doi:10.1017/aju.2024.23

SYMPOSIUM ON NEXT GENERATION EU, CRISIS BUDGETING, AND THE EMPOWERMENT OF SUPRANATIONAL INSTITUTIONS

NGEU: A NEW MARSHALL PLAN FOR EUROPE AND A TEMPLATE FOR GLOBAL FINANCE

Elena Kempf and Katerina Linos***

In April 2020, President of the European Commission Ursula von der Leyen called for a "Marshall Plan for Europe."[1] Almost a year after her appeal, the European Union implemented the recovery and resilience program Next Generation EU (NGEU). NGEU, we show, shares several features with the Marshall Plan, including size, redistributive allocation, conditional grantmaking, and the pursuit of a distinct political agenda. But the new Marshall Plan also differs from the old. NGEU is financed through common EU debt rather than an infusion of funds from the United States. Marshall aid was disbursed almost entirely as grants, while NGEU funds consist of a mix of grants and loans. Further, NGEU is unprecedented in distributing grants in exchange for post-austerity and climate-friendly reforms and investments, rather than budget cuts. This alternative model, we argue, can serve as a template for international financial institutions such as the International Monetary Fund (IMF) and the World Bank.

Comparing NGEU to the Marshall Plan reveals surprising similarities. The first is size. NGEU, though little known, is larger than the already sizeable Marshall Plan. The second is redistribution. Unlike typical EU spending, in which member state benefits are (very) roughly proportional to contributions, NGEU spending, like IMF and World Bank spending, reallocates significant resources from wealthier to needier states. The third similarity is conditionality. IMF conditionality is widely criticized, and yet Marshall Plan conditions were not that dissimilar. NGEU funds are conditional as well, including requiring some traditional fiscal reforms. Finally, Marshall aid was designed to diffuse the appeal of communist parties in Western Europe. NGEU, too, has a political vision, centered on European cohesion, the rule of law, and anti-authoritarianism.

What, then, are the distinctive features of NGEU that make it a model worth imitating? NGEU differs significantly from current global financial architecture both in its heavy reliance on grants and in the nature of its conditions. Marshall Plan aid consisted mostly of grants, which made it easy for governments to accept. Similarly, more than half of the NGEU disbursements consist of grants, which governments rushed to accept. By contrast, IMF support is entirely based on loans, and World Bank assistance is similarly mostly loan-based for middle- and high- income countries.

* *Assistant Professor of History, MIT, Massachusetts, United States.* *We are very grateful to Barry Eichengreen, Elisabeth Piller, and the workshop participants at UC Berkeley on April 11, 2024 for their suggestions and comments.*

** *Irving G. and Eleanor D. Tragen Professor of Law and Co-Director, Miller Institute for Global Challenges and the Law, Berkeley Law School, California, United States; CASBS Fellow, 2024–2025.*

[1] Ursula von der Leyen, *Ein Marshallplan für Europa*, Welt am Sonntag 13 (Apr. 5, 2020).

IMF conditionality centers on rapidly curbing government spending. World Bank conditionality is somewhat less harsh but is similarly based on the Washington Consensus. Marshall Plan conditionality was not dissimilar: it encompassed a mix of lowering trade barriers, decreasing public debt, and investing in Europe's agricultural and industrial base. NGEU conditions include some nods to traditional structural reforms but focus on channeling public investments toward clean energy and digital transformations, and preventing a post-COVID recession rather than imposing austerity. NGEU conditionality also prioritizes climate-friendly investments. In these respects, NGEU can be seen as a precursor to the Inflation Reduction Act (IRA) in the United States.

Conditionality, we argue, works when it channels investments and medium-term reforms instead of demanding immediate austerity, and when extensive aid is given as grants rather than loans. We also argue that concerns about the cost of conditional grants—instead of repayable loans—can be addressed by showing that Marshall aid had an outsized effect relative to its scale. Indeed, Marshall Plan conditions are thought to have significantly contributed to post-war Europe's economic growth.[2] In the following paragraphs, we compare NGEU to the Marshall Plan and point to global policy implications.

