

# European History

---

## Main Insights

Period of migration yields continent, in which many ethnicities can claim 'title' to land for historical reasons.

Rise of the nation state ends 'warlord' equilibrium of migrations, but different ethnicities within nation states yield persistent border conflicts.

Persistent wars between nation states yield quest for hegemony

Last attempt: Hitler in WWII

# The dark ages

---

## Migration

Celtic Migration from Eurasia to Western Europe until 1200BC.

Already there: Basques, Ligurians, Iberians, Etruscans, Finns

Celts Displaced to Atlantic Fringe by Anglo-Saxons/Romans

Roman Conquest to Africa, Central Europe, British Isles

After Roman demise: Germanic migration to South

Suebi, Marcomanni to Galicia, Northern Portugal

Vandals to Gaul, Spain, Andalusia, Tunisia, demise of Rome

Burgunds to Central France (Burgundy)

Lombards to Italy

Goths to Poland, Black Sea, Greece, Balkan, Italy, Spain

Franks to Gaul (name-giver)

# The dark ages

---

## Migration (ctd.)

Huns defeated 451 by Roman/Gothic/Frankish Army

Slavs moving into Germany

Turko-Finnish Magyars to Hungary

Arabs to Spain, stopped by Karl Matell, 600 years Occupation

Viking crusades to

Britain (Dane-Law, Hamlet)

France (Normandy)

Russia

Sicily

Towards end of first millennium: establishment of aristocracy, aristocratic state.

Charles the Great commanded empire from Northern Germany to France and Italy

# The nation state at war

---

## Rise and Demise of Nation State

Development of aristocratic nation state starting 1000 AD

French Alliance against Germany, Rome (Pope)

Holy Roman Empire of German Nations under Otto the Great

Spain after kicking out Arabs in 15<sup>th</sup> century

England naturally through geographic isolation

From 1200 - 1815: 600 years of war for hegemony, supremacy on the continent.

Must be viewed as aristocratic / individual ambitions: the kleptocratic state!

# The nation state at war

---

## Ever changing war alliances, rise and fall of a few powers:

- French dominance starting 13<sup>th</sup> century
- Arabs out of Spain; Habsburg marriage establishes alliance on two sides of France
- French Alliance with Ottoman Empire (Muslim/Anti-Spanish)
- With Turks driven away from Vienna in 1683, Austria rises to power, takes on Balkan!
- After downfall of Spain, France wants Netherlands
- British alliance with Netherlands in 1683
- German power vacuum since 1648 slowly filled by Prussia
- Prussia recognized as major power after 7 year war with France 1760s
- Russia growing to power in beginning 18<sup>th</sup> century.
- After French Revolution 1789, Napoleon's attempt for European hegemony (defeat in 1812).
- Then: 5 Countries share power in Europe: France, Britain, Austria, Prussia, Russia

# Vienna Congress

---

## 1815: New World Order in Vienna Congress

Peaceful coexistence between five major military powers.

But: Military thinking and power intentions of aristocracy unchanged, explosive situation!

19<sup>th</sup> century: Prussia exploits power vacuum in Germany to annex smaller states: Hessen Darmstadt, Schleswig-Holstein, Baden-Württemberg, Bavaria, Alsace-Lorraine.

Bismarck played diplomatic strategies to establish Europe structured around Germany (name since 1871) at the expense of France.

# Towards World War I

---

Bismarck: "The Art of the Juggler is to keep all balls in the air."

Bismarck 1897: "If ever there is another War in Europe, it will come out of some damned silly thing in the Balkans."

## World War I and Consequences

Serbs try to annex Bosnia-Herzegowina

German Kaiser promises support for Austria against Russia

Austrian heir to Throne killed by Serb

Austria declares War on Serbs

Russia declares War on Austria

Germany declares War on Russia, France

Germany moves through Belgium to enter France

Britain joins war in defense of Belgium

# Towards World War II

---

End of belief that feudal nation states can peacefully coexist, but not reflected in Treaty of Versailles

Hitler's desire for revenge for Treaty of Versailles ultimately leads to WWII.

Hitler used the national fervor of the Germans for the continuing aspirations to European (World?) dominance. (Follows in Napoleon's footsteps).

# The European Federal Movement

---

The total destruction of the continent gives rise to a European Federal movement

Purpose: to once and for all end the concept of the expansionary nation state.

French Foreign Minister asks in 1930 for European unification "in order to live and prosper".

Declaration of Anglo-French political union in WWI 1940 after German invasion to France.

Manifesto of European Resistance Movement in 1941 (Spinelli): "abolition of the division of Europe into sovereign national states." Call for federally organized United States of Europe.

European Resistance Movement in 1944: "go beyond the dogma of absolute nation states to unite in a single federal organization."

Churchill's speech in Zurich 1946: "Some kind of United States of Europe".

(But what about Britain?)

