building", *i.e.* the establishment of norms, rules, and behaviors that allow for a co-operative and shared management of the international system (Krasner, 1983).

The Marshall Plan provided the trigger for an international regime based on economic progress through integration and liberalization, and the spreading of democracy and democratic governance. It gave life to an architecture of international relations built on the newly established international institutions: the International Monetary Fund (IMF), the World Bank, the General Agreement on Tariffs and Trade (GATT), (then the World Trade Organization, or WTO), and later the OECD.

By so doing the Marshall Plan also created what we would today refer to as a friendly business environment, *i.e.* a policy framework by which business would be stimulated. In Europe, by speeding up postwar reconstruction, supporting an integration space, and setting the base for what would become the European market place. In America, by establishing new channels and opportunities for trade and international investment and setting the base for what would become the most highly integrated economic space in the world: the transatlantic space.

In short, the Marshall Plan demonstrated that, through well designed and implemented policy action, global public goods could be provided and, through them, create opportunities for growth and peace. This is the first, and the most relevant, lesson we draw from that experience.

Today's world is more complex

The world today is much more complicated than the post-World War II one. The number and the diversity of countries has increased manifold. Global integration is progressing not only through trade and finance, but also through migration, in energy matters, through innovation diffusion and technology transfer; global integration is, last but not least, deeply affecting the environment. Each of these issue areas, in turn, is becoming increasingly connected to the others. New tradeoffs appear alongside the old ones. Growth is driven by innovation but this may come at the expense of the environment. Growth is the best strategy to fight poverty but, as it progresses, it appears

to be generating more, not less, inequality both among and within nations. Global public goods such as an open trading system, a sound financial system, sustainable environment, are, at the same time, more in demand and more difficult to supply.

Long-term projections show that, in the medium to long term, new players, the fast growing emerging economies, will significantly increase their share in world gross domestic product (GDP), thus pulling their populations out of poverty while contributing to global growth.

The achievement of such desirable outcomes rests on the persistence and strengthening of a global system of rules and institutions that maximize growth while avoiding or minimizing crises. In short, global growth requires global governance. Yet, this is by no means an inevitable outcome.

Because of rising complexity of the global economy global governance is more difficult and more complex than it was more than half a century ago. One indication of this is that multilateral solutions to global governance problems are becoming harder, and sometimes impossible, to achieve. Demand for governance seems to be increasingly fulfilled through regional or bilateral arrangements. While this not need be undesirable *per se*, failures of multilateralism can be compensated only partially through regional or bilateral solutions.

Regional agreements in trade, investment, financial and monetary management, can be major building blocks of global governance provided they remain open to mutual integration. Bilateral agreements run the risk of providing solutions that, while benefiting the partners involved, may generate negative spillovers on the rest of the system. This risk is high if the way bilateral agreements, which are proliferating at a very high speed, are designed fails to take into account the implications of the relationship with third-world countries or regions.

Bilateral and regional market integration agreements can be stepping stones towards a global and well regulated marketplace. Yet, a global system can only be sustainable if it based on a multilateral perspective of governance. This is one of the reasons why the success of the Doha Development Round is badly needed. Failure to reach an agreement would further weaken the trust and the role of multilateralism and of one of its key institutions, the WTO.

In some cases incentives for regional aggregation come as much from the benefits of integration as from the desire to seek insurance from a possible external threat. This double incentive may turn "open regionalism" into closed (or "aggressive") regionalism if the perception of threats becomes too strong or predominant (Padoan, 2007). So, "Regional Marshall Plans" can be welcome strategies for global governance provided they are, from the beginning, designed as open frameworks and structures and closely connected with the multilateral framework. The latter, in turn, must deliver adequate supply to the demand to provide welfare as well as to protection or insurance from external threats that are at the basis of such agreements.

Multilateral organizations

Another lesson from the Marshall Plan experience is that multilateral organizations are key pillars of multilateral governance. Indeed, the architects of the post-World War II order conceived them as a mutually reinforcing set of institutions, each one with its own mandate, but such as to benefit from the action of the others. After 60 years that

architecture is still in place. However it would be difficult to deny that each one of those institutions is today facing a "maturity crisis" and may be in need of rethinking its mission and the ways to accomplish it.

Irrespective of their specific mission, international organizations share a common feature. They are instruments for consensus building. Co-operative, shared solutions to global governance problems inevitably require a "compromise", *i.e.* a situation by which each party involved is willing to change, at least in part, her perspective, her point of view, her preferences, for the sake of achieving a common goal. This is impossible without a learning process, without the time needed to know about each other, understand others' points of view, learn to predict what the others' response to a new challenge will be. Achieving "high level" compromises is also impossible without a long term perspective, *i.e.* without a time horizon that necessarily goes beyond the short-term interest. This is ever truer today than it was 60 years ago as leadership is more multi-polar and more players have to be involved in defining such compromises. The "value added" of international organizations is largely produced by achieving, or helping to achieve, such compromises. Such a value added depends on the ability to facilitate dialogue but also to offer concrete solutions, thanks to their expertise and to their specific resources. The decision, taken in 2007, to begin negotiations with five countries for OECD membership and to establish enhanced engagement with another five demonstrates this key point.

Governance of what?

What should global governance be about? The increasing complexity of the world economy and society makes answering this question difficult. We can agree that global governance should aim at making the best out of the triad: growth, innovation, and equity. We all agree that high and sustainable growth is an indispensable requisite not only for increasing welfare but also to fight poverty. We all agree that innovation is a key driver of growth. We all agree that growth cannot come at the expense of equity but that, on the contrary, equity and social cohesion should, and indeed can, go hand in hand with growth.

The OECD has been, and continues to be, at the forefront in understanding growth and drawing up policy recommendations on how to achieve it. It is increasingly clear that growth is the result of a complex interaction of economic and social variables, drivers and institutions. As a consequence, raising the growth potential of countries is a target which can largely, if not exclusively, be achieved indirectly, by establishing the best possible environment for growth. Consequently, it is hard to imagine a single policy action or a single policy instrument which can deliver growth. Rather, growth is achieved through strategies linking reforms in different areas and trying to make the best of the synergies among them (OECD, 2007).

To convince ourselves of the fact that this is the right approach, let us discuss what it means to acknowledge that a key driver of growth is innovation. Innovation in a knowledge-based society involves much more than introducing new products. Innovation is a general process involving all aspects of economic activity. It requires changing behaviors of business but also of consumers, and of communities. Information and communication technology (ICT), which we all recognize as a key element of today's innovation environment, as well as a major driver of globalization itself, is a "general purpose technology". Making the best of its potential requires pervasive changes in the

organization of production, distribution and delivery (College of Europe, 2007). Internationally, it leads to changes in the structure of production and comparative advantages often through what has been called the "great unbundling", *i.e.* the fragmentation and relocation of production on a global scale (Baldwin, 2006). The benefits of ICT are maximized by international diffusion which takes place through trade, investment and transfer of knowledge. Intangibles and services increasingly become prominent in defining new production and consumption patterns. If we believe that good public policies can influence innovation and hence growth, we must design strategies and policy packages which contribute to establishing the best environment for these changes to take place, keeping in mind that their effectiveness largely depends on how they interact and generate the right incentives.

