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FINANCIAL STRATEGIES FOR POST-WAR RECOVERY IN UKRAINE AND EUROPE

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ABSTRACT

Post-conflict reconstruction is a fiscal and financial policy challenge: governments must mobilize large resources for recovery while preserving fiscal sustainability, external balance, and financial stability. This article investigates the determinants of reconstruction strategies and their outcomes, focusing on how actors' strategic priorities align with the economic and financial instruments they deploy. The purpose is to specify the conditions under which reconstruction is effective and to identify the risks posed by ill-suited strategies. Building on comparative evidence from major post-war settlements, the study distinguishes two ideal-type configurations: (i) a control/extraction template that relies on reparations-style claims, compensation mechanisms, and restrictive trade and settlement arrangements, and (ii) an integration/investment template that relies on coordinated multi-year financing, trade normalization, risk-sharing instruments, and institution-building that supports credit intermediation and private capital formation. Principal results indicate that two drivers are pivotal in shaping strategy choice and performance: the magnitude of wartime damage and rivalry among principal actors. Outcomes, however, hinge on the depth of institutional design underpinning the financing architecture — credible economic rationale, enforceable commitments, and coordination capacity over a long horizon. A causal-dynamic framework is proposed to map shifts between templates under these drivers and to derive reconstruction scenarios for Europe and Ukraine following the Russian–Ukrainian war. The main conclusion is that a drift toward a weakly institutionalized, control-oriented configuration raises debt vulnerabilities and instability risks, whereas an institutionally robust, integration-oriented program with predictable funding and effective risk-sharing is more likely to sustain recovery, investment, and durable peace.

Keywords: reconstruction finance, post-conflict recovery, donor financing, international lending and debt, reparations, economic integration, institutional depth, international capital flows

JEL Classification: F21, F34, F35

INTRODUCTION

War leaves behind not only destroyed assets but also a disrupted financial ecosystem: weaker public revenues, higher expenditure needs, stressed balance sheets, and larger external financing gaps. In this setting, reconstruction is primarily a question of financing architecture — how donor flows, international lending terms, debt management choices, and investment incentives are structured and governed. For finance and banking audiences, the central issue is whether these arrangements can translate funding into sustained investment and credit growth without triggering debt distress, external imbalances, or financial instability.

This paper examines why reconstruction strategies take different forms and how their financial logic affects outcomes. It links actors' strategic priorities to the instruments they deploy and distinguishes two broad configurations: a control/extraction approach centered on compensation and restrictive settlement arrangements, and an integration/investment approach based on coordinated multi-year funding, risk-sharing, and institution-building to strengthen intermediation and crowd in private capital. The analysis suggests that strategy choice is shaped by the scale of damage and rivalry among key actors, while performance depends on the quality of institutional design that governs reconstruction finance. A causal-dynamic framework is developed and applied to reconstruction debates in Europe and Ukraine following the Russian–Ukrainian war, outlining the financial risks of fragmented, weakly governed approaches and the conditions under which reconstruction finance can support durable recovery.

LITERATURE REVIEW

Debates on rebuilding after conflict reach back to classical political economy, where post-war recovery was already treated as a problem of resource allocation and fiscal capacity. Adam Smith, for example, denounced British imperial policy, contending that stifling development in subjugated territories breeds renewed conflict and saddles the metropole with lasting fiscal costs through higher security spending, weaker trade revenues, and persistent pressure on public finances (Smith, 1776). Richard Cobden portrayed commerce as a peace-promoting force: the denser the web of trade, the weaker the incentives for war and the stronger the momentum toward modernization (Cobden, 1903). Renouvin and Duroselle later examined the mechanisms through which imperial states entrenched and institutionalized economic dependence across their colonial possessions, including financial and credit channels that shaped access to capital, taxation capacity, and long-term investment (Renouvin and Duroselle, 1967).

In the aftermath of the First World War, Arthur Salter investigated how Austria set about rebuilding its economy and institutions (Salter, 1924), while A. J. Williams drew attention to the term's ambiguity, separating the recovery of efficiency from the rebuilding of the underlying economic apparatus (Williams, 2005).

In the post–Second World War era, analysis of the Marshall Plan broadened the debate on reconstruction finance: Kindleberger (1947) interpreted the program as a tool of U.S. geopolitical and economic power, embedded in the design of external financing, conditionality, and trade-and-payments normalization. Galtung (1976) cast economic reconstruction as a pillar of peacebuilding, on a par with political and social reform, stressing that durable peace also requires stable financing arrangements and an investment base for recovery. Against that backdrop, Steil (2018) contrasted Western approaches with the Soviet command-centric model. Early institutional blueprints were articulated by bodies such as the World Bank (Holtzman et al., 1998; World Bank, 1998, 2011).

After the Cold War, reconstruction thinking largely converged on a market-oriented orthodoxy that packaged recovery as a standardized set of policy and financing prescriptions. Paris (2004) criticized these template-driven models for neglecting local constraints that shape fiscal capacity and investment absorption, while Stepputat (2002) portrayed them as a donor-led mode of global administration governing reconstruction through funding terms and conditionality.

By the late 2000s, reconstruction was increasingly framed as an integral component of peacebuilding, with growing attention to how financing, investment incentives, and institutional capacity interact. Fischer (2004) and Forman et al. (2000) described it as a fluid, multidimensional enterprise that spans security, governance, and economic recovery. J. Mendelson Forman (2002) advanced a twin-track agenda that pairs stabilization with reform, including institutional rebuilding and measures to restore investment and the channels of financial intermediation. Ohiorhenuan and Kumar (2005) linked conflict to structural distortions and argued for holistic, reform-led responses that address the underlying constraints on productive investment. Addison (2005) proposed "broad-based reconstruction" centered on inclusion and reducing inequality, while Hamre and Sullivan (2002) emphasized institution-building to prevent relapse into violence — an emphasis that also strengthens the credibility of fiscal policy and improves the effectiveness of reconstruction finance.