Program Scale

To compare the size of NGEU to the Marshall Plan, we start with the grant portion of each. Marshall aid was almost entirely composed of grants. The grants were predominantly given through in-kind aid such as food, fuel, and industrial raw materials, but even so this model avoided imposing a debt burden on Western Europe's post-war economies. By comparison, the funds of the Recovery and Resilience Facility (RRF)—the central mechanism of NGEU—are divided about evenly into grants and loans.[3] Moreover, the grants are disbursed to member-states as cash payments rather than as in-kind donations.

The grant portion of NGEU alone is about twice as large as all aid disbursed through the Marshall Plan. The Marshall Plan amounted to $13.2 billion at the time, equaling roughly $150 billion in 2023 prices.[4] The grant portion of the RRF is more than twice as large at over $380 billion in 2023 prices.[5] RRF funds are distributed over a longer time frame and across more countries than Marshall aid. Total Marshall Plan aid to Western Europe amounted to less than 3 percent of recipient states' GDPs on average.[6] Numbers for NGEU are in flux, but we can draw some preliminary conclusions that position the grant portion of the program at approximately 3 percent of EU GDP. Including loans significantly increases this percentage. That said, loans to EU countries, whether from NGEU, the IMF, or the World Bank, are not especially highly subsidized. Only the International Development Association (IDA), the part of the World Bank that focuses on the world's poorest countries, offers both loans on terms so generous that they can more straightforwardly be compared to grants.

[2] J. Bradford DeLong & Barry Eichengreen, *The Marshall Plan: History's Most Successful Structural Adjustment Program* (NBER Working Papers Series, 1991).

[3] Géraldine Mahieu, Paul Brans & Daniel Schulz, *The Recovery and Resilience Facility Under Next Generation EU: A Breakthrough in Economic Policy Coordination and Policy Programming*, 118 AJIL Unbound 144 (2024).

[4] DeLong & Eichengreen, *supra* note 2, at 14.

[5] The Recovery and Resilience Facility (RRF) encompasses €648 billion in 2022 prices. €357 billion are grants. Mahieu, Brans & Schulz, *supra* note 3.

[6] DeLong & Eichengreen, *supra* note 2, at 30. The Plan cost the United States about 2% of its annual GDP. Alan S. Milward, The Reconstruction of Western Europe 1945–51, at 94 (1984).

https://doi.org/10.1017/aju.2024.23 Published online by Cambridge University Press

Program Distribution

NGEU grants are redistributive, which makes the program different from the regular EU budget, where contributions and benefits are (very) roughly proportionate.[7] NGEU grants are allocated based on GDP per capita, the 2015–2019 unemployment rate, GDP growth in 2020, and cumulative loss of real GDP in 2020 and 2021. Basing funding allocation on this formula, and especially on unemployment rates, favors states in the south of the bloc. Italy, Spain, and France are entitled to the largest shares of NGEU grants in absolute numbers.[8] The biggest beneficiary of NGEU grants as a percentage of GDP, by contrast, is Greece. Meanwhile, the formula did not favor Hungary and Poland, and their RRF funds were delayed. In contrast, the funding of the regular EU budget includes dozens of variables, plus rebates for states that are net contributors, resulting in much less redistribution.

This uneven distribution echoes the spread of Marshall aid across Europe. Great Britain, France, and Italy received the most Marshall aid in absolute numbers, but again Greece received the most as a percentage of GDP.[9] States to the east of the Iron Curtain did not receive Marshall Plan funds. The funds were allocated primarily based on countries' trade deficit with the United States in dollars and concerns about the strength of communist parties.[10]

The Marshall Plan precedent gives reason for hope. Even though the Marshall Plan was sizeable, it was not huge relative to recipient economies (and was smaller than NGEU). Still, Western European countries not only returned to pre-war levels of GDP but even surpassed their pre-war growth trajectories, in what has been called "supergrowth."[11] This growth was not primarily due to the size of Marshall aid, but rather due to the structural investments and reforms that were implemented in response to the incentives and controls. It is the conditionality of Marshall Plan and NGEU aid that we turn to next.

