

# 60 Years of Marshall Plan Aid – A Critical Appraisal from an Austrian Perspective

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Marking the 60<sup>th</sup> anniversary of the Marshall Plan Speech, which was delivered on June 5, 1947, this paper looks back on the evolution of one of the most important and probably most successful economic programs of recent history – the European Recovery Program (ERP).

The famous speech George C. Marshall<sup>2</sup>, then U.S. Secretary of State, gave in front of Harvard faculty members and students 60 years ago, outlined his concept of a comprehensive economic program designed to aid the reconstruction of post-war Europe, which was stricken with hunger, poverty and desperation.

This marked the beginning of a momentous economic assistance program under which 16 European states and the Free Territory of Trieste benefited from economic aid in the amount of roughly USD 17 billion between 1948 and 1953. Of this amount, about USD 1.1 billion went to Austria, either in the form of goods or grants, whereas most other Western European countries received U.S. aid in the form of loans. The reason Austria was treated as a special case was primarily its geographically exposed location between East and West.

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*Keywords:* Marshall Plan, reconstruction of post-war Europe, U.S. aid.

## 1 Introduction

June 5, 2007, marked the 60<sup>th</sup> anniversary of the Marshall Plan – an occasion on which politicians, diplomats and the business community commemorated George C. Marshall's life-time achievement.

The aid Austria received under the Marshall Plan was designated to be channeled into a capital cycle by granting investment loans to businesses rather than to produce quick fixes. This is why Austrian businesses today still benefit from the U.S. capital originally donated under the Marshall Plan, i.e. in the form of subsidized ERP loans.

In the following we discuss the implementation of the Marshall Plan, the consequent transfer of ERP funds to Austria and the allocation of ERP funds in line with ERP annual pro-

grams and defined allocation policies. We also explore the historic and current role of the Oesterreichische Nationalbank (OeNB) in the management of ERP funds. Section 4 contains a critical appraisal of the Marshall Plan aid, primarily from an Austrian perspective, while section 5 discusses its economic implications for Austria based on existing literature. Section 6 concludes.

## 2 Historical Background

### 2.1 Role of the United States

From the very beginning, the European Recovery Program (ERP) was more than just an initiative to revive the European economy. It was also motivated by the intention to create the conditions for lasting peace and, not least, to politically prevent the Soviet Union from gaining an even

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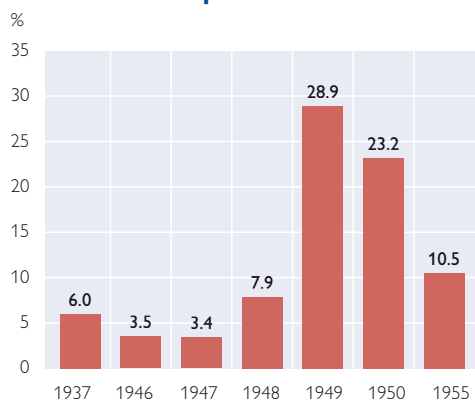
<sup>2</sup> George Catlett Marshall (1880–1959), U.S. Secretary of State from 1947 to 1949.

stronger influence in Europe. The broader objective was to lay the foundation for transatlantic cooperation, understanding and mutual respect, and to create an environment in which the United States and Europe could forge a partnership based on common economic and democratic values. At the same time, the ERP would enable the United States to gain a market platform in Europe. Many U.S. products first entered and established themselves on the European markets thanks to the Marshall Plan, as is illustrated by chart 1, which documents how the U.S. share in Austrian imports developed over time.

The official starting point for the ERP came in 1948, when the U.S. Congress passed the legislation which was to form the basis for the greatest economic assistance program in history.

Chart 1

**Development of the U.S. Share  
in Austrian Imports**



Source: Butschek, 1985.

**2.2 Europe’s Position**

The European governments reacted to the Marshall Plan Speech with great interest. As early as June 17 to 19, 1947, the first talks between British and French government officials about the proposed plan took

place in Paris. From June 27 to July 2, 1947, a conference of the foreign ministers of the United Kingdom, France and the Soviet Union was convened in Paris to discuss Marshall’s concept. However, the Soviet Union refused to participate further in the ERP and, as a consequence, the Central and Eastern European countries under Soviet influence also withdrew.

