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Chapter 8

Post-Conflict Recovery: Lessons from the Marshall Plan for the 21st Century

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INTRODUCTION

Previous chapters in this book have outlined the heavy human, material and financial costs that result from violent inter- and intra-state conflicts. They have also shown how the state, and the resources it can mobilize, becomes a contested terrain not only during the conflict but also in the period of post-conflict recovery. In many post-conflict countries there is an immediate threat of a return to violence, which constrains policy choices and trade-offs as efforts begin to repair the social contract and build legitimate state structures. Given the severe constraints on mobilizing domestic resources in most post-conflict countries or regions, particularly in the initial stages of recovery, managing external assistance is difficult to separate from these choices and trade-offs that make up a domestic economic policy agenda.

Foreign aid, however, will do little to remove the underlying causes of conflict without the presence of an institutional framework which can help to repair the social fabric and to reshape the structure of economic incentives towards the promotion of productive economic activities. Given the initial significance of aid flows, donors may be tempted to impose their own notion of a good institutional framework through the conditionalities attached to aid flows. However, attempts to transplant such a framework from one environment to another are unlikely to be successful if they ignore local conditions and suppress the processes of trial and error that have been the hallmark of successful institutional development and economic recovery episodes.

Recognizing the need for a framework of organizing principles to ensure that aid is used more effectively and to encourage policymakers to forge a new social contract in post-conflict economies, a number of writers have returned

to the Marshall Plan as a model that can still be usefully employed by the international community. This chapter examines that approach. It begins by looking at the way the Marshall Plan has been used and abused as an example by supporters and detractors alike. Next it examines the debate on aid effectiveness which has been going on ever since Joseph McCarthy dismissed the Marshall Plan as a “massive and unrewarding boondoggle”. The following section argues that the debate on aid effectiveness in post-conflict societies is difficult to separate from the concomitant process of state building. The final section draws what we see as the real lessons of the Marshall Plan in the light of today’s need to build a more integrated approach to mobilizing resources and strengthening the institutions of the state in a post-conflict environment.

REDISCOVERING THE MARSHALL PLAN

Faced with complex and apparently intractable problems or with the consequences of major disasters, politicians, particularly those in Western Europe, have increasingly called for a “Marshall Plan” as part of the response. The UN’s Economic Commission for Europe (UNECE) seems to have started the fashion in the early 1990s when it argued the need for a programme on the scale of the Marshall Plan to assist the countries of Eastern Europe in their transition from centrally planned to market economies (UNECE, 1990). This was taken up by German Chancellor Helmut Kohl and his Foreign Minister, Hans-Dietrich Genscher, who called for a Marshall Plan for Russia in 1992. In 1997 the then European Commission President, Jacques Santer, described the programme and costs of EU enlargement as “a veritable Marshall Plan” for Eastern Europe. In April 1999 British Prime Minister Tony Blair called for a “Marshall Plan” for the Balkans, and in October 2001 the Italian Prime Minister, Silvio Berlusconi, proposed one for solving the economic problems of the Palestinians on the West Bank. None of this rhetoric came to very much, partly because finance ministers in the rich countries in the 1990s were grappling with fiscal deficits, many of them trying to meet the Maastricht criteria for entry into the European Monetary Union, and the last thing they wanted to hear were proposals for large increases in aid budgets. Moreover, the resurgence of neo-liberal ideas from the early 1980s meant the developed world was more in favour of free markets and foreign private investment than official aid or anything that resembled planning as the remedies for the problems of transition and underdevelopment.

The terrorist attacks in the United States on 11 September 2001, however, led to another wave of rather more urgent calls, at least in Europe, for action on

the scale of the Marshall Plan to deal with the problems of underdevelopment and their links to political insecurity. Within a few weeks, Mr. Blair was citing the North-South divide between rich and poor as a fundamental factor in the growth of terrorism and in December 2001 British Chancellor of the Exchequer Gordon Brown proposed a “New Marshall Plan” which would double the aid provided by the rich countries to the poor ones. Both Blair and Brown stressed the security objectives of such an initiative. Three years later, on 17 December 2004, Brown, speaking in New York, continued to stress the tensions between the rich and the poor and argued that if the West failed to open its markets to developing countries, forgive debt and provide more generous aid, there was a real risk of “permanent guerrilla war fought not by conventional armies or nation states but by cliques and factions”. Having implicitly condemned the idea that the “war against terror” can be won by the military, he declared: “We need to make an offer as bold as the offer that was made in the Marshall Plan of the 1940s.” Prime Minister Blair and Chancellor Brown again called for a “Marshall Plan approach” in the run-up to the G8 summit in Scotland in 2005.

It is never clear, however, whether those proposing “new Marshall Plans” see them as anything much more than a goodwill financial gesture to countries in need, and indeed there are many critics who dismiss such ideas on the ground that such large sums cannot be absorbed efficiently by the receiving countries and that they are likely to fall into the hands of corrupt politicians and government officials. Still, more often than not, these two sides of the debate quickly came to an agreement on a common policy agenda which aims essentially to tackle the problems of post-conflict economies by integrating them into the global economy by rapidly opening them up to market forces, that is by adopting the standard globalization agenda of liberalizing trade and removing controls on international capital movements.

