VOL. 2, NO. 7, November 2013 ISSN 2307-2466
International Journal of Economics, Finance and Management
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The Relevance of Marshall Plan Today

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ABSTRACT

It is up to us the economists, to provide an institutional framework which would establish new balances between rational expectations for both production and employment, for financial consolidation and efficient crisis management. This is why the paper examines the relevance of a Marshall Plan-type response today in Europe. It suggests how the application of this approach, concepts and methodology could benefit the Central and Eastern European countries as region despite the fact there are many differences in their economies, but there are more homogeneous problems in that area. The second proposal in the paper is that weak countries such as Greece should use the methodology of the Marshall Plan with the help of the EU. Greece needs real structural transformations with the help of the Marshall Plan methodology as well. And thirdly the paper suggests the application of the Marshall Plan as an instrument for EU and global coordination, taking into account the needs for more complex coordination procedures: how for example to coordinate the Tobin tax with the rest of the world and so on?

Keywords: *Crisis management, Central and Eastern Europe, Greece, Marshall Plan, global coordination*

1. INTRODUCTION

As the predecessor of the International Triffin Foundation the Robert Triffin-Szirák Foundation (RTSF) organised international conferences from 1986 in Hungary. Robert Triffin was present, as a Guest of Honor, at the First Conference on the Future of the International Monetary System, held in Szirák. Triffin's arrival in Hungary brought a new aspect to classical economic thought there. He was "delighted at the opportunity of discussing the future of international monetary system for the first time at a conference sponsored by Eastern, rather than Western institutions." The new dimension Triffin brought to Hungary was not only his professionally disciplined criticism of the existing world monetary system, but also his recommendations with respect to exchange rates, reserve assets and capital movements. In closing the 1986 Szirák Conference Triffin expressed the hope "that this ambitious attempt to create a new spirit of cooperation between the socialistic and capitalistic countries will be followed by many others in the interest of the survival of mankind, in peace and prosperity." The Seventh Conference of the RTSF, held in 1997 in Budapest, was combined with the 1997 Colloquium of SUERF (the Société Universitaire Européenne de Recherche Financiére). The topic selected for the conference by SUERF was corporate governance. Another main topic area of the conference was the Marshall Plan on its fiftieth anniversary. The lessons from the conference are that an inflow of capital into weak areas can be extremely fruitful provided that the allocation of resources is relevant and that sound corporate governance applies to the firms in charge of running the investment. This is the first reason why I intend to focus on the relevance of the Marshall Plan today in my article.

Another reason is that Robert Triffin was an intellectual builder of the European Payments Union (EPU) in 1950 and restored the inter-convertibility of European currencies, so paved the way to the Committee of European Economic Co-operation (CEEC) and later to the Organisation of European Economic Co-operation (OEEC), which was an administrative arm of the Marshall Plan.

The third reason that gives me an impetus to deal with the relevance of the Marshall Plan today is the existence of many parallels of the macroeconomic conditions of the Central Eastern European countries and those of Western Europe after the World War II.

VOL. 2, NO. 7, November 2013 ISSN 2307-2466
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Although, Bernard Snoy made such a thorough comparative analysis [1] at the conference of RTSF in 1997, and other speakers also suggested the application of concepts and administrative techniques of the Marshall Plan for the Central and Eastern European countries the international community did not respond positively to such proposals. The inability of industrial countries to give a Marshall Plan-type response in the 1990s, of course, made the transition process of the region more difficult, longer and the countries to be more vulnerable.

In the aftermath of the 2008-2010 global crisis the vulnerability of the countries manifests itself in a number of fields.

- In the Central and Eastern European EU member-countries* the government debt to GDP ratio largely increased in the period of 2008-2010, particularly in Latvia, in Lithuania, in Hungary and in Romania. The ratio is higher than 60 percent of the GDP in 2010 in Hungary (80.2%).
- In the region the government budget deficit also increased remarkably in Latvia, Lithuania, Hungary, Poland, Romania and Slovakia, in particular. This direction of movement, together with the higher debt service, has narrowed the activity field of the fiscal policy.
- The fragility of the financial sector has been largely extended by the global financial crisis, the high ratio of non-performance credits and the FX loan repayment resulting in the low lending activity, which can hardly be counter-balanced from foreign financing, due to the scarcity of international financing resources.
- Under such circumstances the deepening euro zone crisis greatly hit the Central and Easter European countries and stopped the recovery of the economic growth in the region particularly in 2012, which could appear to be an effective engine for the economic growth in the EU.