On July 3, 1947 – only four weeks after Marshall had offered U.S. aid – 16 European countries, among them Austria, accepted the invitation to the planned Paris Economic Conference and founded the Committee of European Economic Cooperation (CEEC), which was to be presided over by the United Kingdom. The CEEC negotiated the economic assistance to be granted under the ERP with the United States. Initially this support took the form of interim aid and assistance provided by the Allied Forces, before the Marshall Plan was officially launched in July 1948.

**3 Marshall Plan Funding  
for Europe and Austria**

After several downward revisions, the CEEC stated that economic aid in the amount of roughly USD 22 billion would be necessary for Europe’s economic recovery. Based on the findings of three committees (the Nouse, Krug and Harriman Committees), the United States put the required amount at a maximum of USD 17 billion (of direct and indirect aid). However, there was no legal basis for this economic aid until the U.S. Congress had passed the Economic Cooperation Act of 1948 on April 2, 1948, and President Truman had signed it the following day. Until then, those countries which, in the U.S. view, were particularly strongly

affected by economic hardship (Austria, France and Italy) received the previously mentioned interim aid. Also other countries, like Canada and the United Kingdom, contributed to this interim aid and the assistance provided by the Allied Forces.

On April 6, 1948, President Truman appointed Paul G. Hoffman, president of the U.S. automaker Studebaker, as head of the newly established Economic Cooperation Administration (ECA) in Washington. The ECA was responsible for allocating economic goods (indirect aid) among the various European states and for determining in which cases U.S. direct aid should take the form of loans/bonds (repayable) and in which cases it was to be donated outright. On April 3, 1948, ERP funds started to flow into 17 European countries.<sup>3</sup> The implementation of the Marshall Plan also led to the foundation of the Paris-based OEEC,<sup>4</sup> which, on October 16, 1948, devised the first ERP annual plan for the period from July 1, 1948, to June 30, 1949 (effective retroactively). In the wake of these ERP-related developments, the OEEC Council, on the same day, signed an inter-European payment and compensation agreement, which represented a milestone for further financial cooperation in Europe.

### 3.1 Implementation of the Marshall Plan in Austria

Next to the Paris agreement, a bilateral legal agreement between the United States and Austria concluded on July 2, 1948 (Federal Law Gazette No. 206 of July 20, 1962), still forms

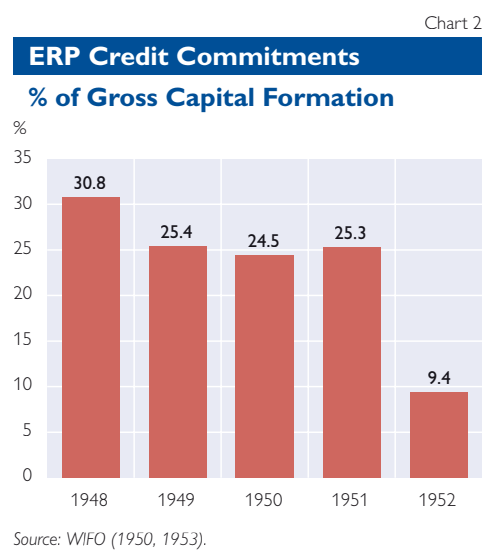
the legal basis for the management of ERP funds in Austria. Further provisions are laid down in the ERP Fund Act of 1962 (ERP-Fonds-Gesetz) and in an agreement between the ERP Fund and the Oesterreichische Nationalbank (OeNB), which was last amended in 1998. From 1947 to 1953, Austria received economic aid in the amount of roughly USD 1.1 billion, which then corresponded to about ATS 17.6 billion. Of this amount, ATS 7.2 billion were used to purchase basic foodstuffs and seeds, to rebuild infrastructure and to reform the currency (one-off effects), leaving ATS 10.4 billion for medium- and long-term economic assistance within the ERP framework. Measured against standard economic indicators like GDP or gross capital formation, this foreign aid was considerable, especially in the case of Austria, which received this aid without any repayment obligations. In the period directly after the war, the share of foreign aid in Austria's GDP (in terms of purchasing power parity) was more than 10%; in the first two years of the Marshall Plan (1949 and 1950), this share still ranged between 7% and 8%. By 1952, it had dropped to approximately 2% (Seidel, 2005).

The fact that parts of the Marshall Plan funds were spent on consumption (which meant also poorer consumers could afford subsidized import goods) allowed for wage moderation, which according to many authors (e.g. Eichengreen) decisively contributed to the strong economic expansion after World War II. The remaining ERP funds, measured as actual ERP credit commitments as a

<sup>3</sup> Belgium, Denmark, Western Germany, France, Greece, United Kingdom, Ireland, Iceland, Italy, Netherlands, Luxembourg, Norway, Portugal, Sweden, Turkey, Austria and the Free Territory of Trieste.