Conditional Aid and Structural Reform

NGEU conditionality is novel in its focus on clean energy and the digital economy. Thirty-seven percent of NGEU funds are earmarked for the green transition and 20 percent for digitization.[12] In line with these investment targets, NGEU funds have supported a plethora of public spending projects across the EU. Absent the stimulus, we would expect a contraction of public spending in the aftermath of the pandemic, but instead, NGEU has led to an expansion.[13]

The investment targets of NGEU are reminiscent of the Marshall Plan but also go beyond its scope.[14] Marshall aid was earmarked for the modernization of European industry and agriculture and also went toward rebuilding infrastructure after the war. But Marshall aid did not contribute to public goods like education, childcare, or healthcare.

[7] The budget does redistribute, but much less than NGEU.

[8] Mahieu, Brans & Schulz, *supra* note 3.

[9] Gerd Hardach, Der Marshall-Plan: Auslandshilfe und Wiederaufbau in Westdeutschland 1948–1952, at 474 (DTV 1994); *see also* Andreas Kakridis, Deus ex Machina?: *Truman/Marshall Aid, Engineers, and Greece's Post-war Development Discourse*, 27 J. Mod. Greek Stud. 421 (2009).

[10] Milward, *supra* note 6, at 95.

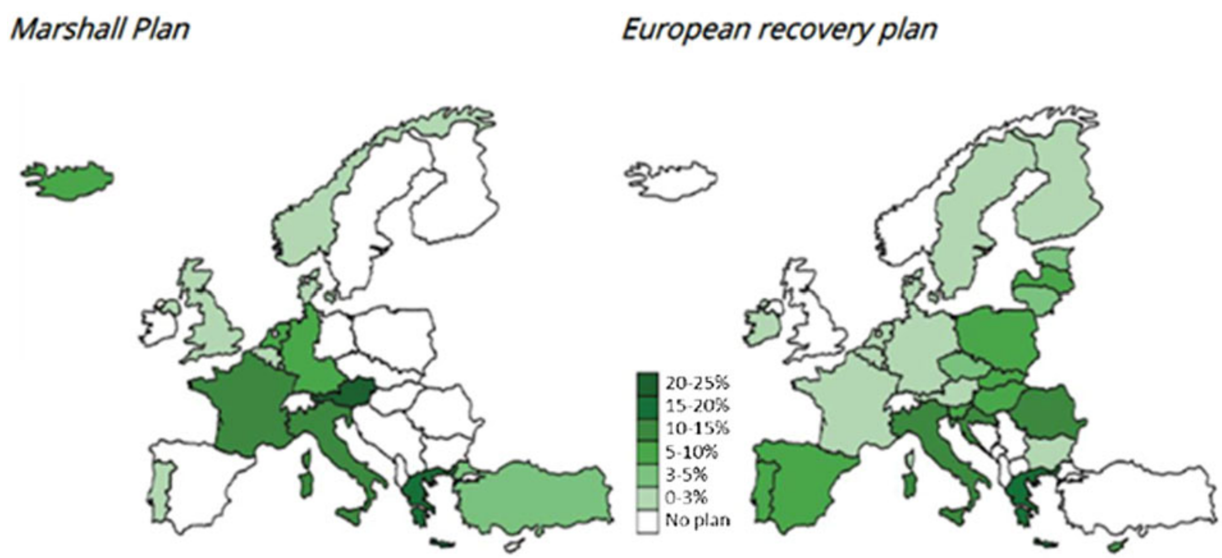
[11] DeLong & Eichengreen, *supra* note 2.

[12] Ginevra Le Moli & Jorge E. Viñuales, *The Next Generation EU Programme in the "Global Race to the (Green) Top,"* 118 AJIL Unbound 182 (2024).

[13] *Mid-term Evaluation of the Recovery and Resilience Facility*, at 38 (Feb. 21, 2024); Mahieu, Brans & Schulz, *supra* note 3.

