Markus Brunnermeier: So thank you. Everybody for joining us for another Webinar organized by Princeton. We are very happy to have Harold James with us today, from Princeton as well. He will talk to us about Reconstructing Ukraine: Lessons from the Marshall Plan. Harold, good to see you, thanks for doing it.

Harold James: Well, great to see you, Marcus, and congratulations, I gather this is your one hundred and first episode.

Markus Brunnermeier: Thank you, thanks a lot. So we have a special guest like you on it. So I will give a few opening remarks, and then we dive into the details of the Marshall plan, and what we can learn from the Marshall plan, how to best design the reconstruction of Ukraine, and how to help Ukraine after the war is over, hopefully soon. So there's a lot of suffering going on. So we're hoping that this will be over soon. So in Ukraine, of course—just some background—GDP dropped by more than thirty percent, probably even more by now. It's war-torn. And we also have to find a transition, you know. Once you go from a war governance system to a more market governance system, the transition will not be easy, and my opening remarks will rely to some extent on a CEPR booklet, which came out earlier this year on the same topic on how to reconstruct Ukraine, and also covers to some extent the Marshall plan. So in the many previous reconstruction efforts across the world, of course, the Marshall plan is probably one of the most successful ones, and Harold will tell us all the details about it. But of course the US put a lot of money to reconstruct Iraq, about two hundred and twenty billion, or in Afghanistan, and of course you could also argue the accession to the European Union, especially Poland, was a big success story Economically, where many of the countries in Central Europe benefited a lot, and all over Europe benefited from that; and many other institutions which help to reconstruct the world: the World Bank, the EBRD, the European Investment Bank, IMF to some extent has a different mandate, but it's also helping out on these matters. So just a few thoughts from my side. The governance structure of such an agency or of such a plan is actually very crucial, and the many questions which appear, and many of them Harold will put forward, as you answer them in the poll questions— we just got the results. But how would you coordinate this aid across various aid agencies from across countries? That's one of the big governance challenges. Should you then give grants or loans? To what extent you want to involve the private sector or not? Should there be some co-investment, a public-private partnership, some PPP. And should there be a centralized agency like the European cooperation agency like for the Marshall Plan? Should it be self-standing or not? And should it be— it should be on the one hand independent, on the other end should also be accountable, and that's not very, not easy to square in order to,
you know, take care of any potential dangers of corruption, so reduce the corruption of things. So you have to have a lot of on-site visits, third party verifications, and also have some assistance for public procurement in order to get this spirit, which is now the company has to stand together, also translated to a good governance structure for the country in the long run. And of course it has to be owned by the Ukrainians themselves, and it's an important component. Then another question is the regional distribution, how to deal with this across the various regions of the country. Is it more Federal structure? Is it very centralized?

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Markus Brunnermeier: And of course, also such a plan should probably have some sunset provisions where it's only for a limited time, and then, after this time hopefully, the whole thing will go on its own. So let me conclude with the poll questions Harold put forward, and you answered. And so we're looking forward to getting your answers. And then, hopefully, or perhaps not, you will have different opinions after listening to Harold James. So the first question is, should the G-7 provide a Marshall Plan for Ukraine? Yes or no, and ninety-three percent said yes, only seven percent said no, the G-7 should not do it, so it's a huge majority which thought we should do it. Second question was, should support be via grants or loans and eighty-four percent thought it should be by our grants, and only sixteen percent thought it should be loans. So that's a big majority as well. So the third question is, should Russia partially pay for the reconstruction of Ukraine, yes or no? And actually for that, it's exactly the same, eighty-four percent thought. Yes, Russia should partially pay for it, and sixty percent thought No. So that's probably something we can learn from Harold from history as well. And the fourth question: should such a plan just target Ukraine's reconstruction or should it go wider? Like the Marshall plan was also offered to the former East block, and so forth. The answers for this question were eighty-two percent, yes, and eighteen percent no. And then this fourth question, should the IMF be involved in such a plan? Yes or no? The answer for that was eighty-six percent yes, the IMF should be involved, forty percent no– we will learn from Harold on what he thinks. And finally, should such a plan involve the path of membership to the European Union, yes or no? And eighty-six percent thought yes, and forty said no. So these are the answers. So Harold, now the floor is yours, and you can tell us whether you think the same way, or there's some other aspects we have to consider and lead to different conclusions. Thanks again for doing it, and looking forward to your insights.