Sustainable growth

Innovation-driven growth must be sustainable, from the point of view of the environment and from the point of view of equity. And it is through innovation that sustainable growth can best be achieved. Strong sustainable growth must, by definition, be consistent with the preservation of global commons. The speed at which climate change is taking place leaves no doubt about the need to take action in this respect. We know what needs to be done. Energy is one area where progress can be made towards more sustainable and environment-friendly growth through innovation and appropriate standards and measures and economic incentives, which encourage the adoption of environment-friendly investment strategies. Improving the energy mix through innovation in production and consumption of energy takes time, but we know, since the oil crisis of the 1970's that significant changes in the energy intensity of production have taken place. Virtuous factor reallocation can happen.

Strong, sustainable growth also has to deal with the challenge of ageing, especially but not only in industrial economies. Ageing is often seen as a cost for societies, it should be transformed into an opportunity, starting from the fact that ageing societies are societies where the quality of life is improving thanks to healthcare and longer lifespan. Healthcare is not just a cost; it can be a source of profitable investment and increasing productivity. Policies of "active ageing" improve the quality and amount of human capital which is a main driver of growth. Innovation in healthcare can lead to significant increases in productivity, which reduces the costs of ageing while raising growth (Dormont *et al.*, 2007).

And growth must be socially sustainable. Globalization is about quality much more than quantity changes. Adapting to new specialization and comparative advantages in a liberalized and competitive environment generates benefits but it also entails costs: for firms, individuals, communities. This may weaken support for open markets and global integration, and can backfire. The current wave of globalization is not the first example of global integration in recent world history. The major globalization wave, which developed about a century ago, eventually met a tremendous retrenchment in terms of social unrest, retrenchment of democracy, war, and destruction as populations began to blame on globalization many of the domestic problems societies were facing. Like then, today we risk facing mounting opposition to globalization, taking the forms of protectionism but also of outright rejection of open markets (Friden, 2007).

Here is where it is useful to consider another, important, lesson from the Marshall Plan: effective governance of the international system, an effective international regime,

will develop to the extent that its architecture is based on incentives that favor compliance of all parties involved, be they governments, markets, civil society. After World War II it was in the mutual interest of the United States and Europe to establish a new partnership that would spark off a new period of peace and welfare. Such a partnership was in the interest of governments on both sides of the Atlantic. It became in the interest of the peoples and societies of the countries involved. It offered new market opportunities for firms, job opportunities for workers, better living standards for families. It was a success because it could count on the consensus of the populations involved. And consensus was granted for a model of governance that could deliver growth and equity.

The role of public support for the global integration process is not a new issue. The very moment in which "globalization" became common language – not so many years ago in fact – "anti-globalization" became just as popular. Globalization today, risks being rejected because it is seen, rightly or wrongly, as associated with rising income distribution inequalities. Good governance requires finding ways, appropriate policies to deal with adjustment costs for weaker segments of society. We know that this not only is possible. But that it is necessary. National best practices show that innovation-driven, high-productivity growth can coexist with social inclusion. More than this. As the experience of a number of European countries shows, social cohesion and knowledge/education-intensive growth mutually reinforce each other. Growth and competitiveness do not imply a "race to the bottom" in social standards. On the contrary they may lead to a "race to the top" (Padoan and Rodano, 2007).

Fighting inequality and supporting growth also requires direct resource transfers, as it was the case of the Marshall Plan and as it is today with development aid. We know however that resource transfer to be effective in fighting poverty and sustaining development efforts must be complemented by good governance and sound institutions on the side of the recipients. Good domestic governance, in turn, must be instrumental to domestic policies targeted towards openness and competition. Trade and aid must complement each other to pull countries out of poverty. Resources must be instrumental to establishing sound governance and, in turn, governance is needed to use resources in the best way in the framework of market opening. It is another lesson of the Marshall Plan.

Instruments of global governance

This brings me to the instruments of global governance. Another key feature of today's environment that makes it different from the one prevailing when the Marshall Plan was launched is that global governance takes place much more "indirectly", by providing and implementing good market regulation, setting standards and by effective surveillance, and somewhat less through "direct" policy intervention (which however can be very effective, in some cases, for instance through well-designed taxation).

This is certainly true when one considers national markets. It is increasingly so for international markets. One example that comes to mind is global financial markets. In a few years the resilience and flexibility of financial markets has become such that much larger financing needs and much larger global imbalances can be sustained than it was possible only a decade ago. While more evidence is needed to support this view it is fair to say that such results can be attributed to the combination of better regulation, including self regulation, standard implementation, and sound macroeconomic policies. The events which have occurred in the summer of 2007 in financial and credit markets confirm that

financial markets are characterized by periods of expansion and euphoria that may lead to excesses and possibly to collapse. This is a recurring pattern that, however, takes on different characteristics in each episode of financial distress. The history of financial crises shows that fundamental lessons tend to be forgotten (and this is what leads first to euphoria and then to panic and collapse). Good global governance and effective international institutions should be, on the contrary, based on the principle that a strong memory of the past is indispensable to build the future.

We know that sound macroeconomic policies are a necessary prerequisite for stable and sustained growth. We know that trade liberalization is a powerful driver of growth and so is accumulation and diffusion of knowledge. We know that, in order to reap the benefits of more open international markets, it is necessary to eliminate barriers to trade but also to eliminate the obstacles to market performance determined by excessive internal regulation (sometimes referred to as “deep integration”). The OECD has been, and continues to be, at the forefront of the production of evidence of the benefits that deregulation can produce for economic performance. It is one of the tenets of OECD analysis that there can be a virtuous interaction between the move towards better and lighter regulation and stabilization-oriented macroeconomic policies (see *e.g.* OECD, 2007). Of course good regulation, “light touch” regulation, does not mean absence of regulation and regulatory instruments. Designing “optimal” or even satisfactory regulatory systems is one of the main challenges of governance. It is an exercise that has to cope with trade-offs (one classical example is protection of intellectual property rights. Too little may dissuade innovation. Too much will prevent knowledge diffusion.) and with differences in national preferences and institutions. Coping with global challenges such as the environment, climate change, energy, require a combination of innovation-friendly regulation, pro-competitive standards and appropriate taxation structures.

Ideally, a global system should rest on global standards and regulations. In practice internationally adopted standards are often initially developed as national standards or, in some cases, as standards adopted by regional groupings such as the European Union (EU). In addition standards are sometimes developed and adopted by the private sector. This may lead to regulatory competition or arbitrage, as well as a possible of lack of transparency in the ways in which standards are implemented. Our understanding of the impact of standards and regulation has increased also thanks to the work of the OECD. However, we need to know more about the ways in which regulatory competition develops, what is the relationship between public and private regulation, why some standards are adopted more widely and rapidly than others, how regulatory reform and standard setting interact with other policy measures. The notion of business environment and of innovation environment offers a good example of the complexity of regulatory policy. Regulations cannot be evaluated in isolation. All efforts must be made to understand how single regulations impact in their interaction with the business environment at large. Building an expertise in regulatory design, therefore, requires knowledge of how the system of rules impacts and interacts. It requires a multidisciplinary approach as well as systemic view of policy design. Both qualities are well present in the OECD.

For regulations and standards to be effective, they must, of course, be implemented and adopted by countries participating in global markets. Designing good regulatory measures requires technical expertise but also the ability to understand different national points of view. Designing and implementing global standards and regulation is one of the areas where the role of international organization like the OECD is essential.

