

**Your on the Street Reporter**



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**The Marshall Plan and the Silk Road Inactive**

## The Marshall Plan and the Silk Road

September 12, 2018

During the past few years, a large number of social media postings have highlighted China's *Belt and Road Initiative* (BRI). The subject of BRI is also a lead article in many newspapers and journals. Some pieces have compared it to the Marshall Plan. This article will discuss and compare these two programs.

### BRI Overview

Those who know about BRI are usually not neutral about the subject. They favor it or they are against it. But many Americans have no idea what BRI is. To them, it might be a new app for a smart phone. Americans should know about BRI because it will affect---perhaps not our present generation---but certainly, our progeny.

BRI is nicknamed the *Silk Road* in reference to trade routes that existed many centuries ago between East Asia (China and the Malaysian peninsula) and the west (modern-day Europe, the Middle East, and northeast Africa). It derived its name from the enormously lucrative trade in silk (and other goods) carried-forth and bartered along its long path.

China's leader, Xi Jinping, has set forth the BRI to be "the project of the century." China intends to build an infrastructure of sea, land, and air industries across an expansive geography in Asia, the Middle East, North Africa, parts of South Africa, Eastern Europe, and locales in Western Europe.

In response to critics about China investing huge sums of money in many parts of the world (in addition to BRI locales), Xi Jinping states, "China has no geopolitical calculations, seeks no exclusive blocs, and imposes no business deals on others."

Before introducing the Marshall Plan, I have one question: If Mr. Xi's three claims are sincere, why is China embarked on such a grandiose scheme? I doubt it is based on altruism. The Chinese Communist Party is not known for selflessness. It is known on self-interest and self-promotion.

To be fair, Mr. Xi has been fighting an increasingly successful battle to improve the lot of the Chinese people and combat endemic corruption among the populace. Also, BRI will provide money, expertise, and engineering skills to countries, who while not entirely destitute, are cash-poor and need help from outside benefactors.

One question posed in this article: Are there strings attached to countries accepting BRI beneficence?

### The Marshall Plan

The Marshall Plan is likely more familiar to Americans. Like the BRI, the Marshall Plan was not a noble altruistic experiment. For certain, its effects were greatly altruistic, as it staved-off post-WWII Europeans from destitution---even starvation. From this writer's view, Americans have always been a generous people.

But at its heart, the intent of the U.S.-sponsored Plan was to thwart the growth of native Communism in Western European countries, prevent the Soviet Union from making further inroads into Germany, and halt Russia's drive to consolidate its hold over Eastern Europe. In the short run, the Plan was successful in achieving the first two goals. In the long run (with the dissolution of the USSR), it met all its goals.

Another question asked in this article: Were there strings attached to countries accepting the Marshall Plan beneficence?

Subsequence pieces of this article address these questions.

