

---

**FEDERAL RESERVE BANK OF RICHMOND**


---

## *The Marshall Plan and Agriculture\**

THE Marshall Plan has made important contributions to farm prosperity in the Fifth Federal Reserve District during the past two years. Cotton and tobacco are two agricultural products that traditionally bulk large in American agricultural exports to Europe. Europe has always relied upon the United States as an important source of supply and the United States has always benefited from the outlet thus afforded for these important export commodities. Before the war Western European countries took about 60% of American exports of cotton and about 75% of American exports of tobacco. Thus far under the ECA program European countries have been authorized to buy \$1.5 billion of these commodities in the United States.

The main objective of the Marshall Plan was to enable Europe to help itself. It was to be a *recovery program*. It was not intended that it become merely an outlet for surplus farm commodities. Neither was it expected to become one of the important points of tension in the Cold War with Russia and her satellites.

### **Intended as Four Year Program**

The Economic Cooperation Administration was created by Congress in April 1948. The termination date was to be June 30, 1952. During this 51-month period it was hoped that the countries of Western Europe acting in cooperation with each other and with the United States would recover sufficiently that their economies could continue to function in high gear without outside aid being necessary.

The economic problems needing attention were numerous and varied. Many had plagued the countries since long before World War II. Others were the outgrowth of war. There was great need to increase employment and levels of production in Europe. The need to combat inflation and to restore normal trade between European countries also was intense. Steps to met these situations were started as soon as the ECA was created. At the same time the countries undertook to draw up something of a blueprint of where they expected their countries to be by 1952-53. Each country's program was subjected to careful examination by the other countries through the machinery of the OEEC (Organization for European Economic Cooperation). This was the organization the Marshall Plan countries established to deal with those problems of recovery on which joint action was needed.

### **Industrial Production in Europe 24 Per Cent Over Prewar**

During the two and one-half years the program has been in operation, industrial production has not only

recovered to the prewar level but has risen 24% above prewar. Agricultural production has slightly exceeded prewar levels.

This rapid increase in industrial and agricultural production would have been impossible except for the assistance ECA gave in helping the European countries to obtain food, feed, industrial raw materials, and machinery. The recovery of European production meant more jobs, more regular work for those having jobs, higher levels of consumer incomes, and more of the many kinds of consumer goods that had been scarce in Europe since the outbreak of war in 1939.

### **Trade Between European Countries Revived**

At the same time production was being increased, steps also were being taken to re-establish the exchange of goods between European countries and with other countries. Under the conditions of a general scarcity of goods and a lack of confidence in each other's currency, trade had slowed to a walk. Because of the extent to which the various countries normally relied upon other countries as sources of some products and as markets for others, it was essential that this trade be revived before full recovery was possible.

As a means of removing some of the impediments to trade, the European countries have developed the European Payments Union which provides machinery for settling the accounts of each country with the other participants. The general revaluation of European currencies which brought them better into line with each other and with the dollar in the Fall of 1949 also contributed to the revival of Inter-European and foreign trade. The removal of a large share of the quantitative restrictions on trade with each other also has been a worthwhile step. The ECA has supplied constructive leadership in helping the participating countries to re-establish trade with each other. It also has supplied leadership and financial backing which led to the establishment of the European Payments Union. An indication of the accomplishments along this line is found in the fact that trade among the Marshall Plan countries recently has been running 17% above prewar and total export trade has been 20% above prewar.

### **Agricultural Production to Rise Further**

Although agriculture is of very great importance, Europe normally has imported about 30% of the food consumed. Agricultural production goals for 1952-53 call for a level of output in Western Europe that is 15% above prewar. These goals visualize a slight increase in acreage farmed and some shift from lower yielding to higher yielding crops. For the most part, however, the increase is expected to result from increases in crop yields and in rates of livestock production.