Conclusions

By a Marshall Plan for today's global world we should understand an institutional architecture in which governments, international organizations, and markets interact so as to create the best possible environment for economic activities to develop. It has to do with resource transfers, as it was the case after World War II, but also about institution building, good and light regulation, environment- and climate-friendly standards. In an open world without international governance must be based on the contribution and responsibility of all parties involved. The role of an organization like the OECD is key in providing expertise; in anticipating new challenges and understanding how to turn them into opportunities; in helping reach a consensus among the stakeholders in an expanding global system; in contributing to turning the challenges of globalization into opportunities; and to expand as much as possible the distribution of ensuing benefits in an equitable way.

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Chapter 8. The Marshall Plan: Its Relevance for Current Public Policy

by Daniel Daianu

Introduction

The Marshall Plan was a tool of vision and pragmatic US diplomacy after World War II. It did help the restoration of economic wellbeing in the free part of Europe and, also, it did bring closer nations whose history was fraught by mutual distrust and conflict. The European Union (EU), itself, took off on the wings of a Marshall Plan-aided recovery. But Europe's ideological and geopolitical split, in the wake of World War II, deprived its Eastern nations of the Marshall Plan's benefits. EU enlargement can be seen, therefore, in an historical perspective – as continuing the vision of the Marshall Plan.

The Marshall Plan was part and parcel of a global perspective that framed US foreign policy at the time. Well before the end of World War II, American, in particular, and British thinkers worked out plans for an international architecture that should help the world recover economically and politically. Fighting hunger, poverty, desperation and chaos, promoting democracy was the thrust of that policy.

As Pier Carlo Padoan aptly observes in Chapter 7, the Marshall Plan and its wider operational framework (the Bretton Woods System) aimed at providing a functioning *international regime*, which was focused on economic reconstruction and peace, on necessary *global public goods*. The vision of the Marshall Plan continues to be highly relevant since today's world has to tackle massive deprivation and hunger, failing states and disorder. The complexity of mankind at the start of the new century raises the stakes in the attempt to deal with global issues creatively and effectively; climate change, sustainable development (with its social underpinnings), aid and trade, and, not least, averting a *clash of civilizations* are to be approached in a pragmatic, wise manner. I will highlight the lessons of the Marshall Plan for today's public policy. Thus, a plea for pragmatism and open-mindedness in public policy is made. Globalization is interpreted and judged in conjunction with tectonic shifts, underway, in the world economy. The state of the European Union is touched upon together with challenges facing the new accession (post-communist) countries.

Public policy in today's world: a plea for *open-mindedness* and *pragmatism*

A fundamental lesson of the Marshall Plan is that policy has to be pragmatic and open-minded in order to succeed. Harry Dexter White (the main US negotiator in the set up of the Bretton Woods system) and the famous British economist John Maynard Keynes provide a formidable case study in this regard (Eichengreen, 1996,

Chapter 4). I mention these two individuals' work, for Padoan's arguments point in the same direction – when he talks about an international regime that should combine the provision of public goods with the use of incentives so that all parties comply with it. That this is not easy to achieve is another matter for discussion. For the very complexity of today's world and the rising number of actors (states, companies, non-governmental organizations, or NGOs), make the achievement of workable solutions, sometimes, quite impossible.

The past two decades have been suffused with claims that economic policy, in the advanced countries, is bring driven by an emerging new consensus on principles and practice. The sources of this apparent "new" consensus are, arguably, several. One origin could be traced to the ever-longing desire of man to control his environment (nature) and be more efficient. Max Weber's "rationalization of life" referred to rational accounting, rational law, rational technology, which by extrapolation, can be extended to "rational economics". Another famous sociologist, Daniel Bell, upheld the primacy of knowledge and theory-related activities in ordering our life, man's technological and economic ascendancy – which would imply that economic wizards can secure a fool-proof policy. Even the clash between main competing economic paradigms can be seen in the vein of searching for the ultimate piece of wisdom. Another origin of policy amalgamation comes out of the death of communism. Francis Fukuyama's "End of History" was seen by many as a description of a single ideology which was meant to rule the world. Last, but not least, globalization – when seen as a fundamentalist incarnation of unfettered markets and downsizing of government, operating worldwide – also provided an impetus to the vision of an "ideal" type of policy.

At the start of the new century facts are disavowing over-simplifications. There are numerous examples which prove that conflicting ideas matter a lot, that economics continues to be softer than some try to make us believe. How should one relate economic growth to a sense of fairness (justice) in society? In this regard I side with the thesis that growth must be socially sustainable. When central bank governors show disquiet to possible effects of income polarization, our eyes and ears must be pretty open. Free markets are a plus wherever they work well, and property rights should be clearly defined and protected in order to harness entrepreneurship and creativity.[1] But it is also clear that trimming the welfare state and the public sector is not enough in order to achieve expected efficiency gains; this endeavor needs to be accompanied by effective regulations of various markets – financial and energy, primarily. The need for an "optimal design" of regulations is stressed by Padoan in this regard.

The pressure of global competition forces governments to streamline public sectors. But rich countries, in the West, remain welfare states, *par excellence*, albeit in an evolving manner. One can detect here returning Keynesian touches in macroeconomic policy making with a retreat when it comes to social policy. Some wealthy countries' less inspired policies have given renewed high profile to issues such as: *fair vs. free trade*; dealing with abject poverty in the world; protecting the environment as a public good for mankind; a code of conduct for international corporations; how to manage contagion effects in the world economy; policy co-ordination among the leading economies of the world, etc.

Global economic growth implies global governance. A legitimate question here is what structures of global governance do we have and what is the philosophy which underlies it? It is increasingly clear that the international financial institutions (IFIs) need to reinvent themselves and involve more the emerging heavyweights (Brazil, China,

India) in decision making; the key players (states) in the world have to see eye to eye when it comes to tackling major global issues.

The traditional ongoing battle between left and right, within democratic politics, is being shifted, partially, into the international arena. The debate on *global governance* (which institutions and policies) reflects a growing awareness that there are issues which need to be addressed internationally, in a multilateral context and using collaborative approaches (Sachs, 2005). Arguably, the choice between globalization and "managed globalization" is between policy disregard for market failures, where they exist, and their social consequences and trying to construct an *international policy regime*, which should address recurrent co-ordination failures (see Stiglitz, 2006).

Ideology is not dead, and it does shape social and economic policies – although in subtler forms and following cyclical patterns. It may be less felt nationally to the extent the battlefield of ideas expands increasingly beyond national borders. Globalization is likely to reflect ever more the battle of ideas, with traditional politics delving increasingly into the international domain.

Which globalization?

Globalization has triggered enormous controversies. Some see it as a *deus ex machina* for doing away with misery and conflict in the world. Others see it at the roots of mounting tensions in the world.

Facts give conflicting signals. Technological change has reduced transportation and transaction (information) costs and sped up the transfer of know-how, albeit in a highly skewed manner, among regions of the world; the Internet connects hundreds of millions of people instantaneously; world trade has expanded tremendously and broadened the scope of choice for individuals throughout the world. The collapse of communism has expanded the work of market forces and democracy in a large area of the world. And the very dynamic of the EU can be seen as an alter ego of globalization on a regional scale. At the same time, the distribution of wealth in the world seems to be more unequal than 20 years ago. Corporate scandals in the affluent world show that cronyism and bad governance are a more complex phenomenon than is usually assumed and ascribed geographically; financial and currency crises have caused economic and social havoc in not a few countries; social fragmentation and exclusion have been rising in both wealthy and poor countries; there is a sense of disorder and a rising tide of discontent and frustration in many parts of the world; non-conventional threats, the use of weapons of mass destruction in particular, are an increasing threat.