The Marshall Plan, however, was much more than just a financial package and it is far from clear that those attached to neo-liberalism and the idea of the irresistible and beneficent march of market forces will be keen to embrace its other features. The Plan, launched in 1947, was certainly generous, providing Western Europe with some \$12.4 billion over a four-year period, most of it in the form of grants rather than loans. The programme amounted to just over 1 per cent of the US's GDP and over 2 per cent of the recipients'. The Marshall Plan did much more, however, than supply Europe with large amounts of dollars; it also introduced a framework of organizing principles intended to ensure that the aid was used effectively and to encourage policy makers to forge a new kind of “social contract” that would be radically different from the deflationary and divisive actions of the inter-war period (Mazower, 1998,

p. 299). These aspects of the Marshall Plan are almost entirely absent from current suggestions for a “new” version, but it is precisely here that useful lessons can be drawn for development policy.

It is also relevant, in light of the experience with structural adjustment programmes since the early 1980s, to recall that the Marshall Plan was actually a belated recognition of the fact that policy makers in the United States, especially in the US Treasury, had been far too optimistic about the time it would take to return to “normality” after the cessation of hostilities. By this was meant a return to a system of multilateral free trade and payments, in accordance with the rules of the new Bretton Woods institutions which were to provide the basic architecture of the post-war economic system. The attempt to put these new arrangements into place rapidly, an early example of “shock therapy”, had foundered in a series of European dollar crises and particularly the sterling convertibility fiasco of 1947. Large amounts of relief assistance had been pouring into Europe before 1947 and members of the US Congress were complaining about their taxpayers’ dollars disappearing down a European “rat-hole”, a story with a familiar ring today.

When the United States Secretary of State George Marshall made his famous speech at Harvard in June 1947, the economic and political outlook for Europe was far from encouraging. The post-war recovery in output appeared to have stalled and there were fears of rising social unrest and of communist parties winning elections in several countries. Marshall was explicit that the economic dimension of security was uppermost in his mind : “Our policy is directed against hunger, poverty, desperation and chaos ... so as to permit the emergence of political and social conditions in which free institutions can exist.” Marshall would thus have agreed with Chancellor Gordon Brown in seeing poverty, not a hatred of freedom, as an incubator of terrorism and conflict.

It is also notable that Marshall saw free institutions emerging from “economic health”, not the other way round. When critics object to proposals for “new” Marshall Plans for certain countries on the grounds that they are not democracies or do not possess market economies, they forget that Marshall Aid was not so demanding: Italy and West Germany adopted democratic institutions only in 1948 and 1949, and in Italy many of their provisions were ignored as part of the strategy to keep the communists out of power. Although most of the institutions of a market economy did not have to be built from scratch, the various European economies had been highly regulated and subject to direct controls for the best part of a decade, and with large sections of the population still suffering considerable privations, quick fixes and shock therapy for a return to “normal” market conditions were

considered neither economically feasible nor politically acceptable. Once again there is a sharp contrast between the policies rich countries adopted for themselves and those they subsequently considered appropriate for others. It is true that the Marshall Plan was ultimately directed at keeping the Soviet Union out of Western Europe and communist parties out of West European governments, and the US administration may not have been too particular about the democratic credentials of some of the recipients of aid. But it would anyway have been unwise to have set stringent democratic preconditions for receiving economic assistance. If the lack of assistance were to have made the economic situation worse, the outlook for developing democratic institutions would have been likely to deteriorate.

AID EFFECTIVENESS: WHAT WE HAVE LEARNT IN 60 YEARS?

While the Marshall Plan contained elements which would later become standard features of modern aid programmes, its purpose was the reconstruction of war-torn Europe and not the economic development of poor, non-industrialized countries. However, the links between Marshall aid and development aid were quickly made. The needs of developing countries were more openly acknowledged in the inaugural address of President Truman in 1949, when he declared the objective of “making the benefits of our scientific advance and industrial progress available for the improvement and growth of underdeveloped areas” (Kanbur, 2003). This was followed by the 1950 Act of International Development which established “the policy of the United States to aid the efforts of the peoples of economically underdeveloped areas to develop their resources and improve their living conditions” (Ohlin, 1966, p. 25).

The growing willingness to extend aid to developing countries coincided with a flurry of new ideas about why the management of economic activity should not be left entirely to market forces. Much of this thinking was developed around the policy challenges facing the more advanced industrial economies, but it was soon infused with the specific challenges facing poor countries, as their new found political independence exposed gaping social and economic gaps inherited from the colonial era. Albeit with subsequent modifications and embellishments, the case for extending aid to poorer countries rested, over the next quarter century, on the growth and development models developed at that time.

Essentially, these suggested that the most pressing constraint on growth in poorer countries was a shortage of capital and that aid, by providing an initial boost to domestic capital formation, would not only help build productive

capacity and increase incomes, but would also raise domestic savings in both the corporate and household sectors, thereby promoting a growth process that over time would become self-sustaining with the need for aid diminishing. The effectiveness of aid was expected to be greatest when it was targeted at the industrial sector where large externalities and scale economies held out the prospects of a strongly cumulative pattern of development, encouraging the idea of a “big push” along a broad front of activities, including transportation and power.