# Economics in the Post-War years

---

## Food Rationing

100 million people live on 1500 calories or less; 40 million between 1500 and 2000 calories; In Germany 1946: rations of 900 - 1000 calories; Vienna, May 1946: 900 calories available

### Food rations in France September 1945

Fats	1 lb per month
Meat	8 oz per week
Sugar	1 lb per month
Cheese	5 oz per month
Wine	1 qt per week
Potatoes	4 lbs per month
Ersatz coffee	4 oz per week
Milk	children only
Coal	100 lbs for entire winter

# Economics in the Post-War years

---

German agricultural zones handed to Poland and Russia, food for East

Holland: 219,000 hectares flooded by Germans, 77,000 under salt water

Drought of 1946; Severe Winter of 1946/7;

Bread grain output 50% of pre-war level

Import need in Continental Europe:

32 million tons a year (3.7 million tons before the War)

## **Housing: War destruction all over Europe**

Warsaw almost completely destroyed

Düsseldorf: 93% of houses thought uninhabitable

American Occupied Zone: 81% of houses destroyed or damaged

About 25 million displaced, homeless, refugees in Germany alone

# Economics in the Post-War years

---

## Infrastructure

740 out of 958 bridges in American & British zones of Germany destroyed

France: 4000 km of railroad tracks, 5/6 of locomotives, 2/3 of goods wagons destroyed

Holland: 60% of transport sector destroyed

Inland Waterways connecting France, BeNeLux, Germany almost totally destroyed

## Energy

Biggest shortage of Coal, needed for just about everything. Coal mines in Germany operate at about 10% of pre-war capacity. The coal shortage was the gravest post-war problem.

# Economics in the Post-War years

---

## Industry

Pig-iron output in France, Germany, Italy, BeNeLux: Less than 1/3 of 1938

Crude steel about 1/3 of 1938

Output in Holland 25% of the pre-war level

Great Britain: Over half the Industry in the Midlands shut because of electricity shortage

## Inflation

Italy: 3000% with respect to 1939

Germany: Cigarettes

France: 300% since 1938

# Economics in the Post-War years

---

## The Role of Germany

Dutch, Belgian, Danish economies dependent on prosperous Germany

Britain enforced rationing at home to feed their zone in Germany

## Lessons from WW I settlement.

Keynes, *The Economic Consequences of Peace*: "To what different future Europe might have looked forward if either Mr. Lloyd George or Mr. Wilson had apprehended that the most serious of their problems which claimed their attention were not political or territorial, but financial and economic, and that the perils of the future lay not in frontiers and sovereignties, but in food, coal and transport."

# Early Aid attempts

---

## **Multilateral institutions:**

UNRRA United Nations Relief and Rehabilitation Administration founded in November 1943 to aid liberated countries, financed to 75% by the US. Relief primarily to Central & Eastern Europe, Yugoslavia, Greece, and Italy (1946), but nothing to Western Europe,

UNRRA dissolved 1946: US discontent with involvement in sphere of Soviet influence

Creation of UN ECE (Economic Commission for Europe)

US not friendly because of ongoing divisions with Russia

World Bank and IMF did not start until 1947, but too few resources to make a difference

Financial appropriations blocked long because Congress' contempt for Stalin; finally operational without Soviet Union

# Early Aid attempts

---

## Bilateral aid from US:

\$ 4.4 billion to Great Britain between July 1945 and June 1947:

\$ 1.9 billion to France

\$ 330 million to Italy

\$ 430 million to BeNeLux

\$ 546 to Eastern Europe

Insufficient to close balance of payments deficit

# Trade and Politics

---

## **The imperative of free trade**

Cordell Hull, former Secretary of State: "To me, unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition with war."

## **After World War II: Creation of**

United Nations (1945)

GATT (1947)

Havanna Charter (1948)

World Bank and IMF (decided in 1944 @ Bretton Woods)

Council of Europe

## **The Geo-Political situation after the War**

American Foreign Policy Shift

End of WW I to 1930s: isolationist

End of WW II: leader of the free world against Communism

# The emergence of the cold war

---

Yalta Conference: Doubt to Continue War Alliance with Soviet Union

Differences with Stalin never let the UN get off the ground

Demise of UNRRA due to differences with Russia.

Lukewarm support for UN ECE due to differences with Russia.

Communist insurgence in Greece after liberation in 1944

Russian Pressure on Greece and Turkey

British support resistance to communist pressures

February 1946: George Kennan, later undersecretary of state for economic affairs sends long cable from Moscow embassy, laying the basis of 'containment' policy. (i.e. restricting territorial growth or ideological influence of Soviet Union)

March 1946: Churchill charges that the Soviet Union is about to lift an Iron Curtain through the middle of Europe

# The emergence of the cold war

---

February 27 1947: Britain could no longer financially support Greece and Turkey; US takes over

Truman Doctrine: speech to Congress March 12 1947: "America announces its determination henceforth to help free peoples to maintain their free institutions and their national integrity against aggressive movements that seek to impose upon them totalitarian regimes."