In the Treaty of Versailles, the economic chapters looked less like a reconstruction strategy than a sequence of negotiated bargains — clauses stitched together by diplomacy rather than guided by a coherent financial logic. The provisions specified obligations and transfers, yet offered no integrated assessment of fiscal capacity, debt sustainability, or external payment feasibility, and no financing architecture to support recovery. Although the U.S. mission compiled extensive statistics, it applied them selectively rather than within a consistent analytical scheme; Allyn Abbott Young made this point explicitly (Seymour and House, 1921). Even the terminology was unsettled: as Philip Noel-Baker observed, "reconstruction" had no stable definition and was commonly used to mean a return to prewar arrangements (Williams, 2005). These features help explain why Wilson's liberal project faltered, not merely because of his personality, but because early liberal recovery thinking in the interwar years lacked systematic theoretical foundations, despite growing interest in institutional depth.

Many contemporaries and later scholars argue that, after World War I, "reconstruction" was not defined clearly in economic and financial terms. They treat the failure of Wilson's program as a case where political objectives were not supported by a coherent plan for financing recovery. Economists and historians often describe his position as mainly ethical and diplomatic: he aimed to reshape international relations rather than to present a detailed economic strategy. His support for the

League of Nations and his readiness to accept compromises on reparations are usually linked to an effort to reduce the risk of renewed conflict and to keep the reparations burden within states' fiscal and external payment capacity. Duroselle (1963) argues that these concessions helped secure agreement on the League's creation. He distinguishes issues where Wilson made clear concessions, such as reparations, from those where he kept his core principles but still negotiated specific terms, notably the Saar and the Rhineland. Even when defending his position, Wilson reasoned chiefly in ethical terms. Bailey (1945) portrays him as driven by a messianic sense of mission; an attitude echoed in his post-conference rhetoric. The severest verdict came from Keynes (1920), who branded Wilson a "blind and deaf Don Quixote" and condemned the settlement as a "Carthaginian peace" that chose Germany's economic ruin over reintegration.

Several scholars argue that Wilson's liberal agenda faltered not mainly because of weak political skill, but because it lacked the institutional design and analytical grounding needed for economy-wide recovery. From this perspective, claims that Wilson was simply incompetent are overstated: before the presidency, he proved an able administrator at Princeton, and as New Jersey's governor, and in office (1913-1921), he advanced antitrust reforms and helped establish the Federal Reserve. At the peace conference, the U.S. delegation pursued American interests on the premise that a stable Europe would bolster global trade and, by extension, the U.S. economy. Edward House (1921) stressed that U.S. prosperity depended on financially stable partners: "One cannot have bankrupt neighbors and continue to prosper for long."

Ukrainian scholarship has recently sharpened the domestic debate on reconstruction finance, focusing on fiscal sustainability, external funding needs, and the instruments used to mobilize investment. At the level of concepts, Polchanov (2017a, 2017b) advances a systemic framing of the field, while Zavarika (2020) clarifies its conceptual architecture. From a comparative perspective, Stoyko et al. (2020) assess international territorial reconstruction experiences. Building on historical analogies, Heyets (2015) examines how Marshall Plan principles could be adapted to Ukraine. The financing dimension is explored by Makhomedov (2023), Treshchov (2023), and Okhrimenko and Popov (2022). In a regional perspective, Logvinov and Buriachenko (2025) argue that EU Cohesion Policy and cross-border cooperation mechanisms-especially in the Carpathian area-constitute a multilayered financial-institutional scaffold for sustainable post-conflict development, privileging integration and partnership over punitive or extractive logics. Complementing this, Stativka (2025) shows that decentralization and local empowerment are pivotal for durable recovery, reinforcing the case for inclusive, bottom-up reconstruction strategies. At the sectoral level, Sychov et al. (2025) examine the barriers to digital construction in Ukraine's post-war reconstruction, grouping them into financial, human-capital, and regulatory constraints. They emphasize the high cost of digital adoption and limited access to affordable finance, especially for SMEs, and propose measures such as national standards, state pilot projects, and targeted tax and financial incentives to accelerate the diffusion of BIM/IoT and related tools.

Unsolved aspects of the issue. While the theoretical literature on reconstruction has become more developed, implementation still produces uneven results, partly because financing designs differ sharply across cases. A key gap concerns how donor preferences shape the financing architecture of recovery: short-horizon, project-by-project funding aimed at rapid outputs versus multi-year arrangements that support integration and capital formation through predictable funding, coherent instrument mixes, and clear coordination rules. The literature provides less clarity on how these choices translate into fiscal sustainability, debt dynamics, external payment pressures, and the ability of the domestic financial system to channel funds into investment. The analysis below argues that integration-oriented financing designs are more likely to deliver stable outcomes and should guide Ukraine's reconstruction.

AIMS AND OBJECTIVES

This article investigates what drives the choice of post-conflict reconstruction strategies and how these strategies translate into different economic and financial outcomes. It focuses on the link between actors' strategic priorities and the financing architecture they adopt. Using comparative evidence from major post-war settlements, the study contrasts two ideal-type configurations: a control/extraction template (reparations-type claims, compensation logic, and restrictive trade/settlement arrangements) and an integration/investment template (coordinated multi-year financing, risk-sharing, trade normalization, and institution-building). The purpose is to specify the conditions under which reconstruction is effective and to identify the macro-financial risks created by weakly designed strategies.

The article pursues four objectives:

1. Identify the principal reconstruction templates and clarify their substance in terms of the economic and financing mechanisms they imply.

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2. Assess how the depth of theoretical and analytical grounding, and the resulting institutional design, conditions long-term performance of a chosen template.
3. Examine key post-war episodes to extract recurring patterns in how financing burdens, payment constraints, and coordination problems shape outcomes, and relate these patterns to current developments.
4. Evaluate the applicability of the two templates to reconstruction planning in Europe and Ukraine after the Russian–Ukrainian war, including scenario implications.

The goal is to specify when reconstruction strategies become economically and financially sustainable — and when they increase the risks of debt vulnerability, external stress, and renewed instability.