A real need exists in Europe for agricultural extension facilities to be strengthened. Here in the United

*\*The accompanying article is a brief analysis summarizing the views of Mr. Horace G. Porter, Senior Agricultural Economist at the Federal Reserve Bank of Richmond, who was on loan to the Economic Cooperation Administration in Paris for the past two years.*

States we are accustomed to our Cooperative Federal-State Extension Service functioning within the broader framework of our United States Department of Agriculture-Land Grant College System. We take our Extension Organization more or less for granted. Nevertheless, few if any other countries meet this need to the extent it is met in the United States. The OEEC and the ECA are aware of the important contributions an expanded agricultural extension program could make in each of the Marshall Plan countries. Both organizations are promoting the development of agricultural extension work in each participating country.

#### **Increase in Agricultural Production to Match Rise in Population**

Agricultural production in Europe is expected to show the same percentage increase over prewar as the growth in population, namely 15%. Food imports, therefore, must be at least 15% above prewar or else per capita food consumption levels will be below the prewar level of 2,900 calories per day.

Before the war a substantial part of the food imported came from countries which can not now be counted upon as important suppliers. Marshall Plan countries, therefore, may need considerably larger quantities of food from the United States after 1952 than we exported to them before the war.

#### **Cotton Shipments Under Program Exceed Billion Dollars**

Through September 1950 the ECA had authorized European countries to purchase a total of \$9.8 billion of goods and services. Food and agriculture commodities accounted for \$4.4 billion. Bread grains (mostly wheat and wheat flour) totaled \$1,398 million, cotton totaled \$1,128 million, tobacco totaled \$369 million and fats and oils \$337 million. These four categories of commodities account for about 75% of the total for food and agriculture commodities.

#### **Significance of Marshall Plan to Fifth District Agriculture**

Fifth District cotton and tobacco farmers know from sad experience what it means to lose—even temporarily—their European market. It is more difficult in times such as these for them to know how much of their present prosperity is the result of European purchases of cotton, tobacco, and other farm products. There is no doubt, however, that farmers in the Fifth District as well as elsewhere in the United States have been considerably more prosperous the last few years than they would have been without the Marshall Plan.

American agriculture also benefited heavily—even though indirectly—from the \$4.7 billion of industrial goods financed by ECA. Business activity here at home has been higher than it would have been without the

ECA. This has meant more jobs, higher consumer incomes, and stronger demand for food and clothing than otherwise would have prevailed.

#### **Summary**

As Americans who have helped supply the billions that have been expended under the Marshall Plan, it is understandable that we should want to know what effect it has had. We want to know whether or not our investment in the Marshall Plan has been a profitable investment.

The Marshall Plan was an effort to enable European countries to help themselves. Its major objective was European Recovery. The rate at which European production has recovered has been most encouraging. Agricultural production is now slightly above prewar, and industrial production is 24% above prewar. Inflationary forces have been substantially checked and currencies have been stabilized. The European Payments Union provides a measure of insurance against another breakdown in Inter-European trade such as was so paralyzing at the time the ECA was established. At the same time the level of economic activity in the United States has been higher than if there had been no ECA.

Much remain to be done in increasing the efficiency of production, in expanding output, in further liberalizing trade and in balancing dollar earnings and expenditures. European countries also face the job of gearing their economies to the Mutual Defense Program of the United States and Western Europe.

The dollar cost to the American taxpayer of the first two and one-half years of the European Recovery Program has been great. However, accomplishments abroad and at home have been such that Americans apparently view it as well worth the cost. It is to be hoped that this record of accomplishment will be maintained during the remaining one and one-half years of our Aid program and beyond.

#### **REGULATION V LOANS**

“A Statistical Study of Regulation V Loans” has been prepared by the Board of Governors of the Federal Reserve System. Data are presented to show the main characteristics of the lending program during World War II, and include the volume of credit made available, size of business and type of war production financed, loan terms and participating private institutions.

The pamphlet is available from the Board of Governors of the Federal Reserve System, Washington 25, D. C., price 25 cents.