Accompanying this thinking was the general conviction that aid (as part of a wider commitment to development planning) would be most effective if donors and recipients alike were guided by enlightened self-interest—whereby the former would enjoy positive spill-overs from strong industrial growth in developing countries through increased trade and investment opportunities and the latter would forego short-term increases in consumption, both public and private, in favour of long-term productive investment. The best way to channel such aid was through multilateral structures both because of the need to concentrate flows on a “big push” to break the constraints on sustained growth and to avoid wasteful competition among the donor community.

While the United Nations was in the vanguard of this early thinking about the role of aid in supporting economic development, its role in financing that development was taken away at a relatively early date and handed to the World Bank (Toye and Toye, 2004). But in reality, aid to poorer countries all too often became a tool of “statecraft” rather than an instrument of development planning, deployed to encourage or reward politically desirable behaviour on the part of recipients (Lancaster, 1999, p. 1) and, mainly for that reason, most of it was (and remains) stubbornly bilateral. While this is not necessarily incompatible with achieving economic recovery and establishing broader development goals in countries emerging from conflict, as was clearly the case with the original Marshall Plan, a growing number of voices, beginning in the early 1970s, has argued that the resulting politicization of aid has often led to a “softening” of state structures and a perpetuation or worsening of highly inequalitarian economic and social structures in the recipient countries (Myrdal, 1970 and Boyce, Chapter 6).

After the international debt crisis of the early 1980s, aid was used more aggressively to encourage specific economic reforms in the context of structural adjustment programmes, and this effort intensified at the beginning of the 1990s. With the collapse of the Soviet Union, hopes were raised that increased aid would be part of the “peace dividend” from the end of the Cold War and that geo-political calculations would at last begin to be subordinate to economic assessments of the most effective use of aid. What actually

occurred, however, was that the removal of the underlying strategic rationale for providing aid coincided with an ideological shift in the major donor countries which, among other things, sought to diminish the role of the state in managing economic activity, and this led to a significant decline in the volume of aid. This was partly justified by drawing on the earlier arguments of aid skeptics but there was also a strong neo-liberal conviction that private foreign investment would be a much more powerful and efficient driver of economic growth.

Despite the early optimism of development planners, a number of high profile studies had argued, even as aid flows began to rise, that, because of its perceived tendency to distort or circumvent market forces, the crowding out of private investment and the misallocation of resources were the more likely outcomes of increased aid. There was also criticism of the implied bias towards industrial development and the neglect of agriculture, which was seen as weakening export performance. Moreover, the pattern of industrialization raised concerns about the appropriateness of capital-intensive techniques which, it was argued, gave rise to high rates of urban unemployment and increased inequality.

These early debates on aid effectiveness were set against a generally low volume of aid flows which never, with one or two exceptions, matched the commitments made under the Marshall Plan and where assessments of their impact were often hampered by missing or unreliable data. A multitude of studies have since been undertaken, drawing on a large sample of countries and covering longer time periods. Most of these studies use econometric techniques to analyze both cross-sectional and panel data on economic growth and aid commitments or disbursements in order to explore the relation between them. Aid sceptics have tended to dominate these more recent studies. One reading of the evidence contrasts the micro-level effectiveness of aid in terms of meeting welfare goals and achieving acceptable economic returns with its macro-level ineffectiveness in terms of overall economic growth (Mosley, *et al.*, 1987). On the latter, the argument has increasingly turned to the contingent nature of the link between aid and growth, be it focused on getting policies right (openness) or location right (outside the tropics) or competitiveness right (Burnside and Dollar, 2000; Roodman, 2004; Rajan and Subramanian, 2005). Others, who see the divide less in terms of a micro-macro split and more in terms of isolated success stories amid generalized failure, emphasize getting institutions right so as to avoid a culture of aid dependency (World Bank, 1998; Azam, *et al.*, 1999).

These studies, however, have faced serious methodological criticisms arising from their heavy reliance on econometric analysis. One of the principle

problems is endogeneity: aid may influence growth but it is also possible that the amount of aid received by a country in any given year is influenced by current or expected growth rates. Also, insofar as it is often contingent on a country implementing key institutional reforms, aid, like foreign investment, may actually lag the initial take-off to economic growth. Another problem is that extreme observations (outliers) often have a strong bearing on the results. To take just one prominent example, the conclusion of Burnside and Dollar (2000) that a positive impact of aid on growth is contingent on good policies hinges on just seven outliers whose removal from the cross-country regressions used to substantiate this conclusion actually reverses the finding (Roodman, 2004, p. 36). Moreover, the empirical evidence is often a good deal less conclusive than many aid sceptics maintain. In a recent survey of some 64 cross-country regressions on the link between aid and growth, 38 had a significant and positive relation, 25 were insignificant and in only one was the relation significantly negative (Hansen and Tarp, 2000). There is also plenty of evidence suggesting that development aid still has advantages over private capital flows, including FDI, in poorer countries, not least because private investors usually wait for growth to take off before moving into an emerging market economy (UNCTAD, 2000, 2005).