METHODS

Methodologically, the study weaves together several complementary approaches to meet the research objectives: economic analysis to gauge how alternative reconstruction strategies transmit through the economy and shape growth trajectories; a systems perspective to connect actors' strategic interests with the mechanisms they mobilize; cross-case comparison to surface parallels and divergences in historical experiences; content analysis of scholarly and institutional materials to track contemporary trends; and selected techniques from structural causal modeling to appraise plausible development scenarios.

RESULTS

Early liberal ideas and the interwar turning point

The evolution of post-conflict economic reconstruction has unfolded where ideas meet statecraft. Well before World War I, economists such as Adam Smith (1776) and Richard Cobden (1903) argued that open trade and economic integration deter war; Smith condemned Britain's colonial restraints on conquered economies as a recipe for instability and long-run fiscal burdens, while Cobden treated rebuilding as re-embedding societies within a shared economic space. John A. Hobson (1914) added that imperialism bred inequality and systemic imbalance, with investment patterns designed to entrench metropolitan control, thereby sowing further conflict. Yet in the nineteenth and early twentieth centuries, these liberal insights were often set aside. As Renouvin and Duroselle (1967) observe, arrangements labeled "reconstruction"-for example, after the Anglo-Boer War-were steered by imperial imperatives: Britain, France, and Germany used the post-war moment to consolidate dominance and economic dependence, prioritizing political control over long-term development.

A paradigmatic instance of the reparations-driven approach is Europe's reconstruction after World War I. Even before the armistice, Allied planners in London and Paris contemplated curbing Germany's post-war recovery. The Paris Economic Conference of 1916 codified this orientation, seeking to wall Germany off from international commerce while channeling resources toward the victors' rebuilding (Hirschman, 1980). From Washington, Secretary of State Robert Lansing cautioned President Wilson that such measures aimed less at Europe's renewal than at suppressing the Central Powers, a stance he feared would postpone peace (Baker, 1931).

In his August 1917 reply to Pope Benedict XV (Wilson, 1917), Wilson sketched a peace settlement without economic retribution-foregrounding political freedom, self-rule, and nondiscriminatory participation in the world economy. The "Fourteen Points" translated this into a liberal economic program built on free trade, openness, and cooperative international arrangements as the foundations of a durable peace.

At the same time, Wilson calibrated these ideals to American strategic interests. By road to the Paris Peace Conference in December 1918, he warned about the spread of Bolshevism and called for a new international order to counter it (Fischer, 1931). In this sense, his project fused liberal commitments with geopolitical calculation.

Anchored in the Paris Economic Conference of 1916, London and Paris adopted a no-compromise line. Clemenceau's France, with British support, pressed for severe terms-substantial reparations and territorial adjustments. Washington, doubting Germany's capacity to service such burdens, argued for a USD 25 billion ceiling and warned that excessive indebtedness would hobble German recovery and Europe's reconstruction (Seymour and House, 1921). In the end, however, the Americans yielded: the treaty set no definitive total, delegating the calculation to a Reparations Commission, while obliging Germany to issue bonds totaling 100 billion gold marks. The United States did secure the exclusion of Britain's and France's wartime expenditures from the reparation's ledger. A major flashpoint concerned German assets: France sought the Saar coal basin, railways, and the merchant fleet.

Analysts have offered political explanations for the outcome of the Paris negotiations. Thomas Lamont underscored the constraints imposed by Clemenceau and Lloyd George, who warned that naming a fixed reparations figure could spark a backlash and derail the negotiations; Wilson acquiesced, judging the direct American stake to be limited (Seymour and House, 1921). Allyn Young likewise argued that U.S. policy yielded to Allied pressure amplified by a public mood favoring harsh penalties.

We next report fiscal and monetary aggregates relevant to Germany's transfer capacity. A defining feature of Germany's structural crisis under the reparation's regime was a profound fiscal imbalance (Webb, 1986). Even before transfers began, the 1919 shortfall reached 7.7 billion marks-19.9% of GNP. In 1920, it narrowed to 3.9 billion (9.0%) yet still financed 55% of expenditures (Ritschl and Spoerer, 1997). Once reparations started in 1921, the deficit edged up to 4.2 billion (9.1%), with a large share channeled to external obligations. Although the gap fell to 2.2 billion (4.5%) in 1922, rising pressures undermined the financial system. By 1923, with GNP down to 42.3 billion, the deficit swelled to 6.7 billion (15.8%), covering 72% of spending. Reliance on money creation intensified, culminating in hyperinflation: from 8.9 marks per USD in 1918 to 4.2 trillion by November 1923.

Germany's economic breakdown made continued transfers untenable. The Dawes Plan of 1924 kept the mechanism alive by funneling U.S. loans to Germany, which then used those funds to service reparations. In practice, the arrangement became a credit-fueled loop sustained by American finance rather than by Germany's own recovery.

Over the period, Germany remitted about 20 billion gold marks (≈ USD 5 billion), much of it financed through external borrowing (Blatt, 2001). The Allies' inflows were smaller than initially anticipated (Figure 1), and Europe did not consolidate into a stable economic area capable of supporting high-volume trade.