Arguably, to make sense of facts is to look at the conceptual underpinnings of globalization. And here there is an interpretation of globalization which is pretty much overloaded ideologically. The last couple of decades have been dominated by a paradigm which extols the virtues of unbridled markets, privatization and extreme downsizing of the public sector – this is what some call market fundamentalism. The way emerging economies were pushed into opening their capital accounts during the 1990s is a glamorous illustration of this approach. Another example is the way energy markets were "liberalized" in emerging economies without proper regulations.

But globalization can be understood in a different vein, which looks at the functioning of actual markets and which takes into account insights of modern economic theory: information asymmetries, increasing returns, agglomeration effects (*clusters*), multiple

(bad) equilibria, etc. Thence inferences can be easily drawn: the need for effective regulation of markets; the role of institutions (structures of governance); the need of public goods in the world economy; the importance of *variety* and policy ownership in policy making.[2] To some, this interpretation of globalization may sow seeds of confusion. But, in this way, one can dispel a biased interpretation. Moreover, globalization would no longer be assigned an ideological mantra and one-sided policy implications. Instead, it becomes an open-ended concept, which purports to define the mutual opening of societies, under the impetus of technological change and the manifold quest for economic progress. Consequently, national public policies should be fairly pragmatic and varied (not succumbing to fundamentalism), and geared towards the traditional goals of economic growth, price stability and social justice. Markets would have to be properly regulated and the state would have to provide essential public goods, which crowd in private output. Good public policies can make a difference – as Padoan implies.

The international economy indicates problems that need adequate answers. One of Keynes' intellectual legacies, enshrined in the Bretton Woods arrangements (that highly volatile capital flows are inimical to trade and prosperity), has not lost relevance. Those who say that it is hard to fetter capital movements in our times make a very strong point, but do not solve the issue. In addition, financial innovation, the growing use of complex derivatives, have reduced the transparency of global financial markets; this, unavoidably,, undermines *trust* – without which financial systems are crippled. Some argue that self-regulation is better than regulation (a hot topic here is the case of hedge funds). But is self-regulation the right answer under any circumstances? I have my doubts (by the way, is the Sarbanes-Qxley Act redundant?).

Padoan remarks that global governance relies increasingly on indirect tools, for various reasons. But I wonder whether the under-supply of essential public goods by national governments would not put pressure on structures of global governance (not an "international government") to step in, one way or another.

Free trade cannot benefit poor countries when rich economies heavily subsidize agriculture and use trade barriers whenever they feel "injured"; double talk and hypocrisy make a mockery of the virtues of free trade. Likewise, diminishing aid to very poor countries is hard to justify when acknowledging the huge asymmetries in the world. One has to fight corruption and improve public governance, but aid has a role to play in assisting poor countries. This is a major lesson of the Marshall Plan – its magnanimity, combined with pragmatism and clairvoyance at a time when Europe was in terrible economic distress.

A keen sense of urgency and a pragmatic vision would demand a different policy in order to deal with the threats of spreading epidemics, massive illegal migration, abject poverty and environmental damage – not to mention the scourge of international terrorism. All these challenges make up an agenda which can be assumed by an enlightened interpretation of globalization.[3] The United States and the EU have a key role to play in setting and implementing this agenda.

Shifting tectonic plates in the world economy

Usually, the less benign side of global free trade is ascribed to effects on countries that either cannot make good use of their comparative advantages, or face stiff protectionism from wealthy economies – for example in the case of farm products. In

general, such economies are to be found in the developing world, which are afflicted by poor governance and the inability to absorb new technologies.

Recent years, however, have witnessed a rising choir of disquiet in advanced countries as to the impact of global trade on their economies. How does it happen that advanced economies, which have traditionally been staunch supporters of free trade, seem to have second thoughts and resurrect a new brand of economic nationalism which some would call patriotism?

Arguments which stress the virtues of free trade form the basis for rationalizing commercial exchanges between countries; nonetheless, these arguments lose some of their appeal when the distribution of gains is largely asymmetric and dynamic competitive advantages dominate. One can posit that the rise of Asian economies (and most impressively of China, in the last couple of decades) is to be judged through such policy lenses; namely, strategic trade policy, which was embedded in a development policy by intelligent use of market forces.

A couple of decades ago, global competition was defined in a triangular formation: United States-EU-Japan (Thurow, 1993). The picture today cannot be seen so simply. I would recall here the famous book by the late French essayist, J.J S. Schreiber, "*Le défi américain*" (The American Challenge), in 1968, that triggered a whole debate on the ability of European firms to compete with American (multinational) companies. One can conjecture that this competition has prodded, constantly, top European politicians to push ahead with the EU economic and political project. But there were also bouts of Euro-optimism over decades that induced fears in reverse across the Atlantic. A while ago, some American pundits viewed the *continental model* (Albert, 1993) as an interesting alternative to the *Anglo-Saxon model*; that fear was encapsulated in the term "Fortress Europe". At the end of the day, however, world competition was viewed within a triangle: United States, EU, and Japan (as an exception to the Western world) and nothing more. Therefore, one could think that there is nothing new under the sun, for cycles are an unavoidable pattern in economic life,[4] in human history. But this reading of modern history and practice of forward looking would be misleadingly simplistic and intellectually defective. For there have been deep currents at work in European societies and in the world in the last couple of decades that beg for another approach and other policy answers. These currents motivated A. Giddens (1998, 2006) to look beyond conventional theoretical and policy responses.[5]

Nowadays, the new information and communication technologies (ICTs) bring about great opportunities for those developing economies which benefit from well-educated populations and proper policies (again, Asian countries fare quite well in this respect). In the global economic game what drives industrial relocation is the existence of substantial wage and cost differentials between countries and regions; these differentials induce globally-oriented companies to shift operations to areas which combine cheaper inputs with adequate technologies. The intensity of this process depends on how great the wage and cost differentials are, the quality of production factors and the emergence of industrial *clusters*.

Mainstream trade economists would argue that advanced economies have little to fear since they are increasingly specializing in higher value-added products and services; and that all countries will be better off in the end. This train of thought was disputed by the Nobel Prize winner P. Samuelson from the Massachusetts Institute of Technology (MIT). He says that "sometimes a productivity gain in one country can benefit that country alone, while permanently hurting the other country by reducing the gains from trade that are

possible between the two countries." He also says that "post-2000 outsourcing is just what ought to have been predictable as far back as 1950", in the sense of other economies in the world assimilating advanced technologies and catching up with the US economy, more or less. Samuelson's argument finds underpinning in empirical research done by L. Freeman from Harvard. Freeman estimates that the entry of China, India and countries from the former Soviet bloc into the world economy resulted in a doubling of the number of workers, to almost 3 billion (Brittan, 2006). Consequently, the ratio of capital to labor fell to 60% of what it would otherwise have been. Moreover, the newcomers have good technical skills and much lower wages than their western counterparts. This exerts a downward pressure on wages in Western economies. L. Summers uses a similar reasoning: "middle-class workers and their employers – whether they live in the American Midwest, the Ruhr valley, Latin America, or Eastern Europe – are left out" in a competitive global environment that rewards the combination of low wages and diffusible technologies, and the ability to access global product and financial markets.