<sup>4</sup> Organisation for European Economic Cooperation (OEEC), Paris; predecessor of the OECD.

percentage of Austrian gross capital formation, were used to finance a significant share of gross fixed capital formation (about one-quarter in the period from 1948 to 1952).



From the beginning, the OeNB played an important role in ERP transactions: As the banking system had yet to be rebuilt, the OeNB took on the responsibility for the financial administration of ERP loans, for managing the ERP account, and for the necessary foreign currency exchange. Moreover, the OeNB managed a special account on behalf of the Federal Ministry of Finance on which the revenues from realizing the donated goods were deposited (counterpart funds account).<sup>5</sup>

Austria enjoyed twice the benefits of the ERP compared to other European countries. After all, Austria got to keep all of the funds accumulated on the counterpart funds account on

the basis of monetary transfers and the realization of donated goods, while most other countries had to repay substantial shares (e.g. Germany: one-third) or even all of the ERP transfers. Furthermore, at approximately USD 160 per inhabitant, Austria received the highest per capita ERP aid ratio after Norway, Ireland and the Netherlands. The financial means accumulated on the counterpart funds account provided the initial basis for the ERP lending system which is still in operation today. Funding is made available to Austrian businesses in the form of low-interest loans (with a maturity of up to 15 years).

Until 1949, the so-called “Krautland Ministry” (ministry for asset protection and economic planning) was responsible for developing economic plans for Austria; later on, some of the ministry’s responsibilities were divided among the central office for ERP affairs in the Federal Chancellery (later on part of the Federal Ministry for Foreign Affairs), the Federal Ministry of Finance and the Federal Ministry of Transport and State Enterprises. Questions of competency appear to have been of great importance even then, not least because the ERP funds, as mentioned earlier, were substantial (relative to investment volume and even relative to gross domestic product). However, up to 1961, all ERP projects and the related allocation of ERP funds were subject to authorization by the ECA via its ERP office in Paris.

<sup>5</sup> In line with Article IV of the bilateral agreement on economic cooperation between Austria and the United States, the schilling revenues gained from realizing the donated goods were to be accumulated on this counterpart funds account held at the OeNB. Based on the Foreign Assistance Act, the accumulated counterpart funds could be used only for productive investments and for currency interventions.

### 3.1.1 Allocation of Marshall Plan Funds between 1948 and 1952

Initially, Marshall Plan funds were primarily granted for rebuilding important infrastructures and developing the Austrian economy, with a focus on commodities and (heavy) industry. The United States made it clear from the beginning, however, that next to its economic component the Marshall Plan also had political aspects.

This is, among other things, evident in the fact that the Eastern Zone (under Soviet administration) was disadvantaged during the first years in which ERP funds were allocated. The per capita ratios of loans granted to the industry sector in Styria, Upper Austria and Salzburg were two-and-a-half, four and twelve times as high, respectively, as in Lower Austria, which was located in the Eastern Zone. The regional distribution of ERP funds, which was controlled by the United States, was to favor the Western provinces of Austria for long time. All in all, the Western provinces received the lion's share of the allocated funds (81%), whereas Vienna, Lower Austria and Burgenland had to make do with the remaining 19%. The Eastern provinces also suffered from the fact that economic goods and production equipment were frequently dismantled and transported to the Soviet Union.

This political motivation behind the allocation of ERP funds was partially responsible for the heterogeneous economic development in Austria that followed. Obviously, also the frequent lack in productivity among the Soviet-run "USIA" companies in

Austria offers an explanation for the difference in growth rates across the country. Owing to the ERP allocation policy, the economic East-West divide widened. Together with the Strategic Control Plan, which governed all of Austria's economic contacts with the East, this laid the foundation for the increasingly visible orientation of the Austrian economy toward the West (table 1).

Table 1

#### Development of Austria's

#### External Trade

Distribution of external trade in %

Year	Exports		Imports	
	EU-12	Eastern Europe	EU-12	Eastern Europe
1922	24	28	23	29
1937	44	28	34	32
1946	28	22	38	23
1955	58	10	59	9

Source: Bischof and Stiefel (1999).