Harold James: Thanks again, Markus, and I am just going to share my screen, hope that works. You raised, I think, the central issues in those opening remarks. Nobody at the moment can really know how long the war will go on in Ukraine; it may turn into a long-term conflict. It may also be over very quickly. At the moment we're seeing again a movement by the Ukrainian army, a big encircling operation around Lyman, a big push, and the measures that President Putin has been taking over the last days indicate, I think, the extent of the Russian panic and the Russian despair. But we're going to get some really dramatic action over the next few days. Tomorrow, President Putin is going to announce the incorporation of four districts in Ukraine into Russia, after completely manipulated polls under substantial military pressure. But the consequence of this is that it will immediately, at least in Russian law, allow Russia to draft the male population of those areas, and that looks like a very risky maneuver. It may also, I think, be illegal under international law. If we think that there is a possibility that the war will go into a different stage, or that it may even be over soon. We need to think about what comes afterwards, and that's exactly the question of today, and there's an obvious precedent for the business of reconstruction. In the G-7 meeting in the summer, the German transfer uh transfer of Schultz announced there was a consensus in G-7 around having a Marshall type program,
and the Marshall plan has really always been a kind of strong standard for economic reconstruction in the wake of economic and political and military devastation.

8:30

There was a substantial push in the past to something like the Marshall plan for East/Central Europe, the former Soviet Union in the nineteen nineties, in the aftermath of the collapse of communism, for Iraq, after the 2003 war for the Middle East, after the Arab spring, for Syria, after the Syrian conflict, for West Africa and the Saharan district in the 2010s, for Haiti after the earthquake and political unrest. But mostly these demands fall on their fears, and people are worried. I mean, I think it's very obvious that you don't simply want to have a rehash of the 1947 initiative. But, on the other hand, there are very, very good grounds for thinking that Secretary of State Marshall— he's shown here at the Harvard commencement on the fifth of June, 1947— was thinking of exactly the right issues. And if you look at what he said in that speech, it looks really relevant, the questions— I want to try and deal with these questions in the course of the next half hour or so and how the amount of aid given relates to the scale of the intended effects, how aid can be used as a catalyst for a general development of productive forces how support can binds the recipient into a deep network of international connections. How much should be done by governments organized by governments, and how also knowledge from the private sector of the donor country or countries could be used to transform productivity in the recipients or the recipients. And just looking at that speech on the fifth of June, 1947, It looks in some ways as if these are the words that should be used by the international community. Today it looks very frighteningly apposite in the light of the discussion about the breakdown of globalization. Secretary Marshall said: The modern system of the division of labor upon which the exchange of products is based is in danger of breaking down, a shortage of food, and then he comes to the point to remedy lies in the breaking of the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole, and really quite tellingly, finally, it would be neither fitting nor efficacious for this government to undertake to draw up unilaterally a program designed to place Europe on its feet economically, this is the business of the Europeans. The initiative, I think, must come from Europe, and that may look surprising for those of you who think that this is a fundamentally American launched program. The problem, I think, that surrounds the Marshall Plan, and why it's difficult to talk about and difficult to transplant is that it's surrounded by myths, the positive myth, but also a negative myth. The myth about the Marshall Plan is it's a very, very often said in commemorations that this is a uniquely generous act. It was a one-time moment, uniquely generous, and at the same time in part because of the Soviet reaction to the Marshall plan, and this was pushed over and over again on the peoples of Eastern Europe, and it still has an echo that the Marshall plan was simply a tool of US imperialism. So there is a positive myth, a uniquely generous act, and a negative one— the tool of US imperialism. In order to understand that a bit better. I think it might be good to think about the evolution of the Marshall Plan, because the timing actually matters quite considerably, and as a historian, I'm sensitive to these timing issues. The fifth of June, when the Harvard Commencement speech was made, was already in the full flight of the Cold War, and there was a civil war in Greece and civil war in Turkey, and it looked as if the Marshall plan was part of that cold war. But the first indication of such a plan, that Secretary Marshall gave was not in Harvard, but in another university in Princeton, on the alumni day, is the first speech he made as Secretary of State on the twenty second of February, in 1947, the civil war in Greece or Turkey hadn't broken out at that point.

13:08
So it's less clear that there's a cold war. But what Marshall is talking about is talking about the restoration of the productive facilities of the world, but also of democracy. And the Marshall plan was— and Markus pointed that out— it was offered to a wide range of countries in Eastern Europe, as well as in Western Europe, and some of those were under the control of the Soviet Union, and under the control of the Soviet Union, Poland and Czechoslovakia didn't participate in the initial conference of the Marshall plan. So let's look at the details of this operation a bit more, mostly to Western Europe, and this is the total of grants and credits from the United States as a proportion of GDP year by year, from 1947 when the program was launched into the expiration in the early 1950s, and you can see how Western Europe dominates absolutely everything. Other Europe barely exists, the Near East Africa, insignificant Western hemisphere, insignificant, and a bit going to the Asia Pacific region. This is the share of US GDP, starting with about two and a half percent in 1947, and then gradually decreasing as you get into the early 1950s, and as the program really begins to be effective, but also as the priorities change and the priority of the United States shifts. Then in the early 1950s to a

Markus Brunnermeier: It could also be that these numbers are going down because US GDP is going up?