Against the backdrop of the new ICTs and considerable wage differentials between economies in the world, significant shifts in the global distribution of industrial and services activities looks unavoidable. At the same time, public budgets are increasingly under strain due to population ageing. These factors produce the fear of outsourcing and off-shoring. One can easily understand this fear in Western European countries, where wages are significantly higher than what well-educated workers in Eastern and Central Europe earn. The Lisbon Agenda sprang out of this fear, albeit framed in global (and not continental) terms. The big EU member countries most fear Asian countries and the US economy and regard the Lisbon Agenda as a competitiveness policy response.

The fear of outsourcing and off-shoring is analogous with the anguish surrounding the transformation depression of the last decade in post-communist economies. There was a dramatic reduction in output because resource reallocation – at the new market clearing prices – could not happen rapidly enough. Similar pains can be detected nowadays among some groups of workers in rich economies, who cannot compete in the new global economy.

The bottom line is that countries which have skilled people, which invest in education and have forward-looking public policies, are more likely to enjoy the fruits of the global dissemination of technology.

The evolving global economy brings with it new major competitors and a change of competitive hierarchies. Unless governments and companies are clairvoyant and adjust to trends by investing more in research and development (R&D) and education, painful corrections are likely to be in store.

"The shrinking of the West", economically and demographically, will have very serious geopolitical consequences and for the governance of global issues.[6]

The EU at "midlife": cause for celebration, but guarded optimism

The European Union celebrates its 50th anniversary at a time of vastly enhanced significance; it is a time of serious challenges[7] that demand a new policy thrust. To paraphrase Padoan, the Union faces growing complexity, brought on in part by the successive rounds of enlargement. At the same time, its social model is heavily strained by the need to make markets more flexible and demographics.

Managing increasing complexity means dealing with a number of thorny issues. Should tax and fiscal policies be made more convergent, in order to prevent a "race to the bottom"? When factors of production are increasingly mobile, who or what should be taxed? How should the Union deal with economic nationalism? Implementing the Lisbon Agenda requires major reforms in education, energy, R&D and agricultural policy, but how should these changes be brought about? Variable geometry, a rising variety of socioeconomic conditions (with geographic positions leading to different neighborhood policy inclinations) and diverging views among member countries can bring policy co-ordination to a standstill.

In part because of global competition, the EU is under pressure to become more flexible, loosen its bureaucratic entanglements and reform the welfare state. At the same time, market fundamentalism is on the retreat, and there is a strong impetus to bring social and environmental concerns into mainstream policy making. Meanwhile, failures in financial and other markets during the past decade have fueled a demand for more effective regulations. It is not becoming any easier to balance these contradictory forces. One key to doing so lies in education policy. Placing more emphasis on such subjects as engineering, math, physics and computer science would help build a competitive edge based on technological advances, higher value-added products and services. Attaining such an edge would relieve some of the pressures pushing against the European social model.

Certainly, continued efforts to streamline the welfare state will be needed. But the difficulties involved should not be underestimated, as they involve a basic redefinition of the social contract. Would wage earners accept a slower rise in their incomes (or even a cut) and would capital-owners accept lower dividends for the sake of greater public and private productive investment? Such possibilities might be conceivable if all parties were governed by ethical imperatives and a sense of responsibility. However, there is much to suggest this is not the case. Recent years have seen an astonishing rise in the incomes of chief executive officers (CEOs) at a time of modest or even stagnant wages, when income polarization has increased in almost all Western societies and the middle class has frequently lost out. The corporate world has been hit by a succession of scandals, eroding trust in its ability to self-regulate. In such an environment, is it reasonable to expect employees to become altruistic? The need in the EU to cope with the pressures of globalization, of demography (including the reform of the welfare state) is not a reason to underplay morality and the need for mutual respect. In order for citizens to accept painful reforms, to enter a new social contract nothing would be more counterproductive than telling them that they have to give up what has made their lives more dignified; that they have to accept CEOs' rise in salaries and bonuses while the performances of the companies those individuals run stagnate, or even go down.

In the enlarged Europe we need a capitalism that performs economically and socially. For this to happen the liberty of markets to function has to be accompanied by the rule of law, which should punish those who are careless about and disrespectful of public interest. Market fundamentalism is inimical to a decent capitalism, to capitalism with a soul.[8] I would recall that Adam Smith wrote also "The Theory of Moral Sentiments", that Max Weber, connected hard work and moral values (ethics) with the advance of capitalism in the Western world. Public policy has to try to correct malign parts of the functioning of markets; it has to deal with the social fallout of unlimited greed, lack of honesty, cynicism, selfishness, etc. Decent capitalism (that respects the dignity of man, to use Amartya Sen's words) needs an effective public policy, aside from virtues to be found

in individual beings' pursuits of happiness and material rewards. Bill Gates' capitalism is clearly superior to the one practiced by a Michael Milken, Ivan Boesky, or Kenneth Lay.

Balancing social and economic imperatives imply ethical values: honesty and trustworthiness, honor and respect, loyalty, hard work, education, family, community, altruism and compassion. I suggest that the OECD should pay more attention to such aspects.

Ethical questions impact international politics as well. Issues such as environmental protection, securing drinkable water, and combating disease and poverty constitute an urgent agenda. Failures in this area can ultimately have security implications, as global divisions become amplified and militant ideologies find a receptive audience among the excluded. The EU (and the United States, too) has been charged, not unfairly, with not practicing what it preaches when it comes to developing economies – the collapse of the Doha trade round is a signature example here. This issue, in turn, is connected to the way the Union operates. EU Commissioners often have a difficult time resisting the pressures exerted by the bloc's heavyweights. This is not necessarily surprising but should not be overlooked.

EU policy making will have to evolve somehow if it is to meet increasingly complex challenges. The steps ahead may be less so, but this does not diminish their importance. Enlargement fatigue is a reality, but so is the need to show vision and statesmanship. If the *Bloc* hopes to act as a guidance rod and a beacon of hope for the rest of the world (and not be seen as a form of "closed regionalism" as Padoan warns), it will need to demonstrate the ability to handle seemingly intractable problems on its own turf – including the Western Balkans.

Post-communist Europe: why have domestic politics stumbled?

How is it that after EU accession, domestic politics have stumbled in Central Europe; fragile and stalemated governments and coalitions that bring together strange bedfellows (with political philosophies quite apart) have puzzled those who have expected a consolidation of democratic politics?

It pays to remember that these economies are part of the dynamic area of Europe, with annual economic growth rates far higher than those registered in the hard core of the EU (5-6% as opposed to 1-2%). Moreover, their economies seem to be well embedded in higher value-added European industrial networks, as against other post-communist economies. These networks, therefore, should provide more optimism regarding the chances of these countries to sustain rapid economic growth over the longer term.

Wherever economic growth is high there is a reasonable likelihood that social stability and sound politics result. To be more specific in the case of Central Europe, a logical inference would be that owing to significant economic growth in this decade, a large part of the population would enjoy tangible economic fruits and, therefore, support the ruling coalitions. Moreover, EU accession has been presumed to consolidate the solid underpinning of these young liberal democracies and further enhance democratic politics. And, as opposed to the citizens of most of the EU-15 (discounting Spain and Portugal due to the decades of authoritarian rule under Franco and Salazar), most of the post-communist countries' citizens have personal experience of the communist command system. Therefore, a fair assumption might be that they are immune to the erosion of

basic constituent parts of orderly democratic life, and be better able to detect fake democrats and cheap populism, be it on the right or the left.