[14] Chiarella Esposito, America's Feeble Weapon: Funding the Marshall Plan in France and Italy, 1948–1950, at 3 (1994).

https://doi.org/10.1017/aju.2024.23 Published online by Cambridge University Press



Map I: Comparison of Investments Financed by the Marshall Plan and NGEU
Source: Gossé et al. 2021.[15]

In addition to investments, NGEU conditionality also incentivizes reforms. In the past, the EU has tried to incentivize reforms on a country-by-country basis, but implementation has been slow. Now, incentivized by NGEU funds, longstanding priorities have received new impetus. As of April 2022, member states planned to implement over 600 reforms.[16] Reform targets include the effectiveness of judicial systems, anti-money laundering supervision, and reforms to support the business environment and competitiveness.[17] In Croatia, for example, reforms of the judiciary have reduced backlogs, shortened proceedings, and strengthened transparency.[18] In Spain, labor market reforms have restricted the use of temporary contracts to institute greater worker protections.[19] In Romania and Poland, and arguably even in Hungary, withholding NGEU funds has incentivized some rule of law reforms that aim to strengthen judicial independence.

NGEU reforms differ significantly from those incentivized by the Marshall Plan. They focus on investing in and improving public services and only secondarily strive for balanced budgets through reforms of pension systems. By contrast, Marshall Plan reforms aimed to integrate Western Europe within the Washington consensus by reducing inflation, stabilizing government budgets, and promoting trade by lowering tariffs.[20] Britain used most of its counterpart funds to pay down public debt. While aspects of the conditions attached to Marshall

[15] Jean-Baptiste Gossé, Aymeric Schneider & Roger Vicquéry, Banque de France, Lessons from the Marshall Plan for the European Recovery Plan (Oct. 29, 2021).

[16] European Central Bank, *The Economic Impact of Next Generation EU: A Euro Area Perspective*, Occasional Paper Series, at 17 (April 2022).

[17] *Mid-term Evaluation*, *supra* note 13, at 38–39.

[18] *Id.* at 41.

[19] *Id.* at 51.

[20] Hardach, *supra* note 9, at 475.

Plan aid were quite similar to the austerity policies the IMF adopted in the 1950s, NGEU does not share this strong focus on incentivizing reforms that would limit public spending.

Enforcement of NGEU reform and investment goals was originally envisioned to occur through a tight-knit five-step process between EU institutions and member states. In practice, NGEU conditionality has proven to be weaker. €56.6 billion were provided to recipient states immediately upon approval of national reconstruction plans, before any investments or reforms were completed. The remaining amount is to be disbursed upon the completion of national reconstruction plans. Member states' progress toward these goals is audited by the European Commission through mid-year reviews. The real test of NGEU fund conditionality is the case of Hungary, from whom billions are being withheld until major reforms, including to improve rule of law, are implemented.[21] Hungary and Poland received pre-financing, but later rounds of funds moved more slowly.

The original aims of Marshall Plan aid, too, were negotiated in conversation with recipient states.[22] The implementation of objectives was negotiated between the United States and European states and looked different in every country. Each recipient country prepared an economic plan and then "sign[ed] a bilateral pact with the United States, [in which they] agree[d] to balance government budgets, restore internal financial stability, and stabilize exchange rates at realistic levels."[23] States' plans were coordinated by the Organization for European Economic Cooperation (OEEC). Still, the United States maintained firm control of Marshall Plan funds. This control was facilitated by counterpart funds. The United States sent goods—food, fuel, and raw materials—to European countries as grants. These goods were then sold by governments in exchange for payment in the respective country's currency.

Both programs—NGEU and the Marshall Plan—not only aimed to spur economic recovery, but also envisioned a particular type of political settlement. The Marshall Plan sought to steer post-war European states away from planned economies and toward social market democracies thoroughly integrated in transatlantic and intra-European trade networks. While the Plan was "economic in method," it was "political in aim," and aimed to counter the appeal of communist parties in post-war Europe.[24] NGEU, too, pursues a distinct vision of Europe's political future.[25] It envisions a greener, more digital, and more socially just continent, and also one that regains global competitiveness in strategic industries. Its political thrust is anti-authoritarian and protective of rule of law standards across the bloc. If integration was key to the Marshall Plan, internal cohesion and external competitiveness is at the center of NGEU.

