Reconstructing Ukraine: Lessons from the Marshall Plan

Harold James
Princeton University
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Marshall Plan

• The modern system of the division of labor upon which the exchange of products is based is in danger of breaking down.

• The truth of the matter is that Europe's requirements for the next three or four years of foreign food and other essential products - principally from America - are so much greater than her present ability to pay that she must have substantial additional help or face economic, social, and political deterioration of a very grave character.

• The remedy lies in breaking the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole.

• 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 right questions

• how the amount of aid given relates to the scale of the intended effects
• how aid can be used as a catalyst for a general development of productive forces
• how support can bind the recipient into a deep network of international connections
• how much should be organized by governments
• how knowledge in the private sector of the donor could be used to transform productivity in the recipient
The problems

Myths about the Marshall Plan

• A “uniquely generous act”
• A “tool of US imperialism”
February 22, 1947

Most of the other countries of the world find themselves exhausted economically, financially, and physically. If the world is to get on its feet, if the productive facilities of the world are to be restored, if the democratic processes in many countries are to resume their functioning, a strong lead and definite assistance from the United States will be necessary.
Net Grants and Credits as a % of US GDP

- Western Europe
- Other Europe
- Near East and Africa
- Asia-Pacific
- Western Hemisphere
- International organizations

Net ERP aid as share of NI 1948-49
In sum,

- Total amount provided by the US in ERP assistance was $13.3 bn.
- Current value would be around $175 bn.
- Measured as a share of GDP at the time, which was 5.3 percent, a calculation would suggest an amount of $1,200 bn.
- Total war damages to Ukraine by September 2022 estimated at $ 127 bn (including $50 bn housing and $35 bn. transportation).
- Ukraine’s GDP was $534 bn. in 2021.
- 1940s: Need for specific imports: foodstuffs, machine tools and engineering equipment
• Counterpart funds
• Debt issues
• Catalytic effects: 139 individual projects, of which 27 were in energy production, and 32 in iron and steel. Cost $2.25 billion, but of this only $565 million came directly from the Marshall Plan.
Interlinkages

• Economic Cooperation Administration (Administrator Paul Hoffmann), with wide representation of US business, labor and agricultural interests in committees

• Organization for European Economic Cooperation, with technical committees managed particular sectors: food and agriculture, coal, electricity, oil, iron and steel, raw materials, machinery, non-ferrous metals, chemical products, timber, pulp and paper, textiles

• Payments clearings multilateralized through Bank for International Settlements, not International Monetary Fund
Lessons from History?

1. A large amount of money is required for reconstruction, but the US was not the source of the major funding or investment required for the entire reconstruction effort after the Second World War, and the same principle should apply to western governments funding Ukrainian reconstruction.
2. The key to effective reconstruction is to identify bottlenecks that hinder the restoration of economic activity, and limit the country’s immediate ability to earn foreign currency from exports. We might think of the examples of the devastated steel works of Mariupol’s Metallurgical Combine Azovstal and elsewhere – also essential for producing byproducts such as the neon gas used in semiconductor production. But above all the bottlenecks of today are in very high tech sectors, and may be complementary for the sophisticated software capabilities that many Ukrainians have, and which they used very productively in the course of the conflict.
3. Debt relief will play a major part in the reconstruction effort, but requires very careful handling as it raises major questions about equity and political justice. At the end of 2021, Ukraine’s external public debt was around $57 billion (or over a quarter of GDP), including $13.4 bn. owed to the IMF. There was also a large private sector debt, so that total external debt stood at around $127 bn. But this gross debt position corresponds to very substantial, mostly privately held assets abroad, so that the net international investment position in 2021 was calculated by the IMF at -11.7 percent.
4. The employment of some part of the funding of reconstruction at the discretion of the recipient government (in the style of the Marshall counterpart funds) is a key part of the process of creating ownership, and building democracy – vital to the desired process of restoring normality. Western funders should be concerned about the potential for corruption, but too intrusive a monitoring by outsiders and outside institutions, as opposed to democratic and transparent control in Ukraine, would be counter-productive.
5. The restoration of regional cross-border commercial and financial linkages is an essential element in the reconstruction process. The essence of the Marshall Plan was the vision of a European context, and Paul Hoffmann spoke repeatedly about the need for a European political union. That context is still essential. The issue of closer engagement with the EU was a critical element in the precipitation of the Maidan demonstrations from November 2013 that led to the change of government that infuriated Vladimir Putin, and led Russia on the path to ar, in 2014 in Crimea and then with the full-scale invasion of 2022.
6. The process cannot effectively be entrusted to a world-level multilateral institution such as the IMF as long as there are geopolitical tensions remaining, because it is likely that Russia or China might block the effective restoration of a democratic and sovereign Ukraine. In general, the less politicized the administering organization, the better.
7. If the geopolitical situation changes, a global engagement in Ukraine’s transformation becomes critical. Ukraine is a key linkage in the BRI connecting China to Europe. There is also a strong historical interest of China in Ukraine’s development. Thus a governance structure for the reengagement of Ukraine needs an element of flexibility.
The Marshall Plan was envisaged as a path to a generalized and global prosperity, and was not directed at one specific country. As it is, western engagement in and support for Ukraine is often contrasted unfavorably with the absence of effective support for democracy and resistance to Putin’s agents in Syria (and elsewhere). There is thus a very strong case for building a general program for the management of post-conflict societies, rather than a specially Ukraine oriented effort.
9. The dark side of the Marshall Plan needs to be avoided. A reconstruction project won’t work if the money is seen as a way simply of advancing the agenda of the US, or of some EU countries, or of the EU Commission.
10. There is in any case no need to teach Ukraine or Ukrainians lessons about democracy and democratic values. On the contrary, Ukraine has a great deal to teach the West in this respect.