Within the individual Austrian regions, the specific allocation of ERP funds, which initially focused on industry (including infrastructure and energy) and agriculture, largely followed Austrian suggestions. This fact should be underlined, as Austria's strategic planners pursued a very ambitious and controversial policy in the industry sector that had negative repercussions on the trade in goods position in the Austrian current account up until the late 1990s.

The responsible ministry officials had decided to turn the basic industry facilities which remained after the war into the heart of Austria's industrial structure. This decision contradicted the views of renowned political economists (e.g. Nemschak, Taucher, Kamitz, Wirlander),<sup>6</sup> who

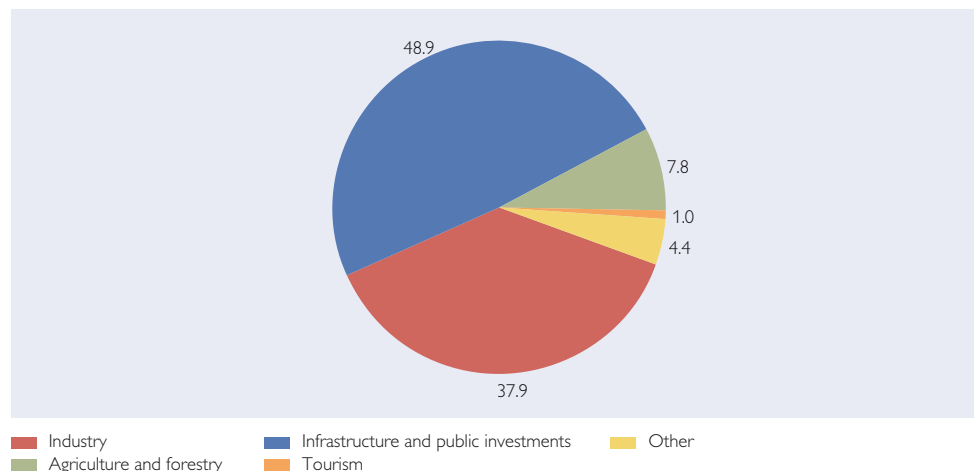
<sup>6</sup> Tweraser (2000).

Chart 3

**Allocation of ERP Funding under the First Annual Program (1948–1949)**

**Breakdown by Sectors**

% of total allocated amount (EUR 104.3 million)



Source: Annual programs and financial statements of the ERP Fund.

correctly argued that the funds should primarily be used for the factor endowment of the processing and the manufacturing industries. The political protagonists of the time nevertheless opted for the described industrial policy because basic industry was in fact quite profitable and because most enterprises were state-owned, which facilitated planning and made it easier to exert control. This, in fact, reflected an accurate assessment of the post-war boom which was to materialize in the basic industry sector; however, Austria’s economic planners of the time failed to fully realize that far better technological and value creation prospects in terms of current account, employment and export potential were presenting themselves in the final goods sector. It was not until the inflow of new Marshall Plan funds stopped that strategists fully recognized the value and importance of the final goods and the tourism industries, and that, consequently, annual programs began to take into account these sectors more strongly.

Nevertheless, Austrian industry continued to center on the basic industry sector for decades to come.

Although resource allocation may not have been ideal from the vantage point of industrial policy, the Marshall Plan funds made a psychologically important contribution to Austria’s recovery, which stimulated investments. Thanks to ERP funding, commodity supplies could be quickly stabilized, which favored strong economic growth and thus reduced unemployment. By 1949, this had led to a growing reversal of basic food shortages and to a positive spirit among Austrians, who were now feeling more confident about facing the challenges of a new beginning. These developments laid the foundation for the oft-cited “economic miracle” which was about to materialize in Austria.

Austria’s central government initially also used the counterpart funds granted for the extension of loans to the industrial, energy and business sectors to reduce its debt vis-à-vis the



OeNB. The OeNB, in turn, pledged to support reconstruction by accepting bills of exchange submitted by businesses and industrial enterprises to the Austrian banking sector, in an amount equal to the debt payments it was receiving. Given that the OeNB acted as the actual lender and that these bills of exchange were entered into the OeNB's balance sheet as underlying assets (collateral), Austria's central bank thus was included in the ERP-related financial assessment procedure.