Behind the latest round of debates about the effectiveness of aid is a recognition that aid is a good deal more multifunctional and fungible than was presumed in the early debates, and that consequently its impact on growth is unlikely to be mapped through simple linear relationships. With this in mind, Hansen and Tarp (1999) have introduced unobserved country-specific effects, conditional convergence, and the endogeneity of aid and policies into their cross-country analysis: they nevertheless still find a positive and significant impact of aid on growth for a sample of 56 countries over the period 1973–1993. Along with other studies, they also find that this impact weakens beyond a certain level of aid. A more recent study by Clemens, *et al.* (2004) draws a more favourable conclusion on aid effectiveness by disaggregating aid into “short-impact aid”, associated with budget support and project aid for the real sector, “long-impact aid”, associated with technical cooperation and investment in the social sector, and humanitarian aid. They find a strong, positive, causal relationship between short-impact aid and economic growth, a relation that holds independently of the institutions and policies in place. According to their estimates, aid may have raised the growth of GDP per capita in Sub-Saharan Africa, a region plagued by conflict during this period, by as much as half a percentage point between 1973 and 2001. There are plenty of individual country experiences, including in Africa, which appear to support this conclusion.

That said, longer-term growth effects, which should ultimately decide the value of development aid, are a good deal more difficult to detect, particularly on the basis of cross-country regression equations. One possible channel for a positive (negative) effect is through the influence of aid in accelerating (or inhibiting) structural change in an economy. In this respect, sceptics have long warned of an “aid curse” similar to the Dutch Disease. The evidence for this, however, is inconclusive. A recent study by Reddy and Minoiu (2006), for example, separated aid into its different components in order to assess their individual long-term impact on growth in the recipient countries using a standard cross-country growth model. With average per capita income growth in the 1990s as the dependent variable, the relevant explanatory variables are averaged and the regression equations estimated for four different time periods: 1960–2000, 1970–2000, 1980–2000 and 1990–2000. The result was that the lagged aid variable was a significant factor explaining growth in the 1990s: an increase in aid during the earlier periods by 1 per cent of GDP raised the average growth rate of GDP per head by as much as 0.01 percentage points in the 1990s.

Evidence about the positive long-term effects of aid on growth is important given the renewed commitments being made by the donor countries, particularly to post-conflict economies. Nevertheless, even the most ardent supporters of increased aid flows recognize that it has generally been a secondary factor in explaining economic growth, and its impact has clearly been insufficient in many cases to counteract other unfavourable influences. Recognizing this underscores the importance of identifying the possible channels through which aid can be more effective. A growing body of evidence suggests that the aid-investment nexus remains key to unlocking sustainable growth. Hansen and Tarp (1999) found that 15 of 16 studies examining this nexus report a positive connection, with only one showing evidence of crowding-out. Their own cross-country regressions for 56 countries between the mid-1970s and early 1990s confirm a significant and positive impact of aid on fixed investment (Hansen and Tarp, 2001). A more recent study of 25 SSA economies over the period 1970–1997 found strong evidence of an aid-investment-growth nexus (Gomanee, *et al.*, 2005).

These findings provide encouragement to those calling for a renewed attempt to support a “big push” for development backed by significant amounts of properly targeted aid (Sachs, *et al.*, 2004). Still, extending this big-push logic to post-conflict economies should be done with some caution. There are certainly common development aims that concern policy makers in post-conflict countries as much as in more stable ones. The conflict trap, however, introduces distinct constraints and challenges which differ from

those that characterize the more familiar poverty trap. In particular, when viewed through a conflict lens, public expenditure cannot be divorced from the issue of grievances rooted in distributional inequalities which are often important drivers of conflict, which often worsen during conflict and which, if left unaddressed once the fighting stops, raise the threat of the resumption of conflict. As discussed by Keith Boyce in Chapter 6 of this book, this is likely to tie aid disbursement to what he calls “peace conditionalities”.

Ensuring the presence of “growth enhancing governance capabilities”, needed to manage domestically or externally generated resources in such a way that cumulative income and productivity gains are assured, is not a challenge peculiar to post-conflict economies (Kahn, 2006). However, the steady erosion of state capacities under conditions of conflict, and the brain drain that this often triggers, are likely to intensify the challenge (Mkandawire, 2001). No major economic reconstruction and development effort is possible without the strengthening of State institutions; and without reconstruction and development, future conflicts are probably unavoidable. However, at the end of civil war, confidence in government is likely to be low and any recovery must be designed with this legitimacy deficit in mind. How that is done will depend not only on the manner of the Government’s accession to power, its constitutional accountability, and its willingness and ability to carry out the required institutional changes for the benefit of the whole community, but also on the priorities it sets for itself and its citizens and whether or not those are fulfilled within a reasonable time frame (Kozul-Wright and Rayment, 2007, Chapter 8).