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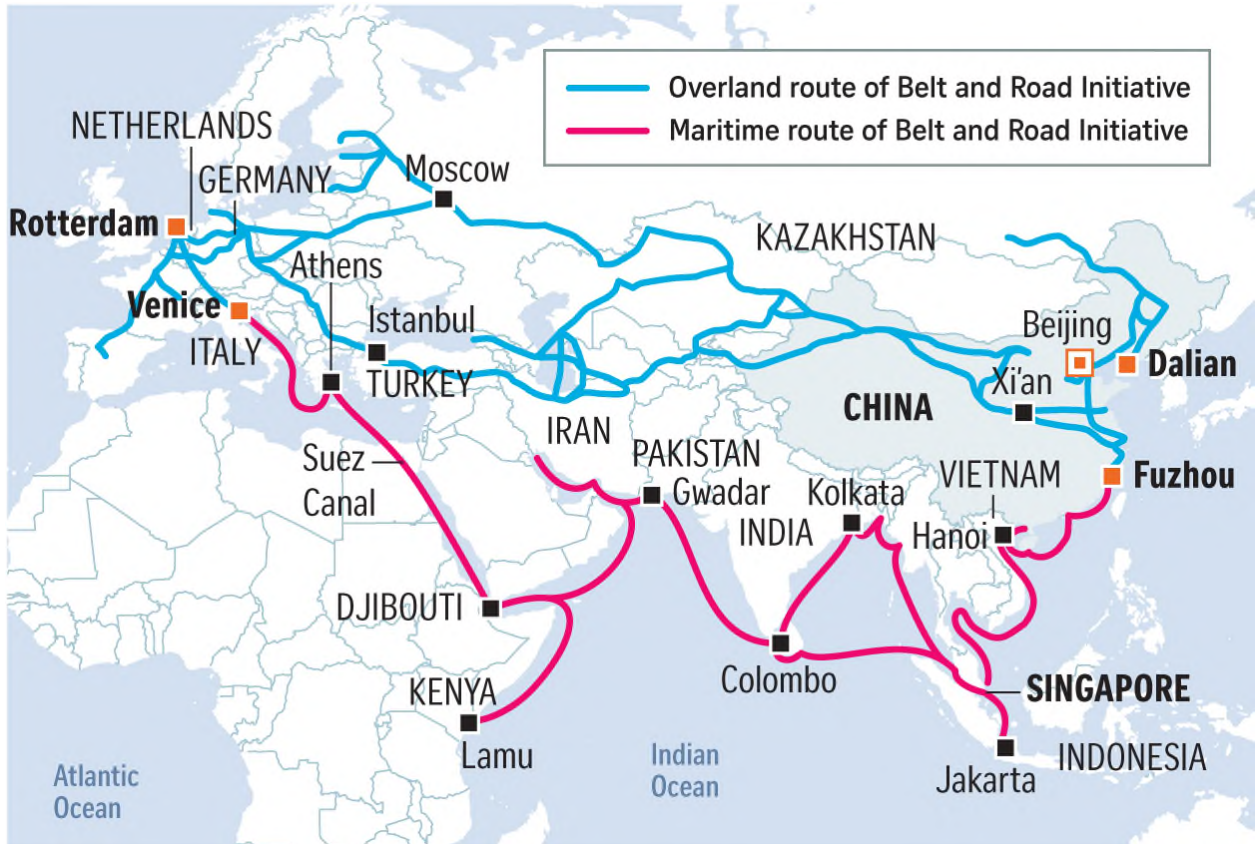
Unless otherwise noted, the statistics and quotes cited in this article are sourced from (a) Greg Behrman, *The Most Noble Adventure* (New York: Free Press, 2007), (b) David McCullough, *Truman* (New York: Simon & Schuster, 1992), (c) Microsoft Encarta Encyclopedia, (d) Tony Jut, *Postwar: A History of Europe Since 1945* (New York: Penguin Books, 2005), (e) "United States Public Debt," and (f) *The Economist*, July 28, 2018.

## The Marshall Plan and the Silk Road Two: BRI: A Modern-Day Silk Road

September 12, 2018

Article two of this series provides more information on China's Belt and Road Initiative (BRI). As noted earlier, it is nicknamed the Silk Road, in reference to ancient trade routes spanning Asia, as well as the Middle East, North Africa, and parts of Western Europe.

The accompanying figure provides a view of the scope of BRI. Thanks to Google and Straits Times Graphics, which also on the cover of this article.



China's huge cash reserves will give the country the ability to build parts of another country's infrastructure. Ship docks, railroads, motor roads, power stations, and other facilities to be constructed along the BRI will be largely financed by China. On the surface, this idea should be welcome to these countries, as the support will help build a country's architecture. No country can exist in today's globalized world if it does not have an industrial/cyber-world base.

### Pragmatism and Security

China's western regions are experiencing problems with Islamic extremists. Part of the idea of BRI is to bring more prosperity with associated security to these areas by building infrastructure and associated jobs. On the surface, it is a sound and pragmatic idea.

After all, the first obligation of a national government---I emphasize first---is for the government to protect its nation's borders. This aspect of the modern Silk Road is part of the BRI plan.

This aid revolves around what Mr. Xi states is the “great powered diplomacy with Chinese characteristics.” The idea of inculcating Chinese characteristics into BRI-sponsorship is not much different than the Marshall Plan’s strategy, discussed in the next part of this series.

But some caveats about BRI should be addressed. First, the BRI entails the recipient nations to take-out loans from the Chinese for the building of, say, a port facility for container ships. This loan places the port facility in the hands of a Chinese-controlled bank (a state-owned firm). Not a conventional bank, but a Chinese government-owned bank.

As one example: The facilities of Sri Lanka’s Hambantota port was repossessed by a Chinese state-owned firm because Hambantota could not meet its “mortgage payments.” This action is akin to the U.S. government taking over (and owning) a shipyard facility in Hong Kong because its owners defaulted on its loans. (The Feds took over some U. S. institutions during the 2008 financial crisis, but not as a routine procedure, and relinquished control of these institutions later.)