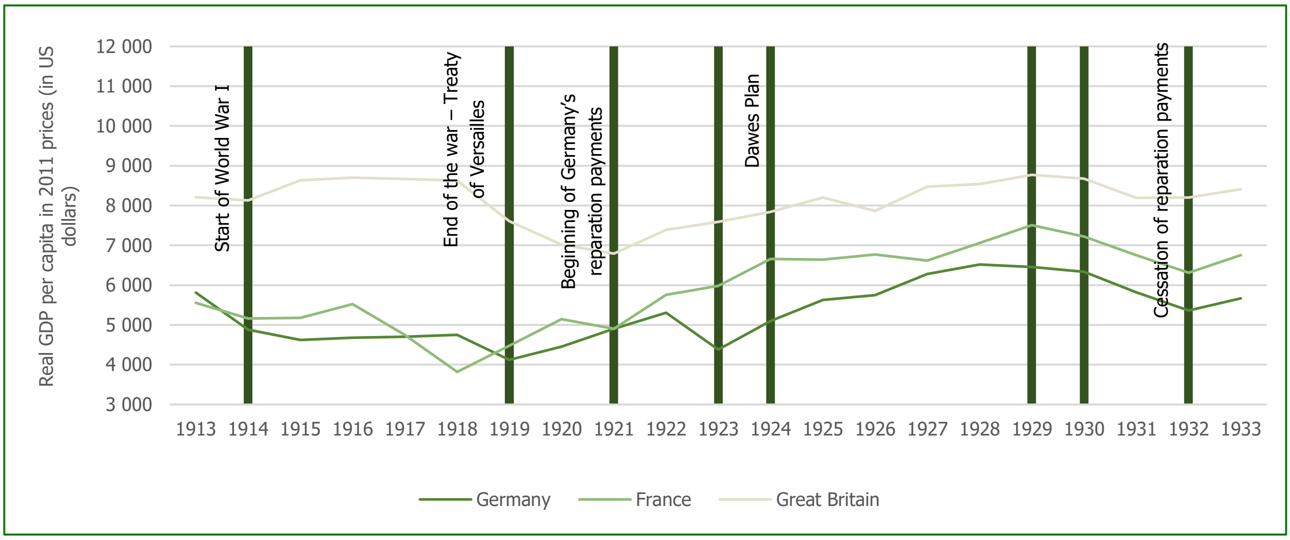

Figure 1. Dynamics of real GDP per capita in selected countries involved in the First World War in the post-war period (in 2011 USD).
(*Source: compiled by the authors using data from (MPD, 2023)*)

External trade indicators provide a parallel view of transatlantic demand. During the First World War, the surge in U.S. shipments to European markets became a major driver of domestic expansion. By the armistice, exports to Europe were more than three and a half times their 1913 level and accounted for over 65% of total American exports (U.S. Bureau of the Census, 1960). After the war, however, Washington's turn toward isolationism meant stepping back from Europe's reconstruction, and European economies could no longer absorb U.S. goods on anything like the wartime scale.

The home market proved too small to absorb the collapse in foreign demand. While the 1920s brought a degree of stability, U.S. manufacturing still leaned heavily on external sales. Between 1919 and 1929, exports to Europe fell by half, and shipments to the rest of the world rose a mere 6%-far too little to offset the loss. As strains emerged, Washington raised barriers in 1929, culminating in the Smoot-Hawley Act (1930), which lifted average tariff rates by roughly 20% and to 40-60% on many lines, hitting imports from key partners (Irwin, 1996). Foreign retaliation followed, cutting U.S. exports further. By 1933, total exports were down to about one-third of their 1929 level, with shipments to Europe contracting by roughly a factor of 2.75.

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The Marshall Plan paradigm and Cold War reconstruction

Post-1948 output and income indicators under the European Recovery Program are as follows. The close of World War II marked another inflection point- a shift in approaches to rebuilding. As Tschirgi (2004) observes, aid initiatives for Europe and Japan, especially the Marshall Plan, furnished the empirical base for theorizing the reconstruction of war-ravaged economies. By 1947, the United States aimed to couple leadership in Europe's recovery with its own national interests. Marshall's Harvard address (1947a), which publicly unveiled the plan, bore a Keynesian imprint. Soon the strategic rationale was explicit: in February 1947, Marshall (1947b) cited the crises in Greece and Turkey as threats to U.S. security, thereby justifying assistance.

U.S. policymakers framed their stance in explicitly economic terms. They understood that Europe's buying power was essential to America's export-led expansion, and a confidential report prepared by the State, War, and Navy Departments (Coordinating Committee, 1947) noted that foreign assistance had both economic and strategic dimensions. For 1947, officials projected an export surplus of USD 7.5 billion, of which USD 4.8 billion would be underwritten through government mechanisms. Absent additional aid, however, global stocks of dollars and gold were expected to be exhausted by late 1948, jeopardizing U.S. exports, factory activity, employment, and price stability.

European governments set out a common blueprint in the European Recovery Program (September 1947), later enacted through the "Economic Cooperation Act" (Foreign Assistance Act of 1948). The agenda prioritized boosting output, widening trade, dismantling barriers, and restoring financial stability. As Kindleberger (1947) observed, the Marshall Plan fused U.S. geopolitical aims with economists' integrationist prescriptions.

Anchored in pragmatic imperatives, U.S. interests, and a mature Keynesian toolkit, the Plan rested on a clear macroeconomic logic: government action to boost effective demand, consistent with Keynes's claim that employment and output are governed by aggregate demand. In operational terms, this meant rebuilding Europe's productive base while stabilizing currencies, public finances, and the financial system (Sorel and Padoan, 2008). The program was designed to deliver immediate relief and, beyond that, to set in motion a path toward self-reliance through domestic growth and coordinated cooperation, squarely within Keynesian aims for sustainable expansion. In substance, the Marshall Plan braided liberal commitments to integration and democracy with elements of strategic predominance. Unlike the post-World War I experience, these strands coexisted within a single American vision for global stability.

Within the European Recovery Program, participating states initially sought USD 22 billion over four years, but Congress appropriated USD 17 billion instead. From April 3, 1948, to June 30, 1951, actual non-repayable assistance came to USD 11.8 billion, supplemented by USD 1.139 billion in loans, about USD 13 billion in total, with annual outlays tapering over time (Price, 1955). In 2025 dollars, this is roughly USD 171.34 billion.

Under the Marshall Plan, Western Europe's post-war rebound accelerated: by late 1950, industrial production in the OEEC countries was about 25% above its 1938 level, meeting targets originally set for 1952, while Western Europe's total output was rising by roughly USD 30 billion per year as U.S. aid ran at USD 4-5 billion annually (Price, 1955). Over 1948-1951, real GDP per capita increased by 48.4% in Germany, 24.3% in France, 23.8% in Italy, and 5.6% in the U.K.; the United States also recorded a 12.7% increase (MPD, 2023). The program's operational core was fiscal-monetary normalization-stabilizing currencies, preserving exchange parities, and moving budgets toward balance (Sorel and Padoan, 2008); by 1951, the mix of external financing and domestic reforms had narrowed deficits, moderated inflation, and raised revenues (Donovan, 1987).