STATE-BUILDING AND ECONOMIC RECONSTRUCTION

The process of economic recovery begins with efforts to consolidate the gains achieved in the early phase of transition from war to peace and progresses through the gradual rehabilitation and reconstruction of the economy and supporting institutions. It continues until the country establishes a development path determined largely by its own priorities and resources. After the Second World War, post-conflict countries were urged to strive to achieve high levels of employment and job security; to maintain adequate levels of growth to sustain the employment levels achieved; to maintain macroeconomic stability through reasonably stable prices and low inflation; to achieve a fair distribution of the gains from economic progress and maintain a minimum level of standard of living that would be socially acceptable for everyone in the society; and, finally, to maintain sustainable external balances

primarily to preserve the country's economic sovereignty and to support the other goals. It was the inclusion of these economic goals as a formal part of the post-conflict security agenda that distinguished the period after 1945 from that after 1918 and the speed with which they were achieved was one of its great triumphs (Panic, 2005).

In light of the fact that most of the post-conflict countries in recent years have very low levels of per capita income and heavily distorted economic structures, it is likely that they will take much longer to attain satisfactory levels of economic security than did the countries of western Europe in the late 1940s. This suggests that today's post-conflict states are even less likely to attain such levels by relying solely on free market forces. Indeed, the absence of the requisite framework of incentives, rules and regulations needed for markets to work effectively and to make their operation compatible with social stability and cohesion means that they will likely have to play a subordinate role in the initial recovery period (see also, Panić, 2003, part II).

At the same time, the state particularly following civil conflict is, as noted earlier, very likely to be a weak and contested institution, facing an enormous security challenge stemming from the fact that rather than "moving back to trend" many if not most post-conflict societies are seeking a new growth path, a "new trend", and this must be done simultaneously with efforts to create or repair trust in public institutions and authority, and to re-establish a wider institutional framework of customs and laws, not just to enforce contracts and protect private property, but to fashion a view of the national interest that is broader and longer-term than that held by those with privileged positions rooted in the past. Doing so will require an integrated recovery strategy, including an explicit role for distributive policies. Failure to address the grievances that persist in a society after the fighting ends may quickly lead to renewed social and political unrest and a reversion to violence. This has been the experience of many countries that have remained trapped in vicious cycles of conflict, deprivation, despair and persistent insecurity.

Meeting these challenges cannot rely on transplanting existing institutions from one environment to another. Attempting to do so is based on the misplaced assumption that it is possible to circumvent the processes of trial and error, of institutional and policy experimentation, that have characterized all previous examples of what Graham Brown in an earlier chapter calls "democratic developmental states". It is certainly inconsistent, many would say hypocritical, for developed countries (along with the international financial institutions) to promote on the one hand, the principles and institutions of democracy in post-conflict countries and then, on the other, seize every opportunity to force them to adopt the institutional arrangements, particularly in relation to

the economy, that have evolved in response to the conditions and preferences of the countries and populations of North America and Western Europe in the period since the late 1970s. This is not to deny that successful open market economies tend to share a basic core of institutions, capacities and objectives, but only to insist there is no unique mapping from these to specific arrangements in individual countries.

Although there has been some slight softening of the neo-liberal stance on certain issues—following the 1997 financial crisis, the IMF, for example, became a little less insistent on rapid liberalization of the capital account—the emphasis on “second-stage” reforms reveals another bias in the direction of institutional arrangements, essentially towards a stylised “Anglo-Saxon” model. This is the origin of the good-governance debate mentioned by Susan Woodward in Chapter 3. There are no more grounds, however, for assuming that institutions can follow a common trajectory than there are for policies. This simply exchanges one Procrustean bed for another. Rodrik (2002) has suggested that governments face a constant trilemma in choosing two priorities from among national sovereignty, deeper economic integration and democracy. If, as he suggests, and we would concur, the nation state remains the locus of democratic and developmental politics, then it is necessary for policy makers to settle for a less muscular version of globalization and a much more strategic approach to integration with the global economy. This again simply underscores the fundamental point that there are institutional and political limits to how far recovery can and should go and that governments should be free to reassess and rethink their actions in this regard without prejudice or opprobrium.

The real issue that emerges from this debate is not a matter of choosing between extreme options but of judging correctly the time required for a particular policy or strategy to be successful and being able to select among a suitable range of objectives and to experiment with policies and channels of implementation. Even when large, rapid changes are desirable in principle, in practice the feasible rate of change in any country depends largely on the nature and strength of its economic and political institutions, on its social cohesiveness, on the ability of its political leaders to maintain that cohesion during a period of radical and often painful adjustment, and on the resources available to help manage those adjustments. Political leaders can influence the pace of reform, although not always by as much as many of them like to imagine, if they can establish credibility in their programmes and create and sustain a popular consensus for change behind a positive vision of the society at which they are aiming. They will also need to make candid estimates of the likely short-run costs involved, not promising a “blooming

landscape” in a very short time, and prepare measures to ensure they do not fall disproportionately on the most vulnerable sections of the population.