By comparing of such a situation in the Central and Eastern Europe today with that of Western Europe after 1945 very briefly, one can make a number of parallels between conditions: the need for the renewal and modernisation of capital stocks by investments; insufficient savings, the high unemployment, the fragility of the fiscal position, high external debts and low foreign exchange reserves.

2. HOW TO ASSIST COUNTRIES?

In the light of these parallels one could raise the question of what would be the potential merits of a Marshall Plan-type response to the current challenges for some member countries of the European Union in the Central and Eastern European and the Mediterranean regions, in particular. First, let's have a look at *the concept of the Marshall Plan*. The original Plan had such a concept: to help 'the people of the United States escape the danger of isolationism … and assist all European countries crippled by the war' to get on their feet.[2] In the aftermath of the 2008-2010 global crisis the Marshall Plan would have a similar concept: to assists the countries to avoid the disruption of their closing-up process to the development level of euro zone by speeding up reconstruction, and to ensure that the Central and Eastern European and the Mediterranean regions could be a driving force for the economic growth in the European Union.

Now, turning to *the main elements of the model of Marshall Plan* they represent an internationally recognized best practice that might be summarized briefly as follows.

- It is vital to have *a realistic* – neither overgenerous nor hard-fisted – *appraisal of the economic needs of countries* to receive a mixture of sovereign non-refundable capital transfers; long term concessionary loans, including loans from the private sector as well, under favourable

* Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia and Slovakia.

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conditions. After World War II, in the first round of the implementation of the Marshall Plan European governments have received their Marshall Plan Assistance in dollars. These were deposited in special accounts. They could dispose of these accounts only with the consent of the American Representative. Once the Recipient Governments have on-lent their share of Marshall Plan transfers to local entrepreneurs, they, for theirs own account, imported goods from the United States. Then they were obliged to repay the original dollar loans with interest to their national government, in the domestic currency, into a counterpart account. This allowed the local government to on-lend the same funds for further development purposes. Recently, in the light of the results (no economic growth but high unemployment) of the bailout plan applied so far, this requirement seems to be satisfied by a multi-year program of foreign aid in the form of a Marshall Plan for Greece as a continuation of the current bailout plan. The Greek governments and its donors, instead of piling more loans onto the country's already very high debt burden, would decide together the implementation of investment projects in the real economy, in particular.

– Secondly, *a sufficient amount of financial resources* would be needed for providing start-up capital and trading advantages that was ensured by the United States after the World War II. Today, the reallocation of EU funds and the financial capacity of IMF could play such a central role together with a meaningful fiscal commitment from core economies. However, taking into account the weak financial position of euro zone, it seems to be indispensable to rely on other international financial resources, as well.

– Thirdly, *a soundly balanced economic, political and security variables* can lead only to democratic, societal cohesion recognized by most – if not by all – economic and social players as fair and equitable, due to the urging social situations in most countries. This calls for again a greater sentiment of the policymakers for innovative policies and broader social dialogue in order to be able bringing about fair and new balances based on a better harmonization of sovereign debt, sustainable economic growth and greater social stability in our increasingly globalized world.

– Fourthly, *new economic institutions and legislation* supported the Marshall Plan. E.g., the European Payments Union (EPU) has greatly contributed to the carrying out the replacement of bilateralism with multilateralism in a way, which should simultaneously increase the competitiveness of European goods on the world market through the creation of a clearing system for the Members of the Union. Central banks could settle their surpluses and deficits resulting from clearing balanced through accounts opened for this purpose at the BIS. It can be said with confidence that neither the EPU would have succeeded without the support of the Marshall Plan, nor the latter without the contribution of the former. Today, in the aftermath of the global crisis the economic management abhors vacua, in particular. This suggests that ranges of institutional and policy measures from the more efficient surveillance of financial sector, through the renewal of the EU's economic governance, to the harmonisation of economic policies are needed.

I am convinced that this framework of building blocks can serve as a good basis for giving proper answers to the European challenges today. It would help to understand

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the framework if we should elaborate some aspects of its elements in greater details.

First, such an aspect of the capital transfer is *to focus on the real economy*. In the light of upside risks for growth and employment in many countries the current focus from an ad hoc bailout plan (e.g., the case of Greece) has to be shifted to the increase of competitiveness and growth of economies based on long term strategy like Europe 2020 – A European strategy for smart, sustainable and inclusive growth. The priorities of the European strategy, namely

- developing an economy based on knowledge and innovation,
- promoting a more resource efficient, greener and more competitive economy,
- fostering a high-employment economy delivering economic, social and territorial cohesion

could also be taken as basic orientations for the elaboration of the more concrete Marshall Plan. Of course, these headline targets must be measurable, capable of reflecting the diversity of Member States situations and based on sufficiently reliable data for purposes of comparisons.