I emphasize “state-owned,” as the Communist regime controls many of China’s banks and other institutions. Thus, China essentially owns the Sri Lanka port.

China employed no invading warships or army for this takeover, just invading cash. The country is not using aircraft carriers, marines, and other physical arsenals to inculcate itself into a region of the world. It does not have to resort to arms. It is using money as its arsenal, largely courtesy of United States trade imbalances.

## **The Marshall Plan and the Silk Road** **Three: The Marshall Plan: Savior of Western Europe**

**September 12, 2018**

This article is a continuation of two previous pieces. It provides more detailed information on the post WWII Marshall Plan.

### **Extent of Devastation**

To gain a sense of the magnitude of the damage caused by WWII, consider the 1945 situation in Western Europe:

- More than 50 percent of housing in major cities was reduced to rubble.
- In London, 3.5 million homes had been destroyed.
- In Berlin, 75 percent of the buildings were uninhabitable.
- In Germany, 90 percent of the rail lines were inoperable.
- Greece lost two-thirds of its merchant fleet.
- Thousands of bridges throughout Europe were obliterated.

The scene in the figure was not an exception to a Berlin landscape. It *was* the landscape. During the 1980s, I traveled to Berlin and paid a visit to the Brandenburg Gate, shown in the figure. This 1945 image was far removed from what I saw. I saw a reconstructed Gate, one reflective of the restorative mechanisms of the Marshall Plan.



The people in this part of the world were not traipsing to the local market for bread, cheese, and wine. As examples, the citizens in Vienna existed “on a ration of 880 calories a day; in Budapest the officially provided ration was just 556 calories per day (children in nurseries received 800).”...“One third of the population of Piraeus, in Greece, suffered from trachoma in 1945 due to acute vitamin deficiency. During an outbreak of dysentery in Berlin dating July 1945---the result of damaged sewage systems and polluted water supplies---there were 66 infant deaths to every 100 live births.” The Germans had a joke, “Better enjoy the war. The peace will be terrible.”

An increasing number of European citizens looked for alternatives to their heretofore democratic way of life. Given this situation, Communists became a threat to take over the governments of several European countries, especially France and Greece.

President Harry Truman signed the Marshall Plan on April 3, 1948, granting \$5 billion in aid to 16 European nations. During the four years the plan was in effect, the United States donated \$17 billion (equivalent to \$193.53 billion in 2017) in economic and technical assistance to help the recovery of the European countries.

A simple explanation was brought forth: “Empty stomachs mean Communists. Full stomachs mean no Communists.” “Empty stomachs” in Europe was interpreted by many that socialism and quasi-capitalism was failing. The people were looking for an alternative. They did not care which political philosophy resulted in bread on the table.

In the end---with survival at stake---people are Darwinists. The American leaders recognized this truism. They knew Europe would succumb to Communism if the Europeans’ stomachs stayed empty. What to do? First, feed Europe. Second, resurrect Europe. That is exactly what the Marshall Plan accomplished.

Understandably, many citizens and politicians were against the Plan because of the huge costs and drain on the economy. But overall, after a massive public relations effort, the Americans rallied to support this program. With tremendous advertising, the citizens came to believe it was the right thing to do; the smart thing to do.

The country responded with fervor. The Kiwanis Club offered a carload of foodstuffs. The Seventh Masonic District announced a donation of five thousand pounds of sugar and ten thousand pounds of flour. A group of restaurants donated twenty thousand pounds of spaghetti and macaroni---to former enemy Italy.

By the time the train arrived in New York, it had almost three hundred carloads of food and supplies. To those donations, New York City’s students added five hundred tons of food and supplies. Commercial liners waived the costs to ship the goods across the Atlantic.

Herein lay the power of the Marshall Plan. To cite one example: in Italy, where Communism had a strong presence, Communist leader Palmiro Togliatti made a speech in which he denounced American aid as disguised imperialism. He said Italy would receive aid from the Soviet Union. He was booed so loudly he could not speak for five minutes. His audience had welcomed America’s aid and did not take kindly to these remarks.

The *leader* of Italian Communism finished his speech to a crowd smaller than when he began. Later, 94 percent of Italy’s eligible voters cast their ballots against the Communists.

Prior to Togliatti’s address, George Marshall had informed the Italians that Italy would receive no American aid if the country went Communist.