### 3.1.2 Period from 1952 to 1962 (ERP Fund Act)

The United States more or less expected Austria to embrace the U.S. economic policy agenda, which, in a few cases of “noncompliance,” even went so far that funds were blocked or recalled. The United States' attempts to steer economic policy decisions were among other things aimed at ensuring that the receiving countries addressed those micro- and macroeconomic structural deficits which were causing the need for foreign aid. Accordingly, a large part of U.S. interventions and demands can be said to have been motivated by a balance of payments-oriented economic policy. This is substantiated by the fact that annual payments to Austria under the Marshall Plan were strongly correlated with Austria's balance of payments results, which were consistently negative until 1953.

From an economic point of view, it is perfectly understandable that the United States expected measures designed to reduce Austria's need for economic aid. The targets defined by the United States also were intended to urge the receiving countries in Western Europe to adopt the U.S. market economy model; this proved

difficult, considering that the overall economic environment in Europe was characterized by small and very small sized enterprises, a trade union movement, a reform deadlock in the financial sector, a universal bank system, underdeveloped capital markets and a need for foreign exchange controls. Last but not least, the United States' efforts can also be seen as a reaction directed against the emergence of Communism in Europe. Against the backdrop of the incipient Cold War and the Korea Crisis somewhat later, the struggle against Communism remained the main strategic motif for the United States' strong economic presence in Western Europe.

Be that as it may, the United States encouraged the Austrian government to implement sensible and necessary stabilizing measures after the cooling of the Austrian economy toward the end of 1951 (zero growth in 1952). In cooperation with the social partners, the Austrian government launched a stabilization package (repeated wage-price agreements) which was to form a first basis for the later hard currency policy. The reform of the OeNB through the Federal Act on the Oesterreichische Nationalbank in 1955 was also part of this package. As Marshall Plan funds ceased to flow in mid-1952, the ERP system from then on had to make do with the means previously accumulated on the counterpart funds account.

A large proportion of ERP funds that had been allocated in earlier years was tied up in energy projects. (The annual program of 1950–1951 had allocated as much as 87% of total funds to energy projects, i.e. power plant construction). This meant that any further ERP-related assistance relied on means returned from these previously subsidized projects.

Thanks to ERP funds, it was possible to lay the early foundation for the use Austria's hydropower (through river power plants, reservoir power stations), which also benefited Austria's current account. From the vantage point of industrial policy, these energy-related projects were primarily intended to ensure the energy supply of particularly energy- and capital-intensive projects in the basic industry sector.

1955 saw the first official talks concerning the final transfer of responsibility for managing the counterpart funds to Austria. The United States strongly favored the establishment of a separate investment fund management company, which, preferably, was to be under the OeNB's control. In addition, the United States requested that all counterpart means and returns should be administered by a single fund strictly separated from the government budget. Austria's government parties, however, presented an alternative de-

signed to secure a small slice of the pie for political projects (e.g. the Kamitz project, Kreisky's public housing scheme), while the remaining ERP funds were to be transferred to the OeNB.

The subsequent political compromise led to the establishment of the ERP Fund in 1962. The United States yielded on its demand that all counterpart means be channeled into the ERP Fund; in turn, the OeNB agreed to continue to make available those counterpart funds which it had initially received as debt repayment by the government for ERP projects in the industrial sector. The drawing rights pertaining to this ERP loan portfolio (owned by the OeNB) were laid down in the ERP Fund Act.

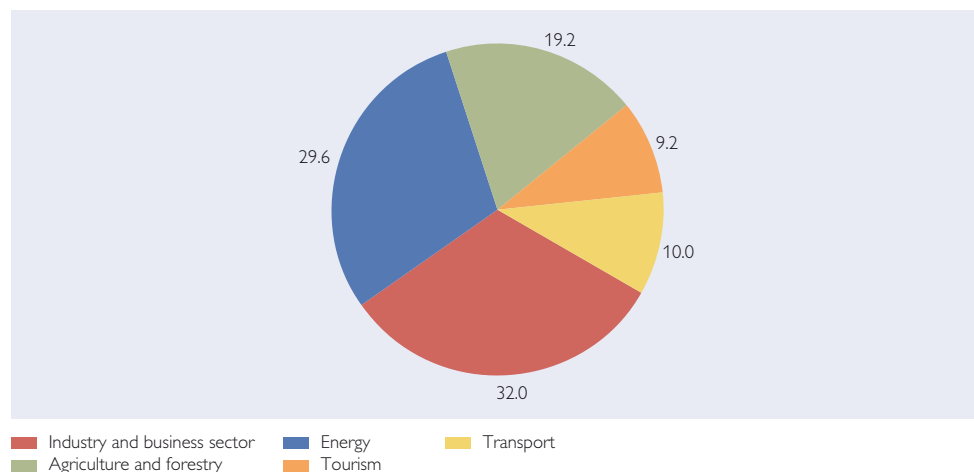
After the ERP Fund Act had entered into force on July 1, 1962, the remaining ERP counterpart means (subject to management by the ERP Fund), during the following months, were transferred to the ERP Fund's accounts held with the OeNB.

