Economic Cooperation Administration (ECA)

U.S. agency created by the Economic Recovery Act of April 1948 to administer postwar American aid to Western Europe; widely known as the agency that administers the Marshall Plan.

U.S. Secretary of State General George G. Marshall announced the Marshall Plan in a famous speech at Harvard University June 5, 1947. The plan sought to stabilize Europe politically and to help Western European economies recover by integrating them in a U.S-dominated international economic order. The provision of financial aid to Europe is framed within this broader context and defines U.S. foreign economic relations after World War II. Before the creation of ECA, in July 1947, 16 Western European nations created the Committee of European Economic Cooperation (CEEC), later renamed Organization for European Economic Cooperation (OEEC), a body charged with assembling a coordinated proposal for the use of funds in Europe. Throughout the autumn and winter of 1947, the U.S. administration and Congress discussed the best way to help Western Europe and decided to grant both interim and long-term aid. Congress approved the European Recovery Program (ERP) on April 3, 1948, and called for the plan to be administered by the ECA, the government oversight agency, and the OEEC, which would actually distribute funds in Europe. Over the next four years, the ECA administered $12 billion in aid. Basically, the ECA granted the OEEC two kinds of aid—on one hand a great number of direct grants (food, fertilizer, machinery, shipping, raw materials, and fuel) and on the other the equivalent of more than $4.3 billion in counterpart funds—that is, the local currency receipt of sales of ERP supplies on national markets. These currency receipts were placed in a special fund used to invest in the industrial sector and aid the recovery of European infrastructure under agreements between European governments and the ECA.

The ECA administrators encompassed both liberal academics and politicians working according to Keynesian ideas and forward-looking businessmen like ECA's first administrator, Paul Hoffmann. He hoped to modernize the Western European economies and help them to recover, both to support social stability and to shape a continent-sized market. In turn, setting up intra-European trade would have reduced Europe's need for American aid and increased European productivity. However, European nations did not see the OEEC as a supranational body that would distribute aid across the continent on a rational basis and improve national economies by building intra-European trade. Instead, each European nation tended to help its own economy to recover by using OEEC funds within its own nation.

In 1951, Congress replaced the ECA with the Mutual Security Agency (MSA), which had an aid policy aimed at increasing military supplies and coordinating economic and military plans. The MSA was abolished in 1953 when its functions were transferred to the Foreign Operations Administration.

—*Simone Selva*

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Economic Indicators

Statistical measures of economic activity used to gauge the health of the economy.

In the United States, the federal government and private agencies generate more than 250 economic indicators. The most notable include the consumer price index (CPI), producer price index (PPI), unemployment rate, corporate profits, industrial production index, money supply, interest rates, personal income and saving, inventory:sales ratios, consumer confidence index, productivity, import and export indexes, and gross domestic product (GDP). The Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), Bureau of the Census, Internal Revenue Service (IRS), National Bureau for Economic Research (NBER), and the Conference Board publish economic indicators monthly, quarterly, and yearly.

Economic indicators are used to identify, analyze, and evaluate current and past economic performances with the ultimate goal of predicting and controlling business cycles. However, economic indicators are more than statistics. They lie at the heart of all public policy. People's economic and social well-being depend on the accuracy of these indicators and on the way policymakers use them. Expectations concerning changes in these indicators are also of critical importance for corporations and investors.

For the United States, the NBER has selected 30 leading economic indicators that reach peaks or troughs before the peak or trough in economic activity. These leading indicators are used by the NBER to predict economic performance. The NBER's prediction is based on a diffusion index (DI). When the DI is higher than 50, the economy is said to be in an expansion; when the DI is lower than 50, the economy is said to be in a decline. The larger the DI number, the stronger the basis for predicting expansions.

Economic indicators have improved economic analysis a great deal with regard to business performance. However, these indicators are more useful when their users are aware of their limitations. In fact, economic indicators are highly aggregated and averaged numbers. Even though they do tell us about past economic conditions, we must not assume that these conditions will remain the same in the future. Therefore prediction involves more than the mere reliance on economic indicators; it involves a lot of common-sense judgments based on expectations of future economic conditions.