Evaluation and Conclusions

Today, the exchange of funds for structural reforms is best known from the context of the IMF, where it has been widely criticized, including by the current secretary-general of the UN.[26] The types of conditions the IMF typically imposes in exchange for providing subsidized loans tend to focus on limiting public spending by cutting wages and employment opportunities in the public sector, or by weakening labor protections. These austerity

[21] Franz C. Mayer, *NextGenerationEU and the Future of European Integration: Foreseeing the Unforeseeable*, 118 AJIL Unbound 172 (2024).

[22] Esposito, *supra* note 14, at xxiii.

[23] DeLong & Eichengreen, *supra* note 2, at 48.

[24] Ian Kershaw, To Hell and Back: Europe 1914–1949, at 512 (2016); *see also* Tony Judt, Postwar: A History of Europe Since 1945, at 95, 97 (2006).

[25] Alicia Hinarejos, *Legacy and Limits of NGEU*, 118 AJIL Unbound 157 (2024).

[26] Edith M. Lederer, *UN Steps Up Criticism of IMF and World Bank, the Other Pillars of the Post-World War II Global Order*, Assoc. Press (June 16, 2023).

measures have been criticized for their "bureaucratic universalism."[27] For example, the IMF prescribed budget cuts and high interest rates to curb inflation during the Asian financial crisis, even though high spending was not a cause of currency depreciation in that case.[28] More broadly, IMF conditional loans have also been criticized for undercutting sovereignty and imposing the Washington consensus.

IMF conditionality has been subject to change since the institution's establishment in 1944. During the 1940s, the IMF did not impose conditionality due to British opposition.[29] When the United States introduced conditionality, for the first four decades the IMF implemented a predictable menu of reforms: "budget deficit restrictions, restrictive monetary policy, and exchange rate devaluation."[30] In the 1980s, the IMF then instituted "structural conditionality," which included the "privatization of state-owned enterprises, trade and financial liberalization, economic deregulation . . . social policy and labor market reforms, and good governance."[31] After the critique provoked by the IMF response to the Asian financial crisis, the IMF vowed to reform itself and streamline conditionality and improve ownership and tailoring. The extent to which the IMF has indeed changed its ways is disputed.[32]

Scholars have considered the causal relationship between Marshall aid and Western Europe's economic miracle in the 1950s. Alan S. Milward argued that Marshall Plan funds were not sizeable enough to account for post-war economic growth.[33] Bradford DeLong and Barry Eichengreen moderate Milward's revisionism and argue that while the cash value of the Marshall Plan only made a small contribution to growth, the economic reforms incentivized by the Plan "launched the European economy onto a two-decade long path of unprecedented rapid growth."[34] Because of the Marshall Plan, European states adopted a mixed-market model rather than tilting too far toward market controls, spurring future growth.

NGEU structural conditions are different from those pushed for by the United States after World War II. Rather than lowering barriers to trade, they might be read as part of a new rush toward state subsidies, similar to the IRA. But despite the differences in the types of conditions established by Marshall aid and NGEU, they are united in their exchange of grants for reforms and investments. The positive impact of the Marshall Plan, and early numbers on NGEU, show that this model continues to hold promise, and might serve as a template for economic aid globally. Countercyclical grants tied to investment and structural reform, we show, are a promising alternative to austerity-backed loans.

[27] Michael N. Barnett & Martha Finnemore, *The Politics, Power, and Pathologies of International Organizations*, 53 Int'l Org. 699, 721 (1999).

[28] *Id.*

[29] Sidney Dell, *On Being Grandmotherly: The Evolution of IMF Conditionality*, Essays in International Finance (1981).

[30] Alexander E. Kentikelenis, Thomas H. Stubbs & Lawrence P. King, *IMF Conditionality and Development Policy Space, 1985–2014*, 23 Rev. Int'l Pol. Econ. 543, 548 (2016).

[31] *Id.* at 549.

[32] *Id.*

[33] *See* Milward, *supra* note 6; J. Nicholas Entrikin & John Agnew, The Marshall Plan Today: Model and Metaphor (2004).

[34] DeLong & Eichengreen, *supra* note 2, at 2, 51; *see also* Tim Krieger, *Ukraine: Braucht das Land einen "neuen Marshallplan"?*, Wirtschaftliche Freiheit: Das Ordnungspolitische Journal (June 23, 2023).