Harold James: That's correct, but it's not going up, but quite as much as this. I mean it doesn't exist. It's not doubling in this period. So it is falling off, the amount of Marshall aid. And this is the proportionate distribution of assistance under the European recovery program. You can see that the lion's share of it actually goes to the allies of the United States and the makers of the post-war world, Britain and France, and a much smaller share goes to West Germany or Italy, although I think often in commemorations and so on, as the Marshall plan is most remembered and most celebrated and most discussed in in Germany, and the Marshall plan was regarded very, very frequently, and I think correctly, as being part of the package that made for German prosperity and German recovery in the 1950s. So let's look at that…

Markus Brunnermeier: What was the criteria which country gets? How much was this political, or why was it in France getting so much— of course they were allies, but was there some objective criterion for that?

Harold James: Ah, well, that there are contradictory assessments that are pushing this. I wanted to get a bit into this later, because it matters also whether you're a debtor or a creditor country within the European system, and Britain was a big debtor. There were some creditors, and trying to work this out with one of the tasks that ECA, the Economic Cooperation Agency, was dealing with. I mean it also obviously matters in terms of size. So, this is the amount relative to the share of the national income of the recipient countries in the initial ah stage of the Marshall program, and you can see Austria is by far the biggest in terms of the contribution to Austrian income. Germany and the UK look relatively small in comparison to that. The UK is also a big country, so obviously it is much bigger than Austria, and so it matters which way you look at it in that sense.

17:30

This is the same figure year by year, and you can see the contribution running down in each country, radically reduced in Austria, in the UK, in Germany, very, very little in the early 1950s, and Germany anymore. And of course, the effect that Markus referred to is correct here as well that this is being reduced because these economies are growing, and so the share looks lower, but it's still an absolute diminution by any standard. So it's a front-loaded program. Just some overall figures on this: the total amount provided by the United States and the assistance was,
uh, just over thirteen billion dollars. What's the equivalent of that today? So if you just measure it by purchasing power, I think you get about 175 billion today. But then you might say, well, we're going to take it as a share of US GDP. US GDP has obviously increased very substantially, and if it's five percent of GDP in the beginning of the Marshall that would suggest a very very substantial sum, over one trillion dollars, and clearly that's much larger, and than any estimate so far of the war damages to Ukraine. Obviously, we're not at the end of the conflict, and people are worrying about the terrifying possibilities of last gasp destructive measures by Putin's Russia, the destruction of power plants, targeting atomic power plants, even the release of tactical nuclear weapons. So we don't know what the damage is going to be in comparison. Ukraine's GDP last year before the conflict was 534 billion, clearly shrinking very dramatically, as large parts of the economy in the country are hit by the war,

Markus Brunnermeier: Javier Fernandez would like to know whether these numbers are grants, or credit, or loans?

Harold James: So that's an excellent question, and it relates exactly to one of your poll questions. So ninety percent of the aid that was given in the Marshall and in ERP was in the form of grants not loans, and the idea was, particularly some countries with a very high debt level– the UK had an enormous debt level as a result of the Second World War-- and the US lending program immediately after the war. You don't want to add to that debt level, so most of it overwhelmingly, sure. It's a roughly coincides, I think, to what your whole outcomes in was in the form of grants rather than credits, and it's worth, I think, thinking of what's really specific about the 1940s situation, because that doesn't really have quite a contemporary equivalent that is, that Europe in early 1947, it was in the middle of a terrible harsh winter, and there was a shortage of food, that food couldn't or wasn't-- there was no vision of it in the future. Being grown in Europe, it needed to come from outside Europe, and it couldn't be paid for, because Europe wasn't exporting everything. And so the food is coming from the Western Hemisphere from the United States, but also from South America. It needs to be paid foreign dollars, and Europe simply doesn't have the dollars. And and there's a real bottom there in that sense, because if you imagine what a population is capable of doing, with very, very low nutrition levels with around about a thousand calories a day, you can't, with that kind of nutrition, engage in heavy physical work, and you can't work as a coal miner or work in the steelworks. So there's a lot of uh physical labor still in coal mines in that period. So getting food was actually essential to getting the European industry back and the same with machine tools, because there was a lot of destruction during the war and the bombing, and before the Second World War, the three major providers of engineering equipment and machine tools have been the United States and Germany and Japan, and Germany and Japan are knocked out, and so the only way of re-electing factories is to buy equipment in dollars.