## Vital Materials

The immediate fix to the problem in Europe was getting basic foodstuffs and clothing to the Europeans. This task was handled quickly. But strategically, these efforts were little more than applying a band aid to a gaping wound. Europe needed a way to stitch-up the wound. How? Passing money to Europe would help, but it would not necessarily resurrect Europe's infrastructure or repair its societies. The planners of the Marshall Plan came to these conclusions:

- With assistance from several U.S. "counselors" and the support of key politicians, the Europeans were directed how to take the reins and how to conduct detailed studies of the needs of each country. The need for Hershey bars were not part of the package. The need for carbon black, oils, and waxes for building automobile tires were.
- The Europeans had to dismantle their trade barriers, and move toward a less restricted flow of money and goods across borders.
- In just a few months, they had to submit their plans for using the Marshall funds.

These requirements explain part of the practical brilliance of the Plan. Take those automobile tires as an example. Thousands of employees in British car factories were not working. The workers' idleness was not due to the lack of demand for cars. Quite the opposite, Brits wanted cars. They were idle and could not produce a fully-assembled car because they did not have the carbon black needed to build the tires for the car. Thus, after harried, but exhausting studies, the Plan came to focus on the key ingredients to jump-start the European countries' economies, such as carbon black for England.

## Counterpart Funds

In the post WWII days, two major problems surfaced with U.S. foreign aid: One was the lack of accountability for contributed dollars. The other was the potential drain of this aid on a country's money supply. To illustrate, how could American benefactors know a John Deere tractor, sent from a factory in Ohio to a farm in France, would actually arrive at the French farmer's farm? Furthermore, if the French farmer was asked to pay for (at least part) of this aid, France would experience a drain on its money reserves---eventually leading to a bankrupt country.

The Marshall Plan adapted a brilliant yet simple procedure to address these situations: counterpart funds. A U.S. product (say a tractor) was shipped to a French farmer. He paid for the tractor in Francs, but the money never left France. It went to the French Central Bank, whose charter---as dictated by the Marshall Plan---was to use this money to rebuild the French economy.

In the meantime, the funds allocated by Congress for the Plan were used to pay the John Deere Company for the tractor. As mentioned, French Francs never left France. They were used to build bridges and such. Likewise, U.S. dollars never left America. They were used to build more tractors and such. The Marshall Plan never suffered from the dangerous depletion of a nation's funds (the "money gap" syndrome). Heretofore, the money gap had been a keystone of protectionism. No longer.

If the French farmer paid for the tractor, why was the Marshall Plan different from a regular financial transaction? Let's examine the model in a bit more detail. First, the farmer had to come-up with money to buy the tractor. The equipment was not a gift, although generous loans were arranged for this transaction. Thus, the Plan had an inherent anti-corruption



mechanism built in: The French farmer might very well accept a gift of an eight-cylinder tractor for his six-acre farm. But he was certainly not going to shell-out his own money for such an extravagance. A four-cylinder tractor would do just fine.

## **The Marshall Plan and the Silk Road Four: Were they the Same?**

**September 12, 2018**

This article is a continuation of three previous pieces on the comparison of China's modern Belt Road Initiative (BRI) (the silk road), and the post-WWII Marshall Plan.

These two enormous projects were (are) not sponsored by the Salvation Army. The Marshall Plan was executed because of American interests. Likewise, BRI is being implemented because of Chinese interests.

Regardless of the noble pronouncements of America and China, the Marshall Plan and the BRI remain as tools to influence other countries to the way of life of these two contending countries.

But I end the discussion of the similarities of the two initiatives. Herein are the differences: Americans---irrespective of the cynics---were genuinely concerned then about near-starving condition of children in, say, Greece. The United States set up systems and programs to infuse goods and finances into Europe's moribund societies and economies. Afterwards, the Yankees pulled out of setting in on a country's "prival counsels."

The Chinese have no comparable "Marshall Plan" to rescue a destitute people in the areas in which they are building their megastructures. They lend the capital to a capital enterprise. If the enterprise does make it, if it falls behind on its payments, the Chinese take over.

The Marshall Plan was designed not to take over ownership of (again) a ship port. It was designed to give each of the participating nations the option of its political choice (communism or democracy), but with financial consequences, based upon its choice.

The BRI takes ownership of a failed enterprise. It exports its overused industrial plant and often Chinese labor to inculcate itself into a country's infrastructure. The intent of the Marshall Plan was just the opposite: to put Europeans back to work without importing American carpenters.

Some countries are recognizing the practice of the Chinese. Some are not. For all: Just be aware of falling into debt to anyone. In the end, you will not only have trouble making your monthly payments, you will become a pawn on a financial and cultural chessboard.