In part, this outcome reflected how Marshall Plan funds were spent: more than half of the 1947-1951 assistance financed European procurement of raw materials, supplies, and equipment sourced directly from the United States (Zausmer, 1949). That channel helped prevent a repeat of the sharp post-WWI export slump. U.S. sales to Europe amounted to USD 5.19 billion in 1947 and had declined by only 22% by 1951. By contrast, during 1919-1923, five years after the First World War, American exports to Europe fell by nearly 2.5 times. In short, the Marshall Plan supported the transition to a peacetime economy and moderated the drop in transatlantic demand.

As recovery programs unfolded, geopolitical alignment in Europe hardened into a confrontation that crystallized as the Cold War (Trachtenberg, 1999). In this environment, reconstruction became subsumed under ideological competition, with both blocs pursuing dominance-oriented agendas. Aid and rebuilding programs served to widen spheres of influence and entrench political-ideological preferences. The pattern is evident in Korea, Indochina, the Middle East, and Latin America, where economic recovery advanced alongside the imposition of models aligned with the interests of leading powers (Aono, 2024; Tangsinmunkong and Sato, 2024). By contrast, countries outside the core strategic theaters typically received limited humanitarian relief, while in contested regions, reconstruction functioned primarily as a geopolitical instrument (Tschirgi, 2004).

Post–Cold War templates and the Ukraine turning point

The close of the Cold War ushered in a new stage in post-conflict reconstruction. With bipolarity dismantled, methods increasingly converged on a neoliberal template. Multilateral institutions-the UN, World Bank, IMF, and EU-promoted reform packages centered on market liberalization, privatization, and democratization, cast as universal levers for development, investment, and conflict prevention. After the September 11, 2001, attacks, the emphasis shifted again: the multilateral leadership of the 1990s gave way to the primacy of state interests. Reconstruction in Afghanistan and Iraq exemplified a dominance-oriented approach, as aid was aligned with donor strategies rather than coordinated global frameworks.

Against this historical backdrop, a contemporary benchmark is warranted. Post-conflict economic reconstruction after the Russian-Ukrainian war will mark a new pivotal juncture in the evolution of both the theory and practice of rebuilding and in the trajectory of the global economy. Examining the post-1918 and post-1945 episodes allow us to distill core regularities and distinctive features of such processes and to project plausible scenarios for how the present case may develop.

One salient parallel with the present case is the magnitude of economic losses, which inevitably creates a need for reconstruction investment. Although the fighting is geographically confined to Ukraine, its economic repercussions have spread across Europe, amounting to the continent's largest shock since the mid-twentieth century. The European Investment Bank estimates that EU growth in 2022-2023 was about 1.5 percentage points lower (European Investment Bank, 2022). Based on the IMF series, the cumulative shortfall in Europe's GDP growth for 2022-2024 is approximately 3.6 percentage points (International Monetary Fund, 2021-2025).

Losses have extended beyond headline growth into labor markets and household demand. Almazán-Gómez et al. estimate that roughly 3.7 million jobs have been lost across Europe, with the transmission channel running through the energy shock: prohibitive power costs forced widespread plant closures, and nearly half of the continent's aluminum and zinc capacity has been suspended (Almazán-Gómez et al., 2023). Price pressures compounded the damage: Hartvig et al. (2024) report that curtailed Russian gas supplies pushed natural gas prices in 2022 to nearly four times pre-crisis levels, cutting real consumption in the EU by 1.2%. Business sentiment weakened (lower PMI), uncertainty rose, and investment declined; new lending for Eurozone commercial real estate fell by about 35% in the first half of 2024 (European Commission, 2024). The macro toll is substantial: a Kiel Institute analysis estimates cumulative GDP losses among countries within the conflict's impact zone at USD 250 billion, of which roughly USD 70 billion accrued in EU member states (Federle et al., 2024).

To complement the European metrics, we report U.S. ISM Manufacturing PMI components (Figure 2). The aid channel points in the same direction: while Washington publicly backs Ukraine, assistance has been coupled with compensation via transfers of rare-earth and other resources (Evans-Pritchard, 2025), a pattern reminiscent of interwar demands on Germany that fused cash payments with strategic materials. These parallels invite doubts about how well current policy aligns with the United States' earlier liberal role in building stable international economic arrangements.

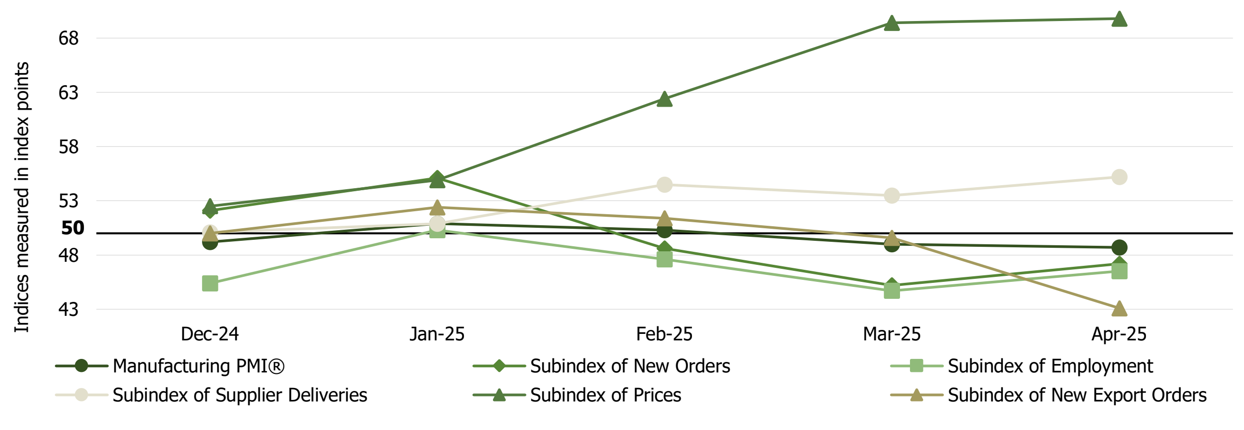

Figure 2. The Impact of U.S. trade barriers on the dynamics of the USA ISM manufacturing PMI and its subindices (points). *(Source: compiled by authors based on (ISM, 2024, 2025).*

