

### ***Marshall Plan***

July 1944 Bretton Woods Conference sets up IMF and World Bank. USA provides 1/3 of the seed money and hence has controlling influence over funding decisions and economic policies promoting capitalism over socialism. But this is a long-term solution and war has devastated Western European economies including Britain's which is a major trade partner of the US. By 1947-48, European recovery is still slow due to low level of production.

A different strategy launched: Marshall Plan – June 1947 European recovery **and** challenge Eastern bloc in context of growing Cold War. Soviets invited to discuss aid, but unacceptable **conditions (setting up free markets for trade with the West, allowing private investment in Eastern Europe, exchange of economic data)**

US gave economic assistance (**\$13 billion between 1948 & 1952**) to **16 nations**. **ERP (European Recovery Plan)** coordinated funds most of which were to be spent on US goods. Very successful- industrial output up 35%, agricultural up 10% above pre-war levels by 1952, contributed to European unity, but worsened the Cold War because it further divided Europe, economically and politically. West Germany was a major recipient of Marshall Aid

### ***The German Problem***

Germany and Berlin divided into 4 zones of occupation

Soviets had single largest zone, but western zones together were larger, more industrialized

Potsdam Agreement: treat Germany as a single economic unit, but gave Soviets **reparations** (to compensate them for their great losses) in the form of capital goods (factories, machines) from their zone and from the western zones. Soviets could get 10% of western zone goods or 15% if they gave food and coal in exchange. But, this depended on allied cooperation.

US wants to restore Germany's economy quickly and so were uncooperative in the Soviet effort to dismantle German industry (literally take apart factories and move them to Soviet zone or to USSR).

Soviets decide they want reparations to be taken out of current production because USA is stalling, (although eventually 688 factories were shipped to Russia), and because dismantling the factories proves to be difficult and costly.

Secretary of State **Byrnes Stuttgart speech** in Sept. 1946 supports rapid reunification with or without Soviet cooperation. In December 1946, US and UK zones merge to form **Bizonia**. In 1948, French zone added to form **Trizonia**.

By this point, Soviets feel they have not been fairly compensated, and US feels Soviets are delaying reunification. Both are true, but this contributes to deterioration in relations.

As the West seems to be moving on its own toward reunifying Germany (Byrnes' speech) Soviet response is at least to hold on to what they have. This leads to

#### **Berlin Blockade -June 1948 to May 1949:**

New currency introduced into western zone & W. Berlin

Soviets blockade road & rail links to West Berlin

Allied airlift brings all supplies until blockade lifted

[April 1949 **NATO = North Atlantic Treaty Organization** mutual defense treaty against perceived Soviet threat]

Consequence of blockade: Permanent (50 year) division of Germany (East & West)