

May 14, 2018

## **The Marshall Plan: A Review**

We occasionally run across a book that we deem important enough in the arena of geopolitics to warrant a full report dedicated to its review. Recently, we happened upon a book that fits this requirement, *The Marshall Plan: Dawn of the Cold War* by Benn Steil.<sup>1</sup> This book details the history of the Marshall Plan, discusses how the plan developed and identifies the major historical figures who created the strategy. Furthermore, more importantly for the present, it shows how this generation of policymakers addressed the geopolitical problems of Europe, issues that have resurfaced since the Cold War ended in 1991.

In this report, we will review the state of Europe after the war, focusing on U.S. and Soviet goals for the postwar era, and discuss the important figures of the era and the legacy they left behind.

### **Postwar Europe**

Prior to the official end of WWII, Joseph Stalin, Franklin Roosevelt and Winston Churchill had begun negotiating how the postwar world would be managed. Roosevelt believed voters would not accept a permanent American military presence in Europe and thus intimated to Stalin that the U.S. would exit two years after the German surrender. Churchill was mostly focused on maintaining the British Empire, a position Roosevelt seemed determined to undermine. As the three drew up plans, Stalin sought to

create a security buffer as far into Western Europe as he could press it.

Roosevelt died suddenly, on April 12, 1945, before VE-Day on May 8, 1945. Harry Truman, his vice president, was thrust into office with little preparation. Roosevelt's plan for the postwar world was sketched out by Henry Morgenthau, who was treasury secretary from 1934 to 1945. He envisioned a pastoral Germany, stripped of its industrial base and nonaligned with either the Soviet Union or the U.S. Germany's industrial base would have been used for reparations. This plan was poorly thought out—it wasn't obvious how a deindustrialized Germany could have fed itself and also support Europe, which was dependent on German industrial goods for growth. However, the reason Morgenthau developed this policy was to address the "German problem." Germany, centered in the middle of the European continent, sits on the Northern European Plain. Being on this mostly flat land gives the country a logistical edge as it faces few natural barriers to moving goods. Thus, after unification in 1870, it was destined to become a major economic power. At the same time, this lack of natural boundaries meant it was also vulnerable to invasions from the east and west. German foreign policy was structured to address these invasion fears; unfortunately, those concerns devolved into a foreign policy responsible for starting two world wars. The allies were determined not to allow Germany to cause another world war. The "trick" was in how to bring this goal to fruition.

---

<sup>1</sup> Steil, B. (2018). *The Marshall Plan: Dawn of the Cold War*. New York, NY: Simon & Schuster.

### Great Men

As I have noted before, I am partial to the “great wave” theory of history as opposed to the “great man” theory.<sup>2</sup> Historians tend to fall into one of these camps. Great Man theorists argue that history is made up of seminal figures that shape how history unfolds. Great Wave theorists argue that societal trends, or “waves,” make history and the participants are not necessarily “great” but are positioned, for good or ill, into those historical trends. In reality, both theories offer insights into how history unfolds but I have concluded that waves, in general, are a better way to view history.

However, Steil makes a very strong argument that American policymakers in the State Department, the Treasury, the White House and Congress during the postwar period were exceptional. They were not perfect, but the nation and the world were blessed to have had such unusually strong individuals filling critical roles during the unfolding of American policy toward Europe. Here are some of the leading characters:

*George Kennan:* Kennan was a diplomatic counselor in Moscow from 1944 to 1946. In February 1946, he cabled his famous Long Telegram<sup>3</sup> to Washington where he laid out his analysis of Soviet behavior and offered the rationale for containment which became the basis of the Cold War. He noted that the Kremlin’s view of the world, which required the expansion of influence, was not driven by communism but by the character of Russia itself. Russia, like Germany, rests on the Northern European Plain; it has no natural defensive barriers until the Ural Mountains. Its primary defense was the

expansion of territory, which forced invaders to traverse long expanses. He also noted this paranoia about security led Russians to “disrespect objective truth.” In other words, all “truth” has a political or ulterior motive. Kennan postulated that communism could be contained if the non-communist world put up solid resistance to Soviet expansionism in the form of economic progress and support of surrounding nations. Kennan’s telegram became the intellectual basis of that policy.

*Harry Truman:* As noted above, Truman was Franklin Roosevelt’s last vice president. Considered something of a simpleton, the junior senator from Independence, MO was a compromise candidate. Henry Wallace, vice president during his third term, was an avowed socialist. Although popular with the left wing of the Democrat Party, leaders in the party were concerned about Roosevelt’s failing health and wanted a more centrist vice president. As a result, Truman was selected. Roosevelt mostly ignored him while he was president, so when he died suddenly Truman was thrust into office with little preparation. As Steil makes clear, Truman had three favorable characteristics—he could delegate, his ego was completely under control and he could sell policy. For example, he assembled a formidable policy team across party lines and let them formulate policy positions, decided on a path and did what was necessary to bring the policy to fruition. Containment became known as the “Truman policy.” However, the signature policy action, the aid from the Marshall Plan, purposely didn’t have his name on it to reduce political opposition.