—*Fadhel Kaboub*

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See also Volume 1: Consumer Price Index.

Economic Interpretation of the Constitution (1913)

A 1913 study by Charles Beard that initiated a firestorm of debate over one of America's most cherished documents.

Charles Beard, part of a group of professional historians known as the Progressives who were greatly influenced by the Populist movement, ascribed to the theory of economic determinism. In his work *An Economic Interpretation of the Constitution*, Beard challenged the idea that the founding fathers, placing the nation's common good over their own individual interests, designed the Constitution to create a democratic and equal society. Instead, Beard argued, four groups—the money, public securities, manufacturers, and trade and shipping interests—called for and supported the Constitution's creation because they thought it in their best interest, and those who created the Constitution planned to gain economically from it. Even though it could be accepted that the founders had an economic motivation, Beard argued that the process of creating the Constitution thwarted the democratic process by disenfranchising a large group of Americans. He noted that a popular vote never occurred to see if American society wanted a new government. Consequently, a small group of private interests, not the common good, guided this political change. When the founding fathers assembled at the Constitutional Convention in 1787 in Philadelphia, the majority of Americans enjoyed no form of representation and thus their ideas and hopes remained silent. Beard also argued that the framers of the Constitution all shared the belief that they must protect private property at all costs; hence, the wealth of a minority must remain protected against the basic needs of a majority. Finally, Beard argued that most American voters (at this time adult white males) refused to vote for their convention delegates and refused to vote on the issue of ratification or could not vote because they did not meet property qualifications. Beard believed that approximately one-sixth of America's voters ratified the Constitution and that the document offered neither a democratic nor representative expression of the desires of American society as a whole.

Beard's work created a maelstrom of controversy and was publicly both praised and condemned. President William Howard Taft, especially, hated it. Since the publication of Beard's book, scholars have continually worked both to expand and refute his argument. But what Beard wrote made many people aware of the private motivations that lie behind public decisions.

—*Ty M. Reese*

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See also Volume 1: Constitution.

Economic Liberalism

Doctrine of nonintervention by state in economy.

Economic liberalism developed as a reaction against an older system called mercantilism, in which government controlled commerce, industry, and trade. Under economic liberalism, industry, agriculture, and trade operate free from governmental supervision and regulation (free trade). The doctrine seeks maximum freedom for individual entrepreneurs; removal of tariffs, monopolies, and trade restrictions; and opposition to factory legislation (which benefits labor through concessions on wages or working conditions) and to trade unions. The doctrine originated with the work of Adam Smith in the late eighteenth century and the French economic philosophers of the Enlightenment, commonly known as the Physiocrats. Smith's *Inquiry into the Nature and Causes of the Wealth of Nations* (1776) put forth the idea of an invisible hand that operated in the economy, permitting self-interest (if enlightened) to work for man's good—in short, laissez-faire economics. (Smith was not the first person to use this term: it had been introduced before the end of the seventeenth century by Pierre Boisguillebert, a wealthy French landowner and economist, who spoke of laissez-faire and laissez-passez [unrestricted travel].)

A group of Englishmen including the utilitarian Jeremy Bentham developed the classic doctrine of free trade. Economist David Ricardo, author of *Principles of Moral Economy* (1817), provided the basic labor theory of value, which ties the value of a product to the cost of labor. Ricardo apparently believed much less than Smith in a natural order of harmony in economic affairs. But his passionate support for free trade and his hostility to landlords helped give classical political economy an even firmer place in liberal ideology.

The liberal thinker John Stuart Mill also wrote on the subject of economics in his *Principles of Political Economy* (1848). Mill recognized the significant role played by the entrepreneur—what he called the "undertaker" in economic development. Profit rewarded hard work and skill.

—*Leigh Whaley*

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