ISM's April release (2025) shows demand slipping back below the 50 thresholds: New Export Orders fell from 52.4 in January to 43.1 (−9.3), and New Orders dropped from 55.1 to 47.2 (−7.9). On the supply side, vendors continued to lag. Supplier Deliveries rose to 55.2 (+4.3 since January). Price pressures re-accelerated, with the Prices Index jumping to

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69.8 (+14.9), its highest since early 2023; many panelists again cited tariffs as a key source of cost volatility. Confronted with rising inputs and softer order books, manufacturers pared activity: the Production measure sank to 44.0 (−8.5), while Employment eased to 46.5 (−3.8), both in contraction. The sub-50 readings for New Orders (47.2) and New Export Orders (43.1) together underscore ongoing strain in U.S. manufacturing as trade tensions intensify.

DISCUSSION

This discussion synthesizes the full body of evidence reported in the Results-covering interwar fiscal balances and transfer mechanisms, transatlantic trade patterns, ERP-era output and income dynamics, and contemporary demand indicators, and interprets the relationships among these findings using the causal-dynamic framework introduced below (Figure 3). Viewed together, the historical junctures reveal a consistent regularity: both the substantive orientation of post-conflict strategies-liberal or dominance-oriented-and the depth of their institutional elaboration determine economic and geopolitical end-results. We organize these rival approaches within this framework to trace the evolution of reconstruction strategies (Figure 3). The scheme comprises four quadrants defined by two axes: the nature of the approach (liberal vs. dominance-oriented) and the degree of institutional development (high vs. low). Mapping shifts between quadrants across episodes helps pinpoint why particular strategies succeed or fail.

The institutional-depth axis also reflects leadership capacity. Beyond choosing between integrationist and control-oriented templates, outcomes turn on how thoroughly a strategy is theorized and economically specified-the depth of its "institutional elaboration." That depth often correlates with leadership craft: the ability to temper personal conviction with expert-driven, analytic planning. As noted earlier, many economists and historians read Wilson's setbacks as the product of moral idealism, a sense of mission, limited international experience, and an underestimation of political constraints. These traits yielded economic concessions at Paris, a failed ratification effort in Congress, and electoral defeat. The subsequent drift into isolationism pulled the United States away from Europe's economic affairs and reshaped the interwar order-an outcome of thin institutional grounding and overly personalized leadership.

Two points follow. First, shocks become decisive only through competing strategic templates. Second, large economic losses on their own do not constitute a watershed in post-conflict recovery. What proves decisive is the collision of geopolitical projects, manifested in two rival templates: a dominance-centric model aimed at control, resource redistribution, and the deliberate weakening of the defeated, and a liberal, integrationist model that seeks long-term development through free trade and economic openness. As earlier turning points show, it is the contest between these logics that sets reconstruction paths and determines long-run outcomes.

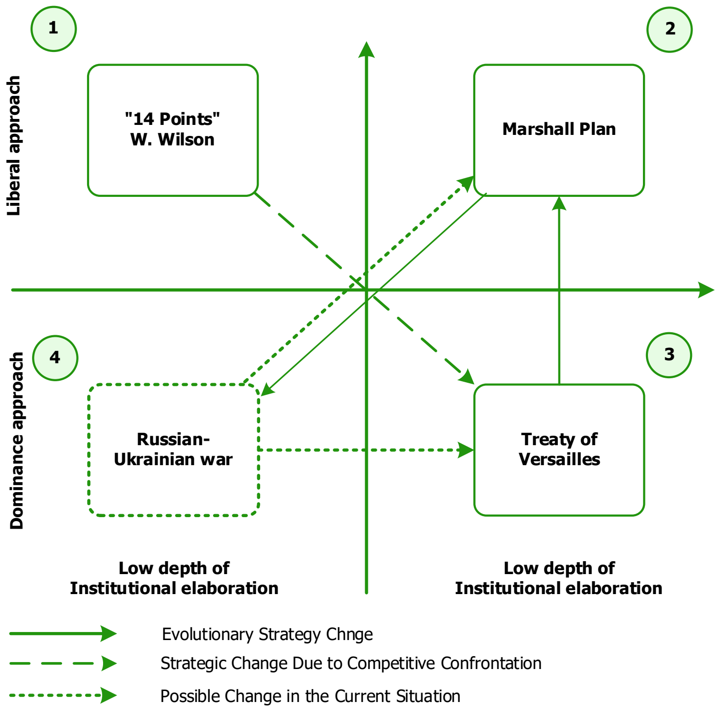

Figure 3. Causal-dynamic model of evolution and competition of post-conflict economic reconstruction strategies.

The next section examines the historical episodes. For Europe's two post-war episodes, the framework yields a sharp contrast. After both World Wars, the European victors tended to favor dominance-oriented arrangements designed to sap the loser's strength. After World War I, Britain and France imposed heavy reparations and resource transfers on Germany; although the United States tried to moderate these demands, the Versailles settlement's reparations focus helped set in motion the crisis that culminated in World War II. Yet Washington's liberal orientation was visible early on in Wilson's "Fourteen Points" (1918), which framed peace around global economic integration via lower barriers and free trade-an idealistic program lacking precise quantification but pioneering in its integrationist logic. During the Versailles talks, the U.S. opposed charging Allied military outlays to Germany and sought to temper territorial claims, signaling a liberal stance even within a reparations-driven context. After World War II, by contrast, the United States convinced its allies to abandon reparations in favor of a liberal template, underscoring the long-run shortcomings of the dominance approach. That template reached its fullest expression in the Marshall Plan, firmly rooted in Keynesian theory: it married state-led reconstruction to longer-horizon goals of market liberalization and trade openness, was institutionally backed at every level, and was executed not merely as principle but through coordinated economic measures with allied governments.