Filling the institutional gaps in post-conflict economies requires sufficient time and (policy) space for undertaking appropriate reforms and adjustments in the light of specific circumstances. In this respect, insistence by international institutions and donor countries on a “correct” content and sequencing of reforms runs the risk of substituting general technocratic solutions for political choices shaped by local values and conditions. Rather, what is needed is recognition of the need for “democratic gradualism” which will allow political and economic mechanisms to be developed to underpin a broad national agenda to handle the adjustment costs that will necessarily accompany the reforms and policy choices required for economic recovery, and to establish a tradition of conflict management and peaceful dispute resolution. The results may not always be economically or socially optimal according to some preconceived criteria of efficiency and there is always the danger of capture by specific interests; but these problems can be dealt with, in part, through the accompanying evolution of transparency in the policymaking process, the setting of credible adjustment targets and the design of effective sanctions if those targets are not met.

Creating a sense of national identity that encompasses the community as a whole, and not just a particular social group, locality or region, is the responsibility of the central government and, more broadly, of political leadership. It is also the responsibility of the government to articulate the character and goals of the state and to create a popular consensus behind a broad set of social and economic goals. This is particularly important in fragile states where a lack of social responsibility and widespread corruption are not confined to the organs of the central government. Even when this is not the case, there is a danger that a highly decentralized effort towards post-war reconstruction and development will concentrate on local issues, ignoring the wider problems which affect the country as a whole.

As resources are scarce and unequally distributed, some regions and localities will make much faster progress in reconstruction than others. In the absence of an effective central authority to manage interregional transfers of resources, such disparities could do more than just undermine attempts to create a feeling of national unity and purpose: Horizontal inequalities may, sooner or later, trigger renewed conflicts, especially if regional economic differences are correlated with variations in ethnic, racial or religious composition. It would not take long for such disparities to be regarded as the result of a deliberate act by the government to favour the interests of certain groups at the expense of others. Delegating a major responsibility

for reconstruction and development to non-governmental and civil society organizations may also hinder the re-establishment of central authority. By their very *raison d'être*, most of these organizations concentrate on specific issues that promote the interests of particular groups. In other words, they tend to lack the focus as well as the resources that are essential to achieving a broader sense of the public good or national interest that is essential for a lasting solution to the problems common to post-conflict countries.

Perhaps the key idea to be kept in mind when thinking about the links between state-building and economic recovery in post-conflict situations is that of “adaptive efficiency”, the capacity to develop institutions that provide a stable framework for economic activity but at the same time are flexible enough to provide maximum leeway for policy choices at any given time and in any given situation in response to specific challenges. The emphasis on flexibility and the need to experiment reflects the realities of operating in a fragile and uncertain context typical of post-conflict situations. This certainly rules out the wholesale adoption of a set of predetermined policy instruments (be they rapid trade liberalization and privatization, on the one hand, or high tariff protection and nationalization, on the other) to be employed in post-conflict situations regardless of actual circumstances.

REVISITING THE MARSHALL PLAN

With this background in mind, there are at least seven major virtues of the Marshall Plan which provide useful lessons for rebalancing the policy environment in developing countries today. First, it set a time frame for the post-war adjustment process that was more realistic than that envisaged by the US Treasury or, subsequently, by IMF programmes. Instead of thinking in terms of eighteen months, the time scale was changed to four to five years. Second, Marshall made it clear that there was to be an end to the piecemeal assistance of 1945–1946 which had suffered from a lack of coordination and had less impact than expected in stimulating economic recovery. A key requirement, therefore, was that each state receiving aid had to produce a four-year outline plan for recovery, setting out targets for the main economic variables and providing an account of how the government intended to achieve its objectives. Third, Marshall insisted that these plans, together with estimates of the need for assistance, had to be drawn up by the West Europeans themselves: “It would be neither fitting nor efficacious for [the United States] to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of Europeans ...

The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program ...” Marshall thus acknowledged national sensibilities, admitted that the recipient countries were better informed about the facts of their situation than outsiders, and generally showed a deference towards European traditions and preferences that has often been conspicuously absent in the subsequent attitudes of the rich countries and international institutions towards the rest of the world.

A fourth feature of the Marshall Plan was that aid was released in tranches that depended on the countries’ intermediate targets being met. The removal of the recovery programme from the Bretton Woods framework did not therefore imply an escape from conditionality, but the Marshall Plan conditions were different, more flexible and were to be met over a longer period than allowed by IMF rules. Conditionality was important not simply to ensure that the aid was being used effectively but also to gain, and sustain, the support of the American taxpayer.

Fifth, the Marshall Plan acknowledged that the damage to European productive capacities and the great disparity in economic strength between the United States and Europe meant that rapid liberalization of trade and payments would quickly lead to European payments crises. It was accepted that Europe would gradually dismantle a wide range of direct and indirect controls on its trade according to an agreed timetable within the framework of the European Payments Union between 1950 and 1958. This gradual liberalization of trade provided European producers with protection against American competition and gave them time and encouragement for the reconstruction of enterprises capable of producing competitive substitutes for dollar imports. At the same time, the United States agreed to a more rapid improvement in access to its own market for European exports, a policy of asymmetric liberalization that stands in marked contrast to the present approach of the EU and the United States which insists on a rapid opening of developing countries’ markets and on restricting the range of policy options available for their development. Another, largely forgotten aspect of American restraint towards the relative economic weakness of Europe in 1947 was a moratorium on foreign investment in Germany until monetary equilibrium had been more or less achieved (Kindleberger, 1989). The prospect of US capitalists buying up Mercedes, Siemens and other major companies at derisory prices did not appear to the State Department as a useful contribution to winning the “hearts and minds” of a defeated population and a future ally.