When it comes to economic growth, post-communist *Mitteleuropa* glaringly shows that high growth rates are not sufficient for securing tranquility in social and political life. Among economists there is an ongoing debate on the fundamentals of economic growth and on the relationship between democracy and prosperity. Some would argue that what matters most of all is economic growth, even if that may inevitably mean substantial social inequity. Another line of reasoning, which I have alluded to already, suggests that economic growth should rely on social cohesion – which implies an adequate production of public goods. The debate involves the importance of good practices in both the public and the private sector and how corruption can be effectively combated. Arguably, wherever numerous citizens in Central and Eastern Europe have lost out in the economic race, or they have been marginalized (that is, excluded from the fruits of economic growth) their frustration is likely to be captured by extremist parties and more center-oriented parties risk losing political ground.

Another explanation is the disappearance of the EU accession anchor. This anchor has allowed politicians, irrespective of their political persuasion, to rally citizens behind the banner of EU accession as a "return to Europe". Not a few of these citizens had assumed that the "return to Europe" would bring them into a social nirvana, with immediate considerable economic benefits. These people have seen that there has been no such dramatic change since May 2004. On the contrary, some additional pains have been brought about by the rigors of complying with EU regulations. A confrontation with reality was thus unavoidable. This confrontation concerns the resurrection of "economic patriotism" in major EU member countries (like France, Germany, Spain, etc.) as well. In order to join the EU, Eastern European countries have diligently observed the intellectual and operational matrix of the Union; for instance, the total opening of markets (for the sake of a single market), including those for financial services and public utilities. As a matter of fact, in these sectors, Eastern Europeans have been more liberal (in the European sense) than their Western counterparts. It is easy then to comprehend the frustration in some political circles in Central Europe when EU heavyweights preach what they do not practice. This is also an explanation (amongst others) for the revival of economic nationalism in the East as well, a tendency that can be amplified by other issues.

Collective memory does not seem to be an effective protective tool due to its selectivity. There seems to be an asymmetry at play here: people enjoy political liberties and like to voice their satisfaction or frustration; but, at the same time, they seem to have forgotten the period when those liberties were non-existent and what that implied in their lives. Likewise, the generations of young people who do not have a personal experience with communism lack this insight. Although perhaps far fetched, the mentioned asymmetry is arguably similar to the sense of disconnection some people in Western countries express about the ravages and atrocities of World War II.

A fourth explanatory argument would be that real life is quite distant from textbook democracy. Actual democracy essentially means the functioning, for better or worse, of checks and balances; it refers to the morality and the sense of accountability of political rulers, which might be quite dismaying under certain conditions. The actual state of democracy does have an impact on the mythology created after the fall of communism; numerous myths and clichés are fading away in the "New Europe" and individual and group psychologies react one way or another.

Eastern European societies are much less prosperous than their Western EU counterparts. At the same time they are facing similar structural challenges: ageing, the crisis of the welfare system, social (income) polarization, identity-related confusion, and the rising pressure of immigration. High economic growth is not a panacea where governments are incapable of dealing with the social challenges that accompany modernization, against the background of globalization. And high economic growth may not be durable if wages keep rising rapidly because of catch-up dynamics inside the Union. There are no easy solutions in this regard. Nonetheless, what is certain is that national politicians will be severely tested in the years to come; what they do would influence domestic politics and their countries' economies greatly. What is happening in Central Europe is a lesson and a harbinger to other post-communist countries as well.

Conclusions

The world needs a better (more effective) international institutional architecture, which should deal with global challenges and take care of *global commons*.

The United States and the EU have a key role to play – whether one refers to reinventing the IMF and the World Bank, enhancing the role of the emerging economic giants into the running of IFIs, and not least, in reversing the tendency of erosion of multilateralism of recent years. In this context repairing the transatlantic relationship is urgent in view of the challenges ahead. To paraphrase former US Secretary of State, Madeleine Albright, this is to be seen as an indispensable relationship.

The evolving global economy, the rise of Asia, bring with them new major competitors and a change of competitive hierarchies. Countries which have skilled people, which invest in education and have forward-looking public policies, are more likely to enjoy the fruits of the global dissemination of technology. The talk about a *knowledge-based economy* is not a temporary fad.

Those who believe that only non-zero games prevail in the world need a "wake-up call". The tectonic shifts in the world economy open up the possibility for co-operative relationships, but also for sharpened tensions. Consider, for instance, the growing need for energy and basic commodities in Asia, the unsolved or deepened geopolitical crises in various parts of the world (in the Middle East in particular), nuclear proliferation, and the visible and hidden aspects of the struggle against terrorism.

Revisiting the lessons of the Marshall Plan is very useful in a world which stays highly complicated and complex, in spite of the fall of the Iron Curtain – in a world that has to avert a *clash of civilizations*.

True statesmanship is as much in demand nowadays as it was more than half a century ago.

Notes

1. For the case of poor countries, see de Soto (1989) and Easterly (2006).

2. See Rodrik (1998) on why policy has to be pragmatic and draw on various strands of knowledge.

3. Frieden (2007) calls for a legitimate political governance of globalization and appropriate domestic policies.

4. I refer to possible cycles in overall productivity dynamics, which can change hierarchies in terms of income per capital. These cycles can be linked with business cycles and longer term/secular cycles.

5. Bavarez (2003), Sapir (2003, 2005), Sinn (2004), Rifkin (2004), Bofinger (2005), Fitousssi (2005) and others have joined this debate.

6. Nicole Gnesotto (2007) believes that Europe and the United States must learn to share power in order to retain it.

7. For a clear and analytical description of these challenges, see Alesina and Giavazzi (2006).

8. Those who argue that business scandals are caused by "insufficient capitalism" (by too many regulations) are laughable. It is like telling Asians that the financial crises of the past decade were due to a too slow opening of the capital account, which is nonsensical.

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Chapter 9. Commemorating the 60th Anniversary of the Marshall Plan

by R. Nicholas Burns

I am honored to address this important conference and what better place to do so than at the *Hôtel de Talleyrand*. First I want to thank Ambassador Connie Morella, who has done so much along with her US OECD team to organize this symposium, and of course Ambassadors Craig Stapleton and Louise Oliver for joining us today. I would also like to express my gratitude to Dr. Eliot Sorel of George Washington University, who selected and organized the scholarly contributions to the Marshall symposium, here today. And, of course, I must say "thank you" to Brian Shaw and Bob James of the George C. Marshall Foundation, and their team, for their crucial support for this symposium. I would also like to thank the many generous contributors to the restoration of the George C. Marshall Center here at the Talleyrand. Without your support, this important project would have been impossible.

This magnificent hotel is a part of French history and also part of the history of our strong alliance. As the private residence of Prince Talleyrand, it was here that he received Czar Alexander I and the Duke of Wellington, among others, in 1814 to negotiate peace in Europe. This was the place Victor Hugo wrote about when he said of Talleyrand, "into his palace, as a spider into its web, he enticed and captured, one by one, heroes, thinkers, conquerors, princes, emperors." And, of course, it was from here, more than 130 years later, that the Marshall Plan was administered, serving once again the cause of peace after a terrible war. We have celebrated many important anniversaries this year – the 63rd anniversary of D-Day, and the 60th anniversary of the Truman Doctrine.