Building on the evidence above, we derive three implications for the Versailles settlement: The Versailles negotiations constituted the first major showdown between liberal and dominance-oriented logics of post-conflict reconstruction and a pivotal turning point in the formation of international economic policy. In the absence of a well-developed theoretical foundation and practical instruments, the liberal template gave way to a program centered on reparations and sanctions, a trajectory that bred instability, fueled social unrest, and planted the seeds of subsequent conflicts. The first major fork in the road set two European reconstruction templates against one another-the liberal line associated with Wilson's "Fourteen Points" and the dominance-oriented settlement embedded in the Versailles Treaty.

Wilson's vision, mapped to Quadrant 1 in the proposed framework, rested on idealistic premises and lacked a worked-out theory of post-conflict rebuilding. In the absence of robust economic underpinnings, it was overtaken by the reparations-centered dominance strategy, shifting the trajectory to Quadrant 3 (Figure 3). The Versailles configuration propagated systemic instability: the reparations burden, Germany's industrial breakdown, and ensuing financial shocks fueled radicalization and revanchism, culminating in World War II. These failures prompted economists such as J. M. Keynes to argue for active state intervention, laying the groundwork for a new recovery model, depicted as a move from Quadrant 3 to Quadrant 2.

At the transmission level, the interwar contraction propagated via tariff retaliation and collapsing export demand. In combination, American isolationism and tariff escalation, interacting with Europe's reparations-centered reconstruction, were major contributors to the crisis that set the stage for the Great Depression. A more active U.S. commitment to a liberal reconstruction agenda might have reduced its severity.

These interpretations are consistent with accounts linking reparations and trade frictions to interwar instability (Keynes, 1920; Irwin, 1996) and with work emphasizing integrationist recovery dynamics after 1948 (Kindleberger, 1947; Tschirgi, 2004; Trachtenberg, 1999). They differ from views that ascribe outcomes primarily to security politics; such differences likely reflect scope (Europe-centric versus global), periodization, and methodological emphasis (macro-fiscal indicators versus diplomatic narrative).

The second turning point unfolded along a different route. Drawing lessons from Versailles, Washington advanced the Marshall Plan, marrying Keynesian macroeconomics to its strategic aims. Unlike the Versailles template, the program prioritized patient, long-horizon investment in Europe's productive capacity to secure sustained growth. Its high degree of institutional development places it in Quadrant 2, a liberal approach grounded in rigorous economic calculation. That design accounts for the strategy's success, its durable global effects, and the consolidation of U.S. leadership in the Western bloc.

The Marshall Plan embodied high institutional elaboration: its architects anchored the program in Keynesian macroeconomics and careful long-horizon benefit calculations for both Europe and the U.S. Combining liberal integration with analytic rigor and political flexibility, they persuaded allies to abandon the reparations logic and laid the foundations for sustained growth.

Subsequent reassessments underscore the same point. A vast literature has examined the Marshall Plan, and commentators converge on a broad, multi-pronged appraisal that captures both its weight and its historical irony. In 1977, U.S. statesman Henry Cabot Lodge Jr. portrayed the Plan's achievements as wide-ranging (Wilson, 1977): it laid the foundation for Europe's recovery, helped avert a reprise of the 1930s crisis, brought Germany and Italy back into the Western community, and set Europe on a trajectory toward regional integration that ultimately produced the Common Market. For the first time, a peaceful transatlantic community began to take shape. The irony is that these reflections came from the great-

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grandson of Henry Cabot Lodge, who had opposed the Treaty of Versailles and U.S. entry into the League of Nations. This evolving reading mirrors a broader doctrinal shift in the United States, from the isolationism of the post-World War I era to active engagement in global stability after 1945. While the former stance fed economic crises and fresh conflicts, the latter fostered peace and prosperity, signaling a growing recognition that U.S. prosperity is bound up with international stability.

Why did a mid-century configuration anchored in Quadrant 2 give way to today's dominance-tilted, weakly institutionalized pattern? In the first two turning points, liberal designs enjoyed political backing because they served the imperative of containing communism. With the Cold War's end, that rationale fell away, and a preference for economic predominance reasserted itself, amplified by leader-driven, discretionary choices in Washington. The result was a shift from structured, rule-based programs to improvised, short-horizon fixes, depicted by the dashed arrow from Quadrant 2 to Quadrant 4.

The present moment shows a drift back toward personalized, ad hoc decision-making. Plans for Europe's and Ukraine's post-war recovery have yet to be translated into durable institutions, heightening the risk of improvisation. Commentators characterize Donald Trump's discourse as populist-heavy on attacks against opponents and thin on coherent strategic blueprints (VandeHei et al., 2024). Comparative assessments of presidential rhetoric reach a similar verdict: relative to predecessors, Trump's speeches display limited analytic scaffolding and scant economic reasoning (Lamont et al., 2017).

Today, the system sits in Quadrant 4: a control-first stance resting on thin institutional scaffolding. Two contemporary illustrations of Quadrant-4 dynamics are trade policy and the approach to multilateral cooperation. Viewed against earlier liberal episodes, recent U.S. choices read as more control-driven than integrationist. In early 2025, presidential directives levied tariffs of 25% on imports from Canada and Mexico, 20% on selected EU goods, and up to 145% on Chinese products-an approach that reprises the Smoot-Hawley logic of 1930, elevating barriers, disrupting cross-border trade, and heightening downturn risks. Consistent with this interpretation, survey evidence attributes order weakness to tariff uncertainty, with respondents linking the pullback to tariffs on imports from Canada, Mexico, and China (Zeiger, 2025). Another echo of earlier eras is Washington's turn inward, reminiscent of its retreat from international engagement after World War I. In 2025, this is reflected in the U.S. decision to leave the Paris Climate Agreement, signaling a thinner commitment to multilateral cooperation. This stance contrasts with the late-1940s approach, when integration was a cornerstone of U.S. strategy under the Marshall Plan.

Unlike the Versailles configuration (Quadrant 3), there is no coherent, end-to-end blueprint for Europe's and Ukraine's post-war rebuilding. In place of comprehensive planning, familiar features of a reparation's logic reappear-compensation claims tied to Ukrainian resources, a tilt toward higher trade barriers, and slackening coordination among allies. Together, these signs point to short-horizon priorities and day-to-day political considerations, repeating the missteps associated with Versailles.

