

OECD Historical Series

Explorations in OEEC History

Edited by Richard T. Griffiths



OECD HISTORICAL SERIES

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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A LA DÉCOUVERTE DE L'OECE

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FOREWORD

Explorations in OEEC History is published in conjunction with the 50th Anniversary celebration of the speech by United States Secretary of State, George C. Marshall. The speech, given at Harvard University on 5 June 1947 initiated the post-World War II European Recovery Plan or the Marshall Plan as it is frequently known. In his speech (see Annex 1), Marshall stated that:

> ''there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government. 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. ... The program should be a joint one, agreed to by a number, if not all European nations.''

As a result of the meetings of the Conference for European Economic Co-operation and the work of a team of committees between July 1947 and April 1948, sixteen European countries drew up the required analyses. They also reached the conclusion that a continuing body was needed to carry out the work of European reconstruction. The body created was the Organisation for European Economic Co-operation which, in 1961, was transformed into the Organisation for Economic Co-operation and Development.

Overseen by Professor Richard T. Griffiths, then director of research projects at the European University Institute in Florence, Italy and now at Leiden University in the Netherlands, *Explorations in OEEC History* reviews and analyses the primary research and available archives on the Marshall Plan and the OEEC. The core of this volume is an account of the creation of the OEEC and its work, its transformations and its successes and shortcomings in the Marshall Plan phase and in the wider context of European economic policies. Carrying out its mandates, the OEEC contributed to the development of industry, agriculture, energy and technology as well as to productivity, trade liberalisation and currency convertibility in Europe.

A particular strength of this volume is the multinational, multi-archival approach that allows the internal and foreign policies of individual states to be understood in the context of the internal struggles of an international organisation. Because these essays analyse the work of the OEEC under several main themes they help to understand the sometimes complex and convoluted relationships between competing visions and values.

This work is published in the hope that it contributes to discussions on the history of European reconstruction and on models of co-operation favouring economic development, trade liberalisation and integration in the world economy