And where do you get the dollars from? You have the same kind of problem, and this, I think, gives some kind of indication of how the balance of the Marshall plan shifts that the initial emphasis is very, very much on important food. That's the blue bars, and then it shifts to important raw materials and importing engineering equipment. A number of additional points here that we're thinking about in terms of the particular framing of the Marshall plan. How did it work? European importers bought goods from the United States or from South America. They didn't pay for them in dollars. They couldn't pay for them in dollars, but the importers would pay their governments in their domestic currency and then the United States government would pay the exporters in dollars. If you think about the consequence of that, you can see the double effect of what the Marshall plan is doing. It's creating not only the bottleneck imports that are
needed to relieve the European bottlenecks, the food, or the machine tools, the equipment, and raw materials. It's doing that, but it's also giving the government in each case in each country a substantial stock of resources in their domestic currencies which they can use for investment projects. That, indeed, is also one of the reasons why the Marshall Plan is thought of as such a major success in that it gives the Government a scope to intervene strategically, and the big headline moves of the late 1940s, the Monnet Plan in France, or the Reconstruction Plan in Germany. Those are all based on the counterpart funds mobilized by the French or the German governments.

Markus Brunnermeier: So Harold, you're proposing that for Ukraine we should do the same thing? Or is this one big successful element of the Marshall plan, or if the bottlenecks are the similar for Ukraine as they were for the Second World War for Europe.

Harold James: I mean, I think there clearly are some bottlenecks and restoring the energy supply and restoring electrical power is going to be important. So getting the um, the nuclear reactor going again, and running in a safe way is really critical. So dealing with that, I think, is as in the European case, it's a kind of first-order, immediate program. But you know clearly there's no equivalent of the food issue. On the contrary, really, Ukraine is, as everybody knows, a major exporter of grain, and some countries, in the Eastern Mediterranean, but also as far away as Indonesia are dependent on the import of Ukrainian grain. So it's not the case that Ukraine can't export anything, either, and in that sense this is a very very particular case. But there are bottlenecks, and I wanted to come when I think about the lessons to be drawn from what might be viewed as the contemporary equivalent of the engineering or the machine tool bottleneck.

Markus Brunnermeier: And for counterpart funds, there were no issues of funds moving the wrong directions? Was the US watching over it? How the national government and German government was spending it?

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Harold James: Nobody told the governments what to do, and that, indeed, is part of the project of the kind of democratic education really, that you want to leave things to governments, and you don't want to control everything to Washington. That's very much the spirit of the 1947 announcement where Marshall is saying very explicitly, this has to come from the Europeans, so we can't tell them exactly what to do on this. And so it's the German choice, for instance, or the Italian choice to concentrate on hydroelectric energy, which is one of the big priorities of the initial reconstruction.

Markus Brunnermeier: So no conditionality on any of these funds. And how do they avoid that in one country there could have been some corruption, it goes in the wrong hands? No danger of that?

Harold James: Of course there's a danger of that. But accepting the danger of that is really accepting the reality of life. If you want to get a democracy going, this is also the period, for instance, that there's a big effort in Italy to make good the unbalanced development of Italy. In the past, after the Industrial Revolution, where the North is industrialized and the South is lagging more and more behind, and a lot of resources that are directed by the Italian government move into the south into the Mezzogiorno. Clearly there are issues with that in terms of corruption. But it's important, actually, not to worry too much about that. If you really worry so much about that it can be counterproductive.
Markus Brunnermeier: So Paolo diBetta, he would like to know, he asked the question whether
some of this money was actually flowing back to the United States, and it was essentially some
hash money to finance anti-communist parties. That's one of these negative myth which didn't
really happen?