Chart 4

**Allocation of Funding under the ERP Fund's First Annual Program (1962–1963)**

**Breakdown by Sectors**

% of total allocated amount (EUR 56.7 million)



Source: Annual programs and financial statements of the ERP Fund.



### 3.1.3 Implementation of the 1962 ERP Fund Act

The ERP assets transferred to the ERP Fund amounted to roughly ATS 10.4 billion including the drawing rights vis-à-vis the OeNB. Of this amount, about ATS 5.7 billion were administered by the ERP Fund itself and approximately ATS 4.7 billion were to be managed by the OeNB from this time on.

In line with the ERP Fund Act, Austria's central government authorized the ERP Fund's first annual program as early as in July 1962 (chart 4) and appointed the 12 members of the first ERP credit approval committee (industrial financing) as well as the members of the expert committees (tourism, agriculture and transport). Moreover, the government designated the Austrian Court of Audit and the Ministry of Finance as the authorities responsible for auditing the ERP Fund.

Since then, ERP loan applications have been processed in line with the relevant annual program and applicable ERP guidelines (since 1996, these have been harmonized in cooperation with EU authorities). Currently, ERP loans are generally granted for a period of six years, the main incentive for applicants being subsidized interest. Submitted projects are assessed on the basis of economic, guideline-related and financial aspects. Financial evaluation takes place in cooperation with the OeNB within the legally competent committee. As the OeNB's official say in this committee is limited to matters pertaining to the industrial sector, the ERP loan portfolio managed by the OeNB is exclusively dedicated to industrial projects, which kept the administrative burden for the OeNB low from the very beginning.

The ERP guidelines for granting financial assistance, which are as a rule revised on a yearly basis in the course of drawing up the annual programs, have always taken into account economic policy focuses of the Austrian government. In the 1970s and 1980s, financial assistance mainly concentrated on projects to secure jobs and improve the current account. In conjunction with the "TOP" credit subsidization initiative, ERP funding was increasingly shifted from agriculture and tourism to industry. From the mid-1980s, the ERP Fund placed greater emphasis on ambitious structural policy projects. In deciding which projects should receive funding, external trade and employment effects thus played a more important role from the beginning on. Furthermore, the ERP guidelines took into consideration criteria related to ecological issues and energy policy as well as to enhancing competitiveness. Over the years, the guidelines also increasingly integrated regional policy objectives.

If one looks at the 1980s as a whole, it is evident that financial assistance, which often took the form of major ERP loan tranches spread out over several years, focused too strongly on longer-term investment projects designed to uphold existing structures in the still largely state-owned iron, steel and paper industries. The same applied to the first regional subsidization targets; often, technologically outdated production methods were maintained at noncompetitive labor and total costs (e.g. through special programs directed at coal mining and old industrial areas), instead of giving way to market forces. In some cases, this even led to the development of excess capacities and, as structural weaknesses were

not identified soon enough, the resulting idle capacity costs put an additional strain on the affected enterprises when structural change picked up from the mid-1980s on.

All in all, however, by the time the first internationalization wave occurred and structural change markedly accelerated in the 1990s, the ERP Fund, its guidelines and its economic assistance instruments were well positioned to support the Austrian economy in facing these new challenges. From then on, ERP means were primarily used to cofinance innovative, strongly export-oriented enterprises in high growth areas and newly emerging technology clusters (e.g. the airplane industry, biotechnology). The targeted allocation of ERP aid certainly made a long-term contribution to Austrian businesses' progress toward a modern service-based economy. In particular, the internationalization efforts of Austrian enterprises were supported from

1990 onward. From the ERP financial year 1990/91 on, the ERP Fund offered a separate assistance program for Eastern Europe, which laid an important (and forward-looking) foundation for Austrian businesses' later market opportunities in South-eastern Europe.

Companies capable of tapping into the capital market, for instance, only receive economic assistance in exceptional cases. In problematic sectors, funding decisions take into account already existing total capacities.