Another important EU practise the EU's National Strategic Reference Framework Scheme, which channels grants of money to member countries needed for helping their economic and social projects, could also be efficiently combined with the application of the Marshall Plan. To do so, the applicant country has to be assisted at being able to match each disbursement of EU funds with some of its own money for the projects (e.g., temporarily by raising the EU share of funding to 85-95 percent). Such a systematic cooperation between the Marshall Plan and the EU funds could make it possible to avoid the often-existing lack of synchronisation in this important field of development. For example, Greece had 20.2 billion euros of such funds available to it between 2007 and 2013, and up to the year 2012 tapped only a little over 5 billion euros; so, some 2.0 percentage points to annual GDP growth over four-five years is missing due to the unused remaining funds.

Here, to tackle the crisis the Multiannual Financial Framework (MFF) for 2014-2020 plays a decisive role. Taking into account its general priorities it is welcomed that the time horizon of the MFF will be again seven years that forms a good basis for the medium term programming of the cohesion policy. It is also important that the level of the support for the under-developed regions could be maintained.

In the context of the *sufficient amount of financial resources needed* three European Financial institutions play important roles.

- The function of European Central Bank (ECB) is to stabilize the debt crisis.
- The European Stability Mechanism (ESM) is to deal with the EU member-states' sovereign debt and to acquire the role of recapitalizing stress tested banks (in exchange for equity).
- The European Investment Bank (EIB) runs the productive investment drive needed for the euro zone and other EU member-countries.

Beyond their financial capacities, however, *there is need certainly for complementary resources* stemming from the recycling of global surpluses in line with the policy goals of the G20 to achieve a more balanced recovery of the world economy. A major focus of work under the G20 Framework for Strong, Sustainable and Balanced Growth and related Mutual Assessment Process (MAP) has been the reduction of large and persistent external imbalances in the global economy that developed over the past decade. The imbalances declined during the current economic downturn but there is concern that, in the absence of corrective actions, they will rise again as the world economy recovers. The G20 has made progress in developing a framework for addressing these imbalances, with the effort turning toward concrete measures that can form part of an action plan that the G20 Leaders adopted

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at their summit in Cannes in November 2011. The measures, according to the action plan, focus on the following areas.

- Strong fiscal consolidation plans are essential to put fiscal finances on a sustainable track and help reduce current account deficits in some member countries.
- Countries running large current account surpluses also have a role to play in rebalancing global demand, which will help sustain global growth and unwind large external imbalances.
- Further progress on structural reforms is critical to raising domestic demand in all G-20 countries.
- Strong financial systems are also important for growth and stability.
- Members recognise in these uncertain times it is essential to resist protectionism of all kinds, promote open trade and reverse the build up of restrictive trade measures.

In this context, the *BRICS countries*, from among them particularly *China* would be considered to play a future role in financing European countries assisted. Here, Chinese involvement might be realized first in the form of being limited to short-term bonds and then to change it to long-term ones. Agreeing with many experts it would be desirable that the Chinese support would be channelled through a coherent policy framework based on a new united EU policy. In the lack of such a policy framework the Chinese support could, on a bilateral basis, also function in the form of buying national government bonds. Such a “Chinese” Marshall Plan for Europe is to be considered as the application of a wise and courageous economic and financial strategy, counting with the global realities, as was followed by the United States after the World War II.

In connection with *the need for balanced economic, political and security variables* I want to emphasize that its multidisciplinary approach also belongs to the Marshall Plan’s legacy, which has greatly contributed to the Euro-Atlantic cooperation for decades. [3] This element of the model of a New Marshall Plan can create new security ties not only with Central and Eastern Europe (perhaps including Russia and Ukraine), but with other Asian regions, first of all with China, as well. Furthermore, it could be an efficient instrument for strengthening the Europe-wide coordination and, on this basis, the coordination between Europe and the rest of the world. For example, the coordination of the Tobin tax with the rest of the world needs for more complex coordination procedures. In this context, the Marshall Plan is not just a symbol of wise aid policy but it might be an efficient instrument of global cooperation, as well.

Turning to *the task of new economic institutions and legislation* a number of important reforms have already been past or in the process of the implementation.