To avoid ambiguity, in this article, "reparations logic" denotes post-war settlement designs that build reconstruction finance around extraction or restrictive terms. This use should not be conflated with European proposals sometimes described as "reparations-linked" lending backed by immobilised Russian sovereign (central-bank) assets, which function as wartime bridge financing to sustain Ukraine's fiscal viability during active hostilities and therefore lie outside the scope of the post-war reconstruction strategies examined here.

This discussion has some limits. First, it relies on historical, descriptive evidence; it does not identify causal relationships. Second, sources and measures differ across periods, so comparisons are not exact. Third, short-run indicators (e.g., PMI) track sentiment and may not move in line with real activity. Finally, how far these patterns hold outside the European-Atlantic setting is unclear. Durable reconstruction appears to require an integration-first strategy and strong, well-designed institutions. Models that stress short-term control with weak institutions tend to deliver weaker and less stable results.

CONCLUSIONS

This study shows that post-conflict recovery is determined not only by political choices but by the quality of the financing architecture that connects external resources with domestic investment and credit. Two drivers are decisive for strategy selection and performance: the scale of wartime damage and rivalry among principal actors. These drivers shape whether reconstruction follows (a) a control/extraction logic that prioritizes short-term transfers and restrictions or (b) an integration/investment logic oriented toward capital formation, trade normalization, and predictable multi-year funding.

The main finance-centered result is that outcomes hinge on institutional depth — credible economic rationale, enforceable commitments, and coordination capacity aligning fiscal policy, external financing, and the domestic financial system. Where design is weak, funding becomes fragmented and short-horizon, increasing debt vulnerabilities, external payment pressures, and financial-sector risks, and weakening the transmission from inflows to productive investment. Where design is strong, integration-oriented arrangements are more likely to support fiscal sustainability, stable access to external finance, and banking-sector intermediation that crowds in private capital.

Applied to Europe and Ukraine after the Russian–Ukrainian war, the framework points to two scenarios. A control-oriented path built around compensation-style claims and tighter barriers is more likely to raise risk premia and suppress investment, reinforcing macro-financial fragility. An integration-oriented path based on coordinated multi-year financing and effective risk-sharing instruments (e.g., guarantees and insurance) is more consistent with restoring credit and investment and sustaining long-run growth. Further work should operationalize the framework with measurable indicators of financing-architecture quality, test how alternative mixes of grants, concessional loans, guarantees, and insurance affect sovereign and banking risks, and develop applied monitoring tools that provide early warnings of fragmentation and rising macro-financial stress.

To further extend this agenda, future studies include event studies around tariff and sanction shocks; sector-level studies on how the mix of aid and institutional strength matters; analyses with regional data to see how paths differ within countries; and cross-country work in emerging Europe to compare with the post-1948 experience.

Future outcomes will be shaped by the choices of the principal actors. One pathway is a codified control model: Europe shoulders reconstruction on its own, while Ukraine offsets U.S. assistance through transfers of resources and infrastructure access. That course would reprise the interwar pattern, with attendant risks of instability, mounting tensions, and renewed conflict, nudging the system back to Quadrant 3. Alternatively, a strategic pivot by the United States or Europe toward a Marshall Plan-style framework remains possible. Recognizing the long-run hazards of dominance strategies is essential, as history shows they frequently incubate crises and conflict. Only institutionally grounded liberal approaches-built on cooperation, investment, and growth-offer a durable basis for economic stability.

ADDITIONAL INFORMATION

AUTHOR CONTRIBUTIONS

All authors have contributed equally.

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ФІНАНСОВІ СТРАТЕГІЇ ПОВОЄННОГО ВІДНОВЛЕННЯ УКРАЇНИ ТА ЄВРОПИ

Постконфліктне відновлення є викликом для фінансово-кредитної політики: уряди мають мобілізувати значні ресурси для відбудови, зберігаючи фіскальну стійкість, рівновагу зовнішніх рахунків і фінансову стабільність. У роботі досліджено чинники, що визначають вибір стратегій відновлення та їхні результати з акцентом на тому, як стратегічні пріоритети ключових акторів узгоджуються з економічними й фінансовими інструментами, які вони застосовують. Мета полягає у визначенні умов, за яких відновлення є результативним, а також у виявленні ризиків, що виникають у разі вибору невідповідних стратегій. Спираючись на порівняльні дані ключових випадків повоєнних урегулювань, дослідження виокремлює два узагальнені підходи: (i) домінаційно-орієнтований, що ґрунтується на репараційній логіці вимог, механізмах компенсації та обмежувальних торговельних і розрахункових домовленостях; та (ii) інтеграційно-інвестиційний, що передбачає скоординоване багаторічне фінансування, нормалізацію торгівлі, інструменти розподілу ризиків та інституційне будівництво, яке підтримує кредитне посередництво й формування приватного капіталу. Основні результати свідчать, що вирішальними детермінантами вибору стратегії та її результативності є два чинники: масштаб воєнних руйнувань і суперництво між ключовими акторами. Водночас остаточні результати визначаються глибиною інституційного проєктування, що лежить в основі архітектури фінансування: наявністю переконливого економічного обґрунтування, неухильного дотримання зобов'язань і спроможності до координації на довгостроковому горизонті. Запропоновано причиново-динамічну рамку для відображення переходів між підходами за цих умов і для формування сценаріїв відновлення Європи та України після російсько-української війни. Головний висновок полягає в тому, що дрейф у бік слабко інституціоналізованої, домінаційно-орієнтованої конфігурації підвищує боргову вразливість і ризики нестабільності, водночас інституційно стійка інтеграційно-орієнтована програма з передбачуваним фінансуванням і дієвими механізмами розподілу ризиків із більшою ймовірністю забезпечує стале відновлення, інвестиції та тривалий мир.

Ключові слова: фінансування відновлення, постконфліктне відновлення, донорське фінансування, міжнародне кредитування й борг, репарації, економічна інтеграція, інституційна глибина, міжнародні потоки капіталу

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