There is perhaps no more important anniversary to celebrate than the launching of the Marshall Plan 60 years ago on 5 June. It is a great honor for me to be here in Paris to pay tribute to George Catlett Marshall, the architect of our Allied victory in World War II, a superb Secretary of State, a man of great wisdom and vision. A man of peace. Marshall was a brilliant officer, serving as Chief of Operations for General Jack Pershing's American Expeditionary Force on the western front during World War I. Twenty years later, during World War II, he became the indispensable advisor to President Franklin Roosevelt in Washington. From his desk at the Pentagon, Marshall directed our war effort in the Pacific and European theaters. As a five-star General and Army Chief of Staff, Marshall was the brilliant and creative organizer of the greatest military build-up in history. He took a small, ill-trained army of 200,000 in 1939 to 12 million men and women in uniform by 1945.

Marshall also harnessed America's awesome military-industrial expansion, which provided tanks, planes and guns for not only our armed forces but for those of Britain and the Soviet Union, as well. Marshall was a principal architect of the D-Day Invasion of June 1944. Roosevelt wanted Marshall to command all allied armies on the drive to Berlin but reconsidered when it became clear that Marshall – and Marshall alone – was irreplaceable in Washington as our overall director in the most terrible war of all time.

After the war, Marshall served as President Truman's special emissary to mediate the Chinese Civil War. And, of course, Marshall served as both Secretary of State and Secretary of Defense. Marshall was one of the founders of NATO (North Atlantic Treaty Organization), a winner of the Nobel Peace Prize and especially, the architect of the Marshall Plan that helped to rebuild a ravaged Europe after World War II.

The Marshall Plan was the founding and defining event of our present transatlantic relationship, and the significance of George Marshall's vision becomes clear when we review the implementation of the plan itself. Unlike nearly every other conqueror in recorded history, his instinct when America was unusually and supremely powerful in the late 1940s was not to vanquish his former foes and dominate his friends, but to stretch out a helping hand to both so that they might rejoin the community of free and democratic nations. And that, in essence, was the Marshall Plan – a USD 13 billion lifeline to a sinking Europe at a time when many countries could easily have fallen to communism. Winston Churchill called the Marshall Plan "the most unsordid act in history." The Dutch Foreign Minister at the time, Dirk Stikker, remarked that "Churchill's words won the war, while Marshall's words won the peace." From every perspective, the Marshall Plan saved most of Western Europe from hunger, destitution, war and dictatorship. As it rebuilt economies, stabilized currencies and gave people hope again, in many ways the Marshall Plan was the first step toward the united Europe we see today.

In Greece, the American Mission for Aid to Greece delivered roughly USD 5 billion in emergency assistance. It resettled 670,000 displaced villagers; created a new, national electrical system; cleared and rebuilt the Corinth Canal; constructed new roads all over the county; wiped out malaria; resuscitated the agricultural system; and rehabilitated the Greek drachma. The Marshall Plan began as an emergency program, but its sustained contributions to agriculture and finance succeeded in laying the foundation for the Greek economic miracle of the 1950s. In Germany, through Marshall Plan aid, instead of further punishing a past enemy, the United States contributed well over USD 1.3 billion dollars to restoring Germany's economic viability, and planting the seeds of freedom in a future ally. In the Netherlands, the Marshall Plan helped to contain rampaging inflation, underwrite a program to reclaim land, and provided low cost housing for industrial workers. This and other assistance totaled over USD 1 billion. Here in France, where leaders supported the Monnet Plan for industrial modernization, Marshall funds totaling some USD 2.7 billion provided resources for the Usinor steel mills and the Genissiat hydroelectric project.

From the perspective of our own time, the Marshall Plan stands as one of the truly visionary and successful government efforts in American history. Its impact was simply extraordinary: it saved Europe from communism, it gave ordinary people the hope that they could rebuild their economies and their lives and look once more to the future with a sense of optimism. In all these places, and in 11 other countries, George C. Marshall, our Secretary of State at the time, laid the basis of this co-operation 60 years ago last week when he called on Europeans to work among themselves on a plan for the recovery of their war-ravaged continent, and pledged that if they did that, the United States would fund their project.

The Marshall Plan institutions engendered many of the European and Euro-Atlantic institutions we have with us to this day. The Organisation for European Economic Co-operation, created to administer the plan, developed into today's OECD. From there it was but a logical step to jointly administer other economic assets, and Robert Schuman proposed that France, Germany, Italy and the Benelux countries pool their coal and steel

industries, leading to today's European Union. The North Atlantic Treaty Organization, created in 1949, also owes its birth to the spirit of co-operation that came into being as a result of the Marshall Plan. Marshall, in that sense, can be seen as the grandfather of the OECD and NATO. In some ways, he is the American who did the most to encourage the creation of the European Union.

And so it is that today we remember the paramount lesson of the Marshall Plan – that the United States and Europe working together can build peace and a better future. If the United States and Europe continue to work together – galvanized by our shared core values of freedom, democracy, market economics, and the rule of law – we can overcome the greatest of challenges that we face in our time – global climate change, trafficking in women and children, international drug and criminal cartels, terrorism, and weapons of mass destruction. Working together, we can help to nurture, expand throughout the world, freedom of speech, religion, press and assembly; the rule of law; private property rights; and a system where political parties compete in free and fair elections. These are the fundamental elements of all democracies that President Bush outlined in his speech in Prague last week; the rights and institutions that, as he put it, are the foundation of human dignity.

These lessons also speak to America's alliance with France. We share a long history of friendship, dating to the founding of our republic some 230 years ago. Like all the best friendships, it was one forged in the trenches. In the American Revolution, France's aid to General Washington's troops and to our fledgling democracy was decisive. You signed a treaty with us when no one else was willing to take that risk, and thus are now our oldest ally. The basis of our unique partnership also rests on ideas, on how much one side has influenced the other intellectually, from the works of Voltaire and Jefferson, the wisdom of de Toqueville, Montesquieu, Franklin, Adams, and many others. It was renewed again with Truman, de Gaulle and, of course, George Marshall. This strong alliance continued through both world wars last century, when we fought for democracy against the forces of darkness which threatened to overwhelm Europe – and the world. And we were together also during the Cold War, when we affirmed the primacy of democratic values. Secretary Rice declared during her speech at Sciences Po in February 2005, "The history of the United States and that of France are intertwined. Our history is a history of shared values, of shared sacrifice and of shared successes. So too will be our shared future." What are these values? They are an abiding commitment to democracy; pluralism; freedom of speech; equality of our citizens – regardless of race, religion or ethnicity. France believes, like the United States, in a patriotism not based just on blood and soil, but in one of shared commitment to the ideals we cherish. Thank you.

Annex A. Monograph Authors' Brief Biographies

Volker R. Berghahn is Seth Low Professor of History at Columbia University (New York City). He is an internationally recognized expert on Germany, modern Europe, and European-American relations during the Cold War. In 2006, he was awarded the Helmut Schmidt Prize of the Zeit Foundation for his work on European business history. Among his publications are *The Americanization of West Germany Industry, 1945-1973*, and, most recently, a study of the *Ford Foundation in Europe* during the early postwar decades.