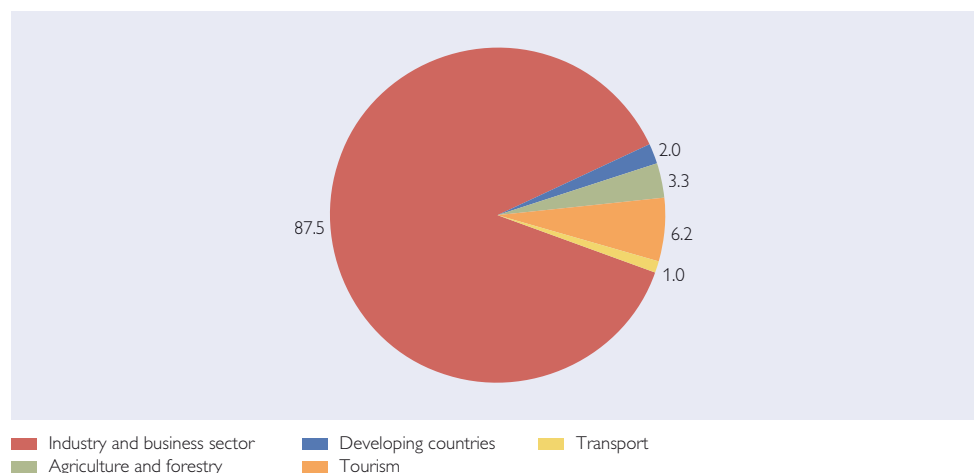
Based on these adjustments, the Marshall Plan evolved from an economic assistance and reconstruction program to a selective tool of business promotion. Today, future-oriented niche areas which guarantee a leadership position in the technology sector receive the highest amounts of funding. To ensure compliance with this self-imposed policy, the ERP authorities have defined a standard project assessment system.

Chart 5

### Allocation of Funding under the ERP Fund's 2007 Annual Program

#### Breakdown by Sectors

% of total allocated amount (more than EUR 400 million)



Source: Annual programs and financial statements of the ERP Fund.

Allocation policies were further tightened with the beginning of a new Structural Funds period at the EU level in 2007. The latter is supposed to favor even stronger emphasis on promoting innovative, high-growth enterprises in the small and medium-sized enterprise (SME) sector.

Currently, ERP funding amounting to some EUR 2.8 billion is available in the form of long-term loans for corporate financing. Given an average loan term of about six years, repayments allow for annual ERP budgets (i.e. annual programs) in the amount of EUR 400 million to EUR 500 million.

350 to 400 selected businesses a year benefit from ERP funding; more than 87% of the financial means (a share that has recently been increasing) are allocated to projects in the Austrian industrial and manufacturing sectors. The extent to which businesses are supported depends on enterprise size, project-specific factors and a reference interest rate determined by the EU. This reference rate reflects the Austrian interest level, tax policies relative to other EU countries and interest rate advantages arising from ERP funding in a discounted present value factor. ERP aid in the amount of EUR 1 usually triggers additional funding of about EUR 2, which means that the financial aid made available under one ERP annual program may lay the foundation for investment projects amounting to as much as EUR 1.5 billion. According to the annual report of the Vienna-based Austria Wirtschaftsservice GmbH (aws), in 2006 the total investment volume of projects supported through ERP loans (in the amount of EUR 605 million) came to EUR 1,665 million.

#### **4 Critical Appraisal of the Marshall Plan Aid**

The Marshall Plan made a positive contribution to strengthening Western Europe's political and economic unity and laid an important foundation for the Treaty of Rome, which was signed just ten years later.

The U.S. aid for post-war Europe, on the one hand, supported Austria's speedy reconstruction and, on the other hand, contributed to an economic divide between Eastern and Western Europe and to the development of diverging growth rates in Europe. Austria, which was not only facing severe damage after World War II, but which had yet to overcome the repercussions of the massive territorial losses incurred in the wake of World War I, would hardly have managed to rebuild its economy and maintain its sovereignty without the economic assistance received under the Marshall Plan.

Initially, ERP funds were primarily invested in the basic industry sector, which led to structural deficits in Austria's industrial sector later on. Moreover, until 1955, the Marshall Plan favored Austria's Western provinces, which contributed to the development of an economic East-West divide in the country.