Harold James: I was going to talk about that a bit later. But indeed, some part of it is spent on
rebuilding the intellectual infrastructure as well as the physical infrastructure. And if you think
about a country like Germany, where they've been living under the dictatorship and under the
system that's directed thought it's important to expose Germans to other kinds of thought, and I
have a little story that I wanted to tell if I get to it in the course of… I mean at that moment you
want it also to focus on two other aspects, I mean, they're partly raised already. One is to do
with the question of debt. So does it matter whether you're in debt or not? And some countries
like the UK have a very heavy external debt, other countries, Germany in particular, didn't have
any kind of external debt, because the external debt was owed in the old currency of wartime
Germany, the Reichsmark, mostly to countries in Eastern and southern Europe, Greece or
Hungary or Romania, as a consequence of wartime commerce, and the way in which Germany
sucked resources out of those countries that were paid for initially by big balances in the
German Central bank but those were valueless in 1948. Should there have been an attempt to
re-value those German obligations, and impose some kind of debt, well, people are terrified
there of the legacy of the first World War and the idea that the post-first World War Peace
Settlement failed because too severe a burden was placed on Germany. So Germany is
effectively not in any kind of debt position. It also has very little in the way of external assets, or
very little in the way of domestic assets, because the same kind of devaluation affected the
German population, and the 1948 currency reform, but in a way, is part of the general package
of the Marshall plan.

32:04

The 1948 currency reform was really a substantial expropriation of Germans with any kind of
monetary asset. So the debt issues are complicated, but they are part of the reason, for
instance, why it's important from the point of view of the United States, and why the UK needs,
for instance, a substantial amount of assistance. Then I wanted also to think about the way in
which there were individual projects which were financed by the Marshall plan, and this goes a
little bit into your question about control, where the United States also identifies some targets
which might be built up very, very frequently in energy production or in iron and steel. But you
can see also how only a small proportion of this, a relatively small proportion – of about a
quarter – came from the Marshall, and the rest came from the countries themselves. So even in
the projects that were designed in Washington by the ECA, they're not entirely financed. They're
only the quarter-financed in Washington. You asked correctly about the governance
mechanism. I think I would break it down into three bits, and the middle bit has a clear legacy for
the Europeans. But for the world, as I hope that the Washington Agency is the economic
Cooperation Administration, and a very, very influential figure who was the chief of minister and
the administrator of that, was Paul Hoffman, and the idea is to involve US business and labor
and agricultural interests, so involve the private sector on a big scale in the committees that
decide and think about where it might be good to recommend. the flow of funds, and in
particular also looking for markets for American goods. On the European side, the organization
for European Economic Cooperation which later transmutes into the Organization for Economic
Cooperation and Development when it stops being a purely European affair. But at the
beginning it's a technical way of managing the flow to particular sectors, food and agriculture,
each through a little committee; coal, electricity, oil, and also on raw materials, machinery, non
ferrous methods, chemical products, timber, power, paper. So there is a thought there, and
Hoffman is very, very keen on making that point, that Europe can't think of these issues in terms of individual country programs alone. It's, I think, particularly evident in the case of the connection between coal and iron and steel, because there is a big French iron and steel industry, but little coking coal in France, and the coking coal comes from Germany. So, in a way, the source of the Franco-german tension had been the fact that iron ore is in in France and coking coal is in Germany and you really need to bring them together, and that was exactly Hoffman's vision, and you could see him as one of the originators or progenitors of the idea of a united Europe. And he does talk about the European Union very, very frequently. So the idea is that this advice is going to create linkages, and finally, there's the technical side of it. The world in the 1930s had been more and more a world of bilateral settlements and bilateral clearing arrangements, and the idea is to resurrect the international economy, and that's what Marshall has stressed. That's also what the Bretton Woods institutions are supposed to do. So It's really important to multilateralize the the payment system. And this is a kind of interesting aspect in the sense that the obvious institution to manage that would have been the International Monetary Fund that was created at the Bretton Woods Conference, and starts operating just before the Marshall plan starts operating in 1946. But the US State Department is very, very suspicious of the International Monetary Fund, at this moment the first US Executive Director of the IMF was the former assistant to the Treasury Secretary, Harry Dexter White, who's accused of being a Soviet spy.