Sixth, effective leadership requires generosity. Marshall Aid consisted largely of grants and the small proportion of loans contained a large element of grant: they were usually for 35 years at 2.5 per cent interest with repayments

starting in 1953. It is worth emphasizing this structure of financial help at a time when “aid” and “assistance” are used loosely to cover everything from gifts to loans at market (or above-market) rates of interest. The wisdom of adding to the debts of already heavily indebted economies is highly questionable, the more so when they are grappling with economic restructuring and institution-building, which is typically the case for countries trying to accelerate their development or to recover from the chaos that normally follows the end of violent conflict. A generous supply of grants, monitored within and conditional on a coherent economic programme on the lines of the Marshall Plan, can be more effective than loans in lifting countries out of a “stagnation trap” where heavy debt-servicing obligations hold back the domestic and foreign investment that could improve the longer-run performance of the economy, including its capacity to service debt. Another advantage of grants is that they are not usually subject to the long and complex negotiations, legal and financial, associated with loans. This is important because another lesson of the Marshall Plan is that prompt assistance at the start of a promised programme can help to sustain positive expectations, which most likely will have been raised by politicians, and instigate a momentum for change that will stand a chance of becoming self-reinforcing.

Aid is usually provided with a close eye on the interests of the donor, to strengthen a bilateral alliance, secure supplies of raw materials, boost exports and so forth. That is to be expected, but a lot depends on whether donors see their interests narrowly or broadly, short term or long term, and whether larger public interests prevail over narrower corporate ones. There are public-goods aspects to aid if it succeeds in raising the prospects for growth and development and thereby reducing threats to regional and global security, easing the pressures for migration and so on. Grants may therefore generate higher rates of return, in terms of the donors’ larger interests, than loans. Marshall Aid grants were arriving in Europe in well under a year from General Marshall’s speech in June 1947, a painful contrast with the assistance efforts of the G7 over the last few decades which have been dominated by loans and characterized by large discrepancies between pledges and deliveries, long delays in disbursement, and weak coordination among a large number of donors with often competing interests.

Finally, the seventh virtue of the Marshall Plan that we consider relevant to current problems was its insistence that there should be a degree of united and cooperative effort among the Europeans themselves, and that the plans of the 16 recipient countries and the allocation of aid should be coordinated in a regional body. This requirement partly reflected US foreign-policy objectives for a more integrated Europe, but it provided a structure for cooperation in

areas where there are significant externalities, economies of scale and other trans-boundary issues. The peer review of national programmes within the OEEC provided national policy makers with a regional perspective for their own policies and encouraged a culture of regular contact and cooperation among national bureaucracies which today is taken for granted in Europe.

The creation of new, or the expansion of, existing regional bodies has often been opposed by the G7 countries, which tend to prefer global institutions where they can assert more control over decisions. That of course is one reason in favour of them from the standpoint of countries in a region, an advantage that many members of the EU frequently stress. But for most countries, most of the time, many of their pressing everyday problems involve their neighbours. Regional cooperation to lower trade barriers and other obstacles to doing business within the region can provide larger markets for small, low-income countries and make it easier for them, if it suits their development strategies, to attract FDI. For small, fragmented economies infant-industry policies may be more effective in a regional than a small national market. Regional cooperation can also make it easier to deal with black markets, organized crime and other activities which have the power to undermine democratic and market institutions. The very fact of increased efforts at such cooperation is itself a sign of increasing stability and security in a region and that can be an important influence on economic activity in general and fixed investment in particular.

One of the important aspects of post-war regional cooperation in Europe, in institutions such as the OECD, the UNECE and the EU, is that it encouraged a focus on “nuts and bolts” cooperation in resolving possibly mundane but nevertheless important practical problems, such as trade facilitation, harmonizing standards for various traded products, trans-boundary air and water pollution, and so on, where all the parties can see that they will gain from agreed rules or norms and therefore have an incentive to cooperate. The practical consequence, however, is the gradual evolution of a form of regional or international governance as countries seek ways to reconcile their pursuit of national objectives with international constraints, an activity based on local knowledge that can also contribute to developing the autonomous learning capabilities that we identified earlier as crucial for promoting both development and democracy. This suggests that the necessity and benefits of collective action, on the one hand, and the evident desire of peoples to preserve as far as possible their autonomy to decide national policy, on the other, can be balanced in many areas without the need for overarching global bodies.