*George Marshall:* Marshall had a long and illustrious military and public career. He was the Army’s chief of staff during WWII, secretary of state, 1947-49, and secretary of

<sup>2</sup> See WGR, 1/13/2014, [The Great Man or the Great Wave](#)

<sup>3</sup>[https://www.trumanlibrary.org/whistlestop/study\\_collections/coldwar/documents/pdf/6-6.pdf](https://www.trumanlibrary.org/whistlestop/study_collections/coldwar/documents/pdf/6-6.pdf)

defense, 1950-51. Marshall concluded that Stalin and Roosevelt's plan to deindustrialize Germany was folly after he saw the Soviets' plans to undermine the recovery of Europe. Deciding early on that the Soviets were not going to be reliable partners in the postwar recovery, he began to embark on a plan for the U.S. to underwrite the economic revival of Western Europe. Marshall put Kennan in charge of the details of the economic support plan and Kennan recruited Walter Rostow and Charles Kindleberger, one of our favorite economists, to assist. Marshall sold a skeptical and isolationist-leaning American public on the idea that a massive aid program was necessary for the recovery of Europe and the isolation of communism.

*Dean Acheson:* Acheson was undersecretary of state from 1945 to 1947 and replaced Marshall as secretary of state during 1949-53. As a close confidant of Truman, Acheson completed the Marshall Plan and formalized the Truman Doctrine. While the Marshall Plan was key to the rapid recovery of Europe, the Truman Doctrine was critically important as well. A major element of the Truman Doctrine was the North Atlantic Treaty Organization (NATO). The division of Europe between the Free World and communism didn't fully resolve the German Problem. The Marshall Plan, by itself, did not establish the creation of East and West Germany; NATO did. Giving security guarantees to the member nations of NATO resolved the German problem for the nations of Western Europe. In other words, France no longer feared Germany and thus was comfortable with allowing Germany to reindustrialize.

*Arthur Vandenberg:* A GOP senator from Michigan, Vandenberg was an avowed isolationist who converted to an internationalist after Pearl Harbor. Well-

respected by his party, he was instrumental in giving his party members political cover to support both the Marshall Plan and NATO. Although he was often overlooked in histories of this period, it is highly unlikely that postwar policy would have been implemented without his support. Truman thought so much of him that he asked him to become his secretary of state after his historic upset of Thomas Dewey in the 1948 elections. Vandenberg demurred, believing he was better suited to shepherd policy through Congress.

*Lucius Clay:* Clay was the deputy military governor of Germany during 1945-47, and was elevated to military governor in 1947-49. He was an accomplished administrator of the American zone and supervised the unification of the American and British zones. He also supervised the Berlin Airlift that led to the eventual creation of East and West Germany.

These figures are only a few of those mentioned by Steil. I viewed them as important but there were many others that played significant roles. Although there were important foreign leaders that helped create the postwar Free World, for the most part, it was an American creation.

### **The Legacy**

The Marshall Plan and NATO were the first steps in America's transformation from an isolationist nation to a superpower. The U.S. did not have designs on replacing Britain as the global superpower. The U.S. was a nation created by a war of independence that ended Britain's colonial rule over the American East Coast. The idea of replacing Britain as global hegemon was repugnant to most Americans.

However, the leadership of the U.S. realized soon after the war that Britain would be

unable to maintain the hegemonic role and global security was at risk. For example, soon after WWII, the Soviets were attempting to expand into Turkey and Greece after Britain informed the U.S. it could no longer afford to provide military security to these nations. The U.S., on an emergency basis, supported both governments to prevent Stalin from further expansion.

Although Kennan correctly saw that Marxism wasn't the key to Russian behavior, Truman and his cohorts used the threat of communism to sell a skeptical American electorate on the creation of the American superpower role. It worked. The U.S. outlasted the Soviet Union as it collapsed in 1991. Steil has a chapter devoted to this at the end of his book. He shows how the later generation of American policymakers adopted the view that communism was the key foe, which, in the author's view, has led to some key errors over the past three decades.

Because the Clinton administration saw the end of communism as the seminal event, it allowed NATO to expand to the Russian border, including not only the former Eastern Bloc but also independent states that emerged from the collapse of the Soviet Union. American policymakers, assuming Russians would view their motives as non-hostile, expanded NATO when it wasn't clear (nor is it still clear) what role NATO

would play without the Soviet Union in place. Although President Clinton couldn't understand why Russia would feel threatened, a cursory reading of Kennan's Long Telegram would have warned that this action would be perceived as hostile.

The problems that have emerged with Russia would not have surprised the Truman Doctrine/Marshall Plan generation. Pressing NATO onto the doorstep of Russia was bound to draw a negative response from Russia. The fact that American policymakers simultaneously expanded NATO and cut the defense budget is consistent with their notions that communism, instead of Russian behavior, was the issue.

Overall, I highly recommend this book. Our current problems of resurgent isolationism and the inability to formulate a workable hegemonic policy are due to the fact that Americans are not naturally attracted to the superpower role. To date, the generation of policymakers in the post-Cold War era have been unable to establish new reasons for continuing American hegemony. The value of Steil's book is that it shows (a) how difficult it was to establish the superpower role, and (b) how strong the Truman-era principals were compared to our present-day leaders.

Bill O'Grady  
May 14, 2018

*This report was prepared by Bill O'Grady of Confluence Investment Management LLC and reflects the current opinion of the author. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.*

### **Confluence Investment Management LLC**

---

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics and geopolitical analysis with a value-driven, fundamental company-specific approach. The firm's portfolio management philosophy begins by assessing risk, and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.