Whether or not he was a Soviets spy, what he thought he was doing, is the subject of an ongoing controversy. The most recent book by James Bowden believes that he's not, and I think sets out convincing evidence that he was not a spy, but he thought that aiding the Soviet Union was in the national interest of the United States. The State Department in this increasingly cold war climate doesn't want to do anything like that. And so it insists that the payments are multilateralized through an institution. If it had originally been designated to be wound up in the Bretton Woods articles of agreement, the bank for international Settlement, which was accused of having collaborated with the Nazis. So the view is that whatever the BIS is, it's not a Pro-soviet institution, and so it can be relied on. And you see there a bit of the negative picture. And so this is the side of it. I think that gets the negative headlines that this was also part of the Cold War. George Tennon plays a key role in designing both the US Big diplomatic strategy, the containment strategy and the Marshall plan, writes about the inauguration of organized political warfare as a result of what Stalin is doing, and this is a response to Stalin and the NSC in the summer of 1948 sets up a network of clandestine organizations to challenge what you asked about how much of this goes into propaganda– well it depends what you mean by propaganda. So I want you to tell a story about this man who ah, I knew reasonably well in the 1980s and 1990s, a really great man, American journalist, called Melvin Lasky, who was a Trotskyist in the 1930s, and in the war war, and after the war in 1945 went to Berlin as a young journalist with a deliberate goal as the Trotsky, instead of asking awkward questions of the Soviet military representatives, so he was constantly irritating the Soviet representatives, but also the US representatives by his rather aggressive questioning. And then he told me how, in the summer of 1947, the head of the US military government in the United States, General Clay, Lucas Clay, asked him to come and have a drink with him, and General Clay said “young man. Ah! It seems to me that you're the right kind of person to start up a magazine to revitalize German intellectual life,” and that was this magazine called Der Monat, and which really got all the postwar intellectuals going. It was a great front, but I mean it wasn't also a front for anti-soviet propaganda? Of course it was, but it was also genuinely a contribution to the German dialogue. So that's the negative side. Let me come to some lessons then, because I think you rightly want me to think about the lessons of this episode. First of all, a large amount of money is going to be
required for reconstruction, but it's important to remember that the United States was not the
source of the major funding or the investment required for the entire European reconstruction
effort after the Second World War, and the same principle should apply to Western
governments funding Ukrainian reconstruction. Secondly, and this is the bottleneck question,
you need to immediately restore the capacity to earn foreign currency from exports, and you can
think of examples in electrical equipment. But you know, maybe also the devastated steelworks
that everybody saw pictures of in Mariupol, but I think in a longer-term perspective, the longer
term bottlenecks are going to be in high-tech sectors, and that's where it's desirable to involve
the private sector and it may indeed be absolutely transformational in the sense that Ukraine
already has a very dynamic software sector. We saw quite how important that was in military
terms in the initial stages of the conflict.But to develop Ukraine as a state of the art high-tech
heighty ai-focused economy has its bottlenecks as well, and that's where you might think in the
longer term of where the private sector involvement becomes crucial.

Thirdly: the question of debt relief. This is where Ukraine is very different, to say 1947 or ‘48
Germany. It's got a substantial external public debt, fifty-seven billion um, including quite a large
sum owed to the IMF. There's also a large private sector debt, a total external debt of around
127 billion. But that's the gross debt. It has a counterpart, though in very, very substantial,
mostly privately held assets abroad, so that when the IMF calculated just before the outbreak of
the conflict, what the net international investment position of Ukraine was, it's relatively small.
It's minus 11.7 percent of GDP. And the question is are those assets really usable, or who do
they belong to? Is it appropriate to do the kind of wealth tax that, for instance, the Germans did
so radically in June 1948, and to use those assets to pay off the debt. But the debt position of
Ukraine is clearly something that puts it in a different category. And I think it is also why, when
you're discussing new assistance, you don't really want to do credits, and that may also be one
of the reasons that an IMF credit program is not appropriate for that.

Markus Brunnermeier: So who do we know who holds this debt claims to Ukraine, or that's not
public information? Besides the IMF is holding a big chunk. But you're saying it's only eleven
percent of GDP. But who is it owned by? Is it known, if you were to default on it, who will suffer?
Will it cause systemic risk and knock on effects, or no?

Harold James: Right. I mean, I haven't seen the detailed exposure of who it's owed to, but
almost certainly part of this netting exercise is that some of the assets that are held abroad also
correspond to hazards that are recycled back into Ukraine, and so there are holding companies
that are in– you can imagine where in Switzerland and London – that have got Ukrainian funds,
and in turn hold assets back in Ukraine. And so it may be that this is, you know that's just a
suggestion, but there's some secularity in this, if it is in many cases of capital flight.

Markus Brunnermeier: It might involve oligarchs as well?

Harold James: You're absolutely yes, yes, absolutely. So for the employment of some part of
the funding and reconstruction, the discretion of the recipient government and the style of these
Marshall plan counterpart funds is a key part of the process of creating ownership and building
democracy. And it's vital if you want to restore normality, and it answers– my attempt at an
answer to Markus's question. You should be concerned about the potential for corruption, but
too intrusive a monitoring by outsiders and outside institutions as opposed to democratic and
transparent control. I think the overall emphasis must be on transparency would be
counterproductive. Fifth and that's really the heart of the Marshall plan is that it's about creating
cross-border, commercial and financial linkage; it's restoring a globally connected world. It's absolutely essentially part of Hoffman's vision, and it's important to note, I think, that the issue of closer engagement with the European Union was the critical element that precipitated the Maidan demonstrations in November 2013, that then the change of government that infuriated Mr. Putin and so on, and led Russia on the path to war. Sixthly, and this is one of the questions that you had on your poll.