What we are suggesting is that the processes of the Marshall Plan can help to provide a coherent framework for coordinating national economic-development

plans with international assistance. Without an articulate account of a government's macroeconomic objectives and their relation to detailed programmes for infrastructure investment, education, health, housing, etc., it is difficult to see how limited supplies of foreign assistance, financial and technical, can be really effective. Official assistance is essentially a form of intervention to ease shortages, bottlenecks and other constraints on growth and structural change, but it is difficult to target aid to where it will be most effective without some idea of priorities and the potential marginal effect of removing one bottleneck, say, before another. Similarly, the impact of assistance will be reduced if complementarities are overlooked: the value of funds for treating the victims of HIV/ AIDS and other major diseases, for example, will be diminished if the planning and funding of health support services is neglected or underestimated.

Despite the demonstrated success of the Marshall Plan framework in Europe in the 1940s, "aid" has developed over the years into a mixture of assistance for an assortment of specific projects and ad hoc responses to unexpected shocks with little apparent coherence, either in the countries that receive it or in its global distribution. Donor conferences are more like bazaars, driven more by what donors want to promote than by the desire to support specific multi-year, national programmes. It is difficult to see how aid can ever be really effective without an articulation of macroeconomic objectives and detailed programmes for infrastructure investment, etc., and without a coherent account of priorities—what should be done in what order—and a sense of the necessary complementarities among different investments and projects.

National development programmes along the lines of the Marshall Plan would also make it easier to provide general, non-project assistance to government budgets or the balance of payments, as was done for a number of European countries under Marshall Aid. Development (even more than reconstruction) programmes essentially deal with deep-rooted structural problems and both fiscal and current-account deficits are usually unavoidable if constructive, long-run adjustment is to be achieved. The need to provide financial assistance to deal with long-term imbalances is usually seen by the international financial institutions as evidence of a weak commitment to reform and as encouraging a slackening of discipline by postponing necessary adjustment. This was not the view of the Marshall Planners, who regarded such assistance as an investment in structural change and as providing governments with the breathing space required to bring difficult and often painful policies to success. When such policies threatened to cause social upheaval on a scale that might upset the adjustment process, as was the

case in post-war Italy at one point, Marshall Aid was available to support the government budget in order to cushion the social costs.

Another major attraction of a Marshall Plan framework is that it can serve an important political function. A multi-year programme of economic and social objectives, setting out their interrelationships, the means to achieve them and their contingency on outside assistance, effectively sets out the government's vision of the structure of society at which it is aiming. That is highly political, and so the proposed programme provides a basis for the democratic discussion and the negotiation between competing views that should take place. This is not an easy task, as the history of French indicative planning shows (Cohen, 1977), but obtaining popular support for such a programme can be a major stimulus for change. This will not always result in what the international financial institutions regard as the "best" policies, but the advantage of democratic processes, as we have suggested elsewhere (Kozul-Wright and Rayment, 2007), is that they generate pressures to correct mistakes: they may reach the "best" policy more slowly than if driven by autocratic outsiders, but politically the slow route may be superior. A "new Marshall Plan" could thus be a way to provide a concrete operational basis for such ideas as "ownership" and "partnership", which otherwise risk degenerating into empty slogans. Moreover, a coherent national programme with popular support, indicating where outside assistance could be most effective, ipso facto becomes a powerful argument for persuading potential donors to respond to national priorities rather than following their own preferences from a basket of seemingly unrelated projects. The emphasis on national programmes is deliberate because the problem with recent suggestions for a new Marshall Plan for Africa, for example, is that they seem to imply that the continent is homogeneous, which is very far from being the case. The approach in Europe in the late 1940s was to treat each country as a specific case but to bring them together in a regional framework of cooperation that would support both national objectives and regional coherence.

CONCLUSION

A crucial issue during post-war transitions is the building of State capacities to mobilize domestic revenue to provide sustainable funding for new democratic institutions and for expenditures to improve human well-being, strengthen public security and ease social tensions. Depending on the overall cost of the conflict, reconstruction and the early stages of economic development will be heavily dependent on external resources. Ultimate success or failure will

be determined, therefore, by how each side discharges its part of the shared responsibility for recovery. On the recipient side, innovative policy responses to fiscal management will be required. The donors must resist imposing their own institutional and policy preferences on the receiving country.

The Marshall Plan actually addressed many of the issues that have been subsequently raised anew in the recent debates on aid effectiveness—it placed great emphasis on governance, on the need for well-articulated policies and coherent objectives, and it stressed the importance of regional cooperation on both economic and security grounds. It had a “short-term” impact on economic recovery, not least because the very short interval between the commitment of aid and its delivery had a positive impact on morale and expectations in the receiving countries; and although it was by no means the only factor at work, it had a “long-term” impact both in easing the balance of payments constraint on the recovery and by strengthening business expectations and the propensity to invest. Although difficult to assess econometrically, it also contributed to political stability in post-war Europe with its long-term commitment to economic recovery and its efforts to avoid increasing the austerity to which the populations of the region were already subject. The Marshall Plan was rooted in a set of general and operational principles that remain highly relevant to the problems of post-conflict countries today, even though their security, reconciliation and development challenges are a good deal more demanding than those facing war-torn Europe after 1945.

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