Gerard Bossuat is Professor and Chairman of Contemporary History and the Director of the Master's Program on European and International Studies, specializing in European projects and strategies, at the University of Cergy-Pontoise (Val d'Oise) France. He is an internationally renowned expert on 20th century French history, the history of international relations, history of European unity, and transatlantic relations. Among his recent publications are *The Founders of United Europe*; *The American Economic and Military Aid to France, 1938-1960*; and *The Marshall Plan and European Unity, 1944-1952.*

R. Nicholas Burns is the Under Secretary of State for Political Affairs, the Department of State's third ranking official. As Under Secretary, he overseas US Policy in each region of the world and serves in the senior career Foreign Service position at the Department. Prior to his current assignment, Ambassador Burns was the United States Permanent Representative to the North Atlantic Treaty Organization. From 1997 to 2001, Ambassador Burns was the US Ambassador to Greece. During his tenure as Ambassador, the United States expanded the military and law enforcement co-operation with Greece, strengthened partnerships in the Balkans, increased trade and investment and people-to-people programs.

Bertrand Collomb is the Honorary Chairman of Lafarge Company, a worldwide leader in the production of building materials. He is a graduate of the *Ecole Polytechnique* and *Ecole des Mines* (Paris). He also holds a French law degree and a degree in management (University of Texas). Mr. Collomb is the Chairman of the *Association Française des Entreprises Privées* (AFEP), and Chairman of the French Institute of International Relations (IFRI). A world business leader in sustainable development and the role of health therein, he is Vice Chairman of the Global Business Coalition against HIV/AIDS, and a former chairman of the Business Council for Sustainable Development. He is a member of the "*Institut de France*" (*Academie des Sciences Morales et Politiques*).

Daniel Daianu is a member of the European Parliament as of December 2007 and Professor of Economics, School of Political and Administrative Studies in Bucharest (Romania). He chairs the Romanian Economic Society, and the Romanian Center for Global Studies. He is a member of the Romanian Academy and of the Board of the European Association for Comparative Economic Studies. A former Finance Minister and

Chief Economist of the National Bank of Romania, he chaired, in 2001, the Organization for Security and Cooperation in Europe, Economic Forum. Among his recent publications are *What Will Romania Be in the European Union* and *Ethical Boundaries of Capitalism*.

Bronislaw Geremek (1932-2008) was the President of the Jean Monnet Foundation for Europe, a member of the European Parliament, and a founding member of the Solidarity movement in Poland. He was a Professor of European Civilization at the College of Europe – Natolin. Among the leading European intellectuals, Professor Geremek has been honored with the Legion D'Honneur, the Grand Prix de la Francophonie, the Grand Croix de L'Ordre de Leopold II, and the W. Averill Harriman Democracy Award, among many honors. His recent publications include *L'Historien et le Politique*; *Noir Sur Blanc*; and *La Democrazia in Europa*. Professor Geremek passed away as this publication was going to print.

John R. Killick, Lecturer in Economic History at Leeds University (Leeds, United Kingdom), is an internationally recognized expert in American economic history, American economic foreign relations, and international economic history. Among his publications are *Atlantic Economy, 1783-2000*; *The Emergence of the Atlantic Economy in the Early 19th Century*; *The Transformation of the Atlantic Economy in the Late 19th Century*; and *The United States and European Reconstruction, 1945-1960*. He has also served on the editorial board of the *Journal of American Studies.*

Barry Machado is the former Director of Research for the Marshall Undergraduate Scholarship Program at the George C. Marshall Research Library and a retired Professor of History at the Washington and Lee University, in Lexington, Virginia. He is an expert in the Cold War and American Business Abroad. Among his publications are *In Search of a Usable Past: The Marshall Plan and Postwar Reconstruction Today*; "History, Memory, and the Holes in the Wall," in *The Most Dangerous Years: The Cold War, 1953-1975*; and "The Kennedy Tapes: Inside the White House During the Cuban Missile Crisis". He also served on the editorial advisory board of the *Journal of Military History*.

Pier Carlo Padoan is the Deputy Secretary-General of the Organisation for Economic Co-operation and Development (OECD). An internationally reputable economist, Professor Padoan has served as Executive Director of the International Monetary Fund in Washington, DC, as economic advisor to the Italian Prime Minister, in charge of international economic policies, and has been a Professor of Economics at the University of Rome, *La Sapienza* since 1991. He also served as Director of Economic Studies and visiting Professor at the College of Europe (Bruges, Belgium). Among his recent publications are *The Lisbon Agenda and the European Social Model* and *Political Economy of New Regionalism and Global Governance*.

Eliot Sorel is an internationally recognized educator and physician leader, Chairman and Founder of the Conflict Management and Conflict Resolution Section, World Psychiatric Association. He holds professorial appointments in the School of Medicine and Health Sciences, and in the School of Public Health and Health Services of the George Washington University (Washington, DC). In 2004, he was awarded the *Star of Romania, Order of Commander* for his cultural and scientific contributions to Romania. He recently conceived, initiated, and led the program entitled *The Marshall Plan: French and American Perspectives on Lessons Learned Applicable to the 21st Century*, at the Elliott School for International Affairs of the George Washington University. His most recent publication is *Democracy Bridge Building: Arabs, Central and East European Democrats*.

Marshall Plan Chronology

By Gérard Bossuat and Barry Machado
June 2008

June 5	1947	Secretary George Marshall's speech, Harvard University
June 27-July 2	1947	Anglo-French- Soviet conference (Paris) , answer to the Marshall speech , breakdown with the Soviets
July 12-September 22	1947	Economic Cooperation conference of Paris, report by the sixteenth European countries on the Aid program, 22 billions $ during 4 years asked
October 5	1947	Creation of the Kominform
November 6	1947	Harriman Report is issued
December 17	1947	Signature of the interim Aid program Act to Europe, $509 millions for France, Italy and Austria
March 17	1948	Brussels pact between Belgium, Netherlands, Luxemburg, France en Greta-Britain
March 21	1948	Signature of the protocol for a custom Union by France and Italy
April 3	1948	Signature by Truman of the Foreign Aid Act of 1948 , first year of the Marshall Aid (April 1948 to June 1949)
April 16	1948	Creation of OCDE, Robert Marjolin general secretary
June 23	1948	Berlin crisis: blockade of the western zone in Berlin
June 28	1948	Signature of the French and American agreement upon the Marshall Aid. Each country member of the Marshall plan has to sign such an agreement
October 16	1948	Creation of the first European multilateral payment system by the OCDE
October 22	1948	Zhdanov calls on Communists to undermine Marshall Plan
January 7	1949	Resignation of Secretary G. Marshall, Dean Acheson in charge
March 3	1949	Attempt of French an British for building a European Long Term Plan in order to reconstruct the European economy. Failure
April 4	1949	Signature of the North Atlantic Treaty at Washington
August	1949	Coming into force of the Embargo lists against Communist countries
October 31	1949	ECA Administrator Paul Hoffman's Speech to OEEC (Paris) on Western European integration
December 29	1949	Liberalization of 50% of the inter-European private trade
June 23	1950	Korean war
September 19	1950	Creation of the European Payment Union (EPU)
February 1st	1951	Liberalization of 75% of the inter-European private trade
October 10	1951	Approval by President Truman of the Mutual Security Act ending of the Marshall plan and creating the Mutual Security Program
December 31	1951	Marshall Plan officially ends

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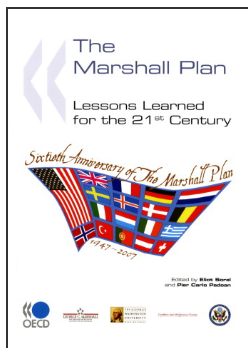

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