In the 1980s, subsidized loans were partially responsible for the conservation of structural weaknesses and the very reluctant implementation of adjustment measures (crisis in the state-owned sector). These deficits were countered through the ERP Fund's new subsidization policy and transparent allocation criteria (assessment matrix), which were introduced in 1985–1986.

Owing to the availability of subsidized economic aid, businesses tended

to have fewer incentives to seek out alternative sources of funding, which may have slowed down the development of the Austrian capital market.

## **5 The Marshall Plan's Economic Policy Implications for Austria**

The Marshall Plan was the driving force behind the development of the transatlantic economic axis between Europe and the United States.

Without ERP funding, economic growth and the development of European trade relations would probably have been much slower. This assumption is backed by the fact that after the Marshall Plan funding was stopped in mid-1953, it took Austria until 1961 to reattain the investment level of 1952. However, since Austria had received the Marshall Plan aid exclusively in the form of donations and as ERP funds were (and still are) allocated based on a revolving system, Austria, unlike other countries, could still tap into ERP funds for economic assistance, even after the original Marshall Plan funding had been discontinued.

Thanks to its involvement in the ERP process, the OeNB has also gained valuable knowledge about the real economy, which is useful in carrying out its responsibilities in the area of monetary policy (refinancing operations, central bank money supply) and statistics (provision of annual online economic and industry indicators for Austrian businesses).

In terms of importance and allocation policies, the ERP in Austria – against the background of the declining value of available ERP funds relative to gross capital formation – has gradually evolved from a momentous reconstruction program during the post-war years to a selectively used

instrument of business promotion. In line with current allocation guidelines, funding today is increasingly granted to the innovative high-tech sector, an area in which ERP funding is still very important.

Over the past decade, the Marshall Plan funds have helped support necessary structural change in Austria's industrial sector and lately also in the tourism sector.

Thanks to the two ERP programs dedicated to internationalization and Eastern Europe, Austrian enterprises receive targeted support to promote their internationalization efforts and ventures into future-oriented industries (aircraft component suppliers, biotechnology, power engineering). Especially in the case of pioneering high-tech industries, ERP funding may provide an important incentive for businesses to remain in Austria rather than move to other countries, thus preventing a “competence drain” in the technology sector. Among the necessary investment measures and opportunities for Austrian businesses, the active promotion of ventures in Eastern Europe is likely to yield the highest benefit for Austrian entrepreneurs and the Southeastern European target areas.

An initiative to improve the capital base of Austrian enterprises (and thus their chances of entering the capital market) is the so-called “double equity” program. Under this program, Austrian businesses have the opportunity to “double” their equity by raising external funds, which then are matched by ERP funds.

EU cofinancing is also granted only up to the amount to which national funding is made available. Hence, ERP aid played an important role during the last ten years in en-

sure that Austrian enterprises could largely exploit the means reserved for Austria within specific Structural Funds periods. This in turn, helped to raise development standards in Burgenland, Austria's only Objective 1 region, to average European levels.

Furthermore, statistics provided by Austria Wirtschaftsservice GmbH (aws) show that ERP funding can be used to support economic upturns, as leading businesses are usually the first (or at least want to be the first) to take investment measures, which may be (co)financed through ERP aid. This in turn triggers subsequent investment by suppliers and in subsidiary industries. The ERP annual programs of 2005 and 2006, for instance, which made available above-average amounts, helped to promote the latest cyclical upswing.

## 6 Conclusions

All in all, the Marshall Plan's 60<sup>th</sup> anniversary offers a welcome opportunity to once more thank the United

States, which made available USD 80 per capita to grant economic assistance to Europe. In Austria's case, the funds initially provided, including interest, have grown to EUR 2.8 billion (EUR 1 billion managed by the OeNB).<sup>7</sup> These funds form the basis for the selective ERP assistance still practiced today. Every year, 400 carefully selected Austrian enterprises receive ERP aid through low-interest long-term loans. 60 years ago ERP funding was still required to meet the basic needs of the population and to ensure economic reconstruction; today, ERP aid supports leading Austrian businesses in tackling new technological challenges, in strengthening their competitiveness and in opening up new markets (recently with a focus on Southeastern Europe). Even if the significance of Marshall Plan aid has declined since the reconstruction period (owing, not least, to monetary growth), the benefits it still offers to selected leading businesses in Austria should not be underestimated.

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<sup>7</sup> The ERP loan portfolio managed by the OeNB consists of ERP funds owned by the OeNB, on which the ERP Fund has drawing rights in line with the ERP Fund Act of 1962.

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