46:57

It's difficult at the moment in the world as it is right now to think of a world multilateral institution, such as the IMF effectively managing this process, because as long as there are geopolitical tensions, it's obvious that Russia or China might block the effect of restoration of a democratic and sovereign Ukraine. In general, it's also, I think, important to say that the IMF was designed as a political institution and designed to think about security issues. The BIS is a much more technical institution, and in general the less politicized the administrating organization is the better it is for the chances of success, and the less the negative pictures get built up.

Markus Brunnermeier: So you wouldn't say that G-7 can do this. Does it need to have an institution behind?

Harold James: It needs to have an institution behind them. If the G-7 does it, It's going to really flip very quickly into it's only good for the G-7. It represents the interests of the G-7. But this is the this seventh point is really an important addition to the sixth consideration, and that the geopolitics can change, the situation may be transformed, and Ukraine has played an important part in the Chinese vision of the Belt and Road initiative, and there's a strong historical interest in China in Ukraine's development. And so I think you really do need some kind of flexibility. And So that's another reason why the G-7 is not quite the ideal, because you really want China to cooperate in this, and the more technical it is, the more likely, I think you can get that effective cooperation.

Markus Brunnermeier: But do you think the BIS is the right institution, which is very much central bank focused and less on this legal structural focus?

Harold James: But I mean the BIS was critical in the 1940s because it was above or a payment issue, and there was a question about the lateralizing payment, and the BIS was exactly the right institution. No, I mean, I think. Ah, you know, this is not really a payments issue. We don't have these big questions, and so ah, I mean nothing in this slide is recommending that the BIS should be the institution that does this. It really requires a lot of private sector engagement. It's also a big part of the vision. But your question, the OECD– what it transmuted into was a rich country's Club. When you graduate into the OECD. It may be better, and it's It's fundamentally a statistical and economic policy thinking institution. I wondered, and this was a question that you had on your slides, on your poll questions, should this effort of reconstruction be limited to Ukraine, and there again, I think there is a lesson from the Marshall plan, because the Marshall plan, it was envisaged. Although it was a European effort. It was envisaged as a path to a generalized global prosperity. It certainly wasn't directed at one country in particular. As it is at the moment, Western engagement in and support for Ukraine is often contrasted unfavorably with the absence of effective support for the West from the West, for democracy or for resistance to Putin's activities in Syria or elsewhere. So one of the most common complaints, when you had the discussion of the UN Security Council initiatives in the UN General assembly, was that the West had stood by when Syria was dismembered and brutalized. What's the difference with Ukraine?
And there's really a very very strong case for building a general program for the management of post-conflict societies rather than a specifically Ukrainian oriented effort. So I think that sense of embedding it in something bigger is really important. Again, answering this question about the G-7, you really need to avoid the dark side of the Marshall plan. The Reconstruction Project won't work. If the money is seen simply as a way of advancing the US Agenda, or that of some EU countries, or of the EU Commission. It needs to have a broader sense of legitimacy. And finally, my final observation is that Ukraine is not, like Germany in 1945. There's no need to teach Ukraine or Ukrainians lessons about democracy or democratic values. On the contrary, I think Ukraine really has a great deal to teach the West in this respect. So thinking about how democracy can operate, and how democracy can act to control corruption. But one of the things that I think is striking is how, if you take transparency, international measures on the extent of corruption in Ukraine were being effectively converted in the years before the Russian attack. So Russia's Ukraine has been moving up in these transparency international indices, and what the war has done has been to create a quite unique sense of national solidarity of the legitimacy of institutions. But I think also a really good base for constructing a much better and much more dynamic post-war economy, because one of the things that I think you need to think about is that Ukraine was a very poor economic performer from 1990 to last year. Poland, Russia grew much more quickly. Ukraine was held back in large part because of corruption measures. But what's happening in Ukraine now is on its way to transforming that situation, and we shouldn't think that we need to create magazines like the Der Monat for Ukrainians right now. Thank you.

Markus Brunnermeier: Thanks a lot, Harold. So I wanted to ask you several questions which also came up in the Q&A from the audience, but one I would like to come back first is this counterpart fund. So you propose, like the Marshall Fund, it should be designed the same way or similar way that the Ukrainian Government essentially decides final investments and can pay with Ukrainian currency, and then they can really essentially buy them. They buy goods from abroad with euros or dollars. Is this the way to go forward, or one way to go forward?