- Policymakers established a new financial surveillance system of the EU that consists of three surveillance authorities and the European Systemic Risk Board. However, some elements of the system is still missing, e.g. directives on the insurance and the Single Euro Payment Area (SEPA).
- EU policymakers have decided to renew the EU’s “economic governance” by drawing-up Community mechanisms, along with the enforcement of budgetary surveillance, to handle macroeconomic imbalances. The so-called “six-pack” consisting of 6 pieces of legislation has made a good progress under the Hungarian Presidency in the first part of the year 2011 and now it is close to final. The six regulations form a basis for the economic governance focusing on
    - the strengthening the rules of the Stability and Growth Pact;
    - more emphasis on the debt criterion;

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- introduction of a new Excessive Imbalance Procedure (EIP) as a new element of the EU's economic surveillance framework, established in line with the Excessive Deficit Procedure (EDP). These procedures as multi-stage sanctions would be applicable to the euro zone countries in the event of non-compliance with the Council's recommendation to correct the excessive deficit (the case of EDP) or in the event of an excessive macroeconomic imbalance (the case of EIP).

– The introduction of *the European Semester* in January 2011 has given a new framework for the EU-level coordination of economic policies. Namely, the coordination of the countries' convergence programs with the national reforms programs prepared for implementing the priorities of the Europe 2020 Strategy started well and the Semester proved to be efficient in country-specific advance-giving to the EU member-countries, too.

3. WHAT AND WHOM TO BE ASSISTED?

One can hold the view that the Community mechanisms are adequately modernized and going to function efficiently in the future, as well. Consequently, there is no space and need for a Marshall Plan-type response, the "New Marshall Plan" for Greece was just a usual EU rhetoric to raise expectations only two years ago.

The answer to this dilemma is rather no then yes. We can still learn much from the insights of the Marshall Plan concerning its underlining search for balances in both the economic and security sectors for longer term, in particular. Schumpeter, already in 1942, has noted without approving or disapproving, that the 'disintegration of capitalist society has gone' already far on certain fields, and that the implications of these developments 'are being taken for granted both by the business class itself and by (a) large number of economists … (who) accept not only unquestioningly but also approvingly:

1. the various stabilization policies which are to prevent recessions, or at least depressions;
2. the desirability of greater equality of incomes;
3. a rich assortment of regulative measures frequently rationalizes by antitrust slogans, as regards prices;
4. public control;
5. indefinite extension of the sphere of wants that are now, or eventually, to be satisfied by public enterprise, either gratis or no some post-office principle; and
6. of course all types of (social) security legislation.'

A few lines later, Schumpeter adds significantly: 'Capitalism … means a scheme of values, an attitude toward life, a civilization of inequality and of the family fortune. This civilization is rapidly passing away …'[4].

The net results of the economic, social and political development based on the soil of this declining capitalist culture were rather on the positive side in Europe up to the financial and economic crisis. Today, in the aftermath of the crisis *it seems to be inevitable to establish new, dynamic balances, 'virtuous circles' energizing constructive forces in the sectors, they cover in the context of the concept and model of the Marshall Plan. Such an activity certainly needs long term perspectives over the today followed short and medium term ones.*

A Marshall Plan-type approach suggest another "soft" application for *strengthening the coordination* between the EU's existing economic institutions, legislation and the new ones discussed above. It stems from the current difficult economic situation that an increasingly comprehensive approach is needed today. Also, the time appears to be over a system based on intergovernmental

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cooperation, and there is need for more federal approaches. E.g., the time is urging for a greater and more efficient integration of our economic and budgetary policies.

As a second "hard" field of application the Marshall Plan-type approach offers itself for *the economically very weak countries* in order to regain their sustainable capabilities. The EU and the IMF with the Greek bailout made an important step accepted by the markets. However, according to many experts' opinion a different diagnosis might be also justified: that there is still a chronic underinvestment problem in the euro zone deficit countries, which is the ultimate cause of the internal trade imbalances and thus of the private and then public debt build-up. Consequently, the increase of productive investment to improve productive structures would represent a real solution of delivering both the growth and jobs in the future. Such considerations and approaches would open the way for a "real Marshall Plan" scenario in the case of Greece, as well. [5]

As another "*hard*" field of *the application of the Marshall Plan methodology the Central and Eastern European countries would be considered*. Although, there exists remarkable differences in economic and financial situations of the countries from the viewpoints of development tasks of further reconstruction, of measures needed for strengthening the competitiveness and of the implementation of structural reforms the region can be viewed as a closely homogenous one. However, it must be underlined that the region needs a "real Marshall Plan", which is based on extra investment resources rather than on the reallocation of EU funds only.

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