Request to congress to approve \$ 400 million as aid to Greece and Turkey

Truman Doctrine announced the turnaround of US foreign policy

Realization that the economic misery of Europe may lead to communism's success.

# The emergence of the cold war

---

**March/April 1947: George Marshall six weeks in Moscow** in stalled negotiations over the future of Germany. Realizes that time is working in Stalin's favour by letting Western Europe slide further into economic chaos and strengthen communist factions there.

George Kennan (died March 18 2005 at age 101!) writes after trip to Europe in May 1947 that recovery is stalling, societies are at the brink of collapse, economic & political.

Will Clayton, Chief of the Economic Aid group at the State Department, submits proposal for large economic aid to Europe to be distributed on a European basis. End of bilateral aid thinking. Suggests economic federation similar to the BeNeLux customs Union: prophecy of the EEC.

Kennan and Clayton in favour "to encourage and to contribute to some form of regional political association."

# The Marshall Plan

---

## Major Factors Leading To The Marshall Plan

World Disintegrates Into Two Blocks Around US And USSR

Grave Economic Situation Is Given More Attention Than After WWI

Economic Misery Leads To Political Instability

Free Trade Is Seen As Guarantor Of (Free) World Peace

It Becomes Thinkable That Nations Give Up Parts Of Their Sovereignty. Supranational, Even Federal Structures Are Contemplated To Strengthen Economic Cooperation

# The Marshall Plan

---

June 5 1947: Marshall announces broad outline on Harvard commencement speech.

## **Key elements:**

- Unprecedented Size of Aid.
- Enforcing European Economic Cooperation: Aid is given on a European wide basis to close the balance of payments deficit of Europe as a whole. European nations have to settle among themselves how to distribute the aid.
- Countries make individual restructuring plans providing counterpart funds.
- No outright exclusion of Soviet Union and Satellites.
- Rejection of idea to administer aid through UN ECE.

# The Marshall Plan

---

## The Response:

June 27 to July 2 1947: Meeting of Bevin, Bidault, and Molotov in Paris. Molotov rejects Marshall plan as American Imperialism. Marshall's plan succeeded: His plan would not be responsible for the division of Europe into two camps. Soviets create COMECON in response.

July 12: Meeting of delegation of 16 Nations in Paris to found **Committee for European Economic Cooperation**. First task: forecast economic activity to estimate current account deficit for the years to come.

# The Marshall Plan

---

September 22 1947: CEEC draft report from 16 nations plus West Germany for economic recovery, including four major points:

- Increase agricultural and industrial production
- Provide inflation and financial stability
- Fostering exports to reduce current account deficit
- Creation of an organization for economic cooperation among participating countries
- Requests minimum import aid of \$ 22.3 billion over 4 years

December 19: Truman asks Congress to approve \$ 17 billion over four years.

# The Marshall Plan

---

## The sell:

- Definition as foreign policy instrument rather than economic aid.
- Marshall's testimony January 8 1948:
  - Appeals to "our national security"
  - "The US is the only country in the world today which has the economic power and productivity to furnish the needed economic assistance."
  - Estimates cost at \$ 15.1 to \$ 17.8 billion, \$6.8 billion in the first 15 months.
  - Soliciting Bi-Partisan support.

## The conduit:

Communist Coup in Chechoslovakia, a country with tradition of democracy.

# The Marshall Plan

---

## The implementation:

Creation of Economic Cooperation Administration April 3 1948. Run by Hoffman, Pres. of Studebaker: private sector dynamics.

Creation of the Organization for European Economic Cooperation (OEEC) out of CEEC.

First differences of opinions of the structure of the Organization:

French position: Supranational agency (remember Briand proposal)

British position: continuous international conference (Churchill speech)

Important development: Institution transformed from mere financial assistance to institution guiding technology transfer.

# The Marshall Plan

---

## **The end:**

Program very successful already by mid 1949.

Hardening of Cold War; Korean War.

Creation of NATO on April 4 1949.

Shift to almost exclusive military aid.

# The Marshall Plan in Germany

---

Creation of KfW in November 1948 to administer ERP funds.

Financed 15% of net real asset formation in the German economy in 1950. Much of it going to large industry.

Financed the production of coal although the production of a ton of coal cost about 80 to 100 marks, but Germany was obliged by order of the allied forces to sell the ton of coal for 16 marks. Hermann Abs's philosophy: "First produce more, then we'll talk about the quality of the loan."

Eventually, shift in focus for lending programs to small and medium sized businesses.

# The Marshall Plan in Germany

---

Due to the big success of the program, the government decided in late sixties to buy out the ERP program instead of having it repaid through interest and principal repayments of KfW loans. Hence, the small business programs in force today administered by KfW through the banking sector find their financial origins in the ERP program although they might not directly come from the remainders of the ERP program.

Federal and state credit guarantee institutions insuring loans from private sector banks to entrepreneurial start-ups. They receive equity-like loans from ERP to increase their business volume, and the insured loans are backed in part by the ERP program still today.