Harold James: I mean, in the sense that if you think what's needed for reconstruction is a you know, gigantic amount of employment, also that people will be working on rebuilding things or rebuilding infrastructure on rebuilding damage to accommodation. There is a lot of destruction of housing around Kiev as well from the beginning of the attack. But above all in Eastern Ukraine, also in the South, in Odessa. So, exactly, it doesn't make any sense to pay the people who are doing that reconstruction in dollars or euros. So I mean, that's quite counterproductive. They need to be, and they should be, paid in domestic currency.

Markus Brunnermeier: And coming back to the debt issues, you would say, all for West Germany what really worked really well is to essentially wipe out the existing that you have, but you would not make this a precondition, in a sense, but it would be very helpful. That is this summary of what you said?

Harold James: Right, I mean. I think you would have to, I think, watch what you do with the debt very carefully, because you can– net figures are, in a way, not really what you should be interested in. I mean the precise accounting of each bit of the debt is crucial. I mean you might really destroy important corporations by just wiping everything out. You could say that there is no external that any more, and that all claims on Ukraine are then ceased. So I think it is likely to be a chaotic situation. But maybe the German position in 1947-1948 was very pretty unique, and some historians, I think particularly of Albert Richard at LSE, have really made that point,
that it was that cancellation rather than the rather small amount of martial rage that was crucial for the German economic recovery. But that was really starting at zero. And you have Ukrainian corporations, some of whom have had very heavy ties to Russia, and some of whom have not had to have ties to Russia to deal with, that I think it's impossible to give a general overall solution to that answer to that question.

Markus Brunnermeier: So there's some other questions. So do you think Russia will actually try to offer the competing reconstruction plan for the next regions. Of course there might come. I might not stay on next to think Russia will do something, or is even capable of something similar to subsidize? I'm not sure at all that it is clear there will be a next region in the long run.

Harold James: I mean, that's an incredibly interesting question. I can see how that would fit into a particular Russian view, because the view that was clearly articulated for instance, in Putin's big essay last summer in the summer of 2021 was that Ukraine has no purpose in existing on its own, it is part of Russia, historically part of Russia. And so you know, a big Russian reconstruction effort to put it in line with the Russian State ideology, and so on, would be entirely in Putin's mentality in his mental world. But it's not going to happen. Even particularly if you think of the question of what does it mean to be a successful economy in the twenty-first century what Russia has demonstrated basically since the early 2000s, since Putin came into power, is that it has a vision that isn't compatible with that it's about energy supply and using energy as a way of getting a political grip on neighboring countries. And you know that's a vision that really has very little future. I mean, the more you think that decarbonization is an important part of the international agenda. The less that kind of future has for Russia or Ukraine. So you know, I can't imagine that Ukrainians would find this interesting or attractive. And um, you know the key of these programs is really that the countries themselves have to be engaged. People have to be engaged. You have to want to do it. And this kind of vision of Russian energy-based also leads itself to all the traditional problems of energy based economies that the rents get siphoned off by smaller leads, democracy finds it difficult to exist in the circumstances, so there are many, many reasons why that's both implausible and unattractive.

Markus Brunnermeier: So a final question is, of course, you know there's a lot of initiatives here on the Green Finance side, ESG and all this to favor certain investments over others like green investments or non-green investments. Do you think the decision should be also tilted for these programs in this way? Or do you think that you know that's all up to the country, to the Ukrainians to decide where there should be some guidance and this regard as well?

Harold James: And this is going to be a global question. So how do you get many, many countries to agree to this and to see that big carbon emissions are a danger to a common future.

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Putting it into the program, I think, is actually difficult, and it raises this interesting question of how you spread this recovery in terms of time, because in the immediate future it's really important to get the energy supply back, and that means getting the atomic reactors to work again. Um, it means getting to coal-fired power stations to work again just in order to restore ordinary life. And you to say that you don't want to do that because you're aiming at a green future, I think, would actually be to invite a backlash, and so it would contravene what I think is was one of the major major goals of this exercise, which is strengthening credibility, strengthening democracy, but also strengthening the extent of an international engagement.
Markus Brunnermeier: Thanks a lot, Harold. That was fantastic, and thanks for answering all the questions as well.

Harold James: But there are, there are impossible questions to answer of course.

Markus Brunnermeier: Yeah, but at least we got some first insights, and I think, of course, many more challenges. And let's hope the software will be over very soon or relatively, quickly, and we can rebuild the situation for many lives, hopefully in Ukraine and other countries as well. Thanks again, and hope to see you soon. I know I made you late for your teaching, and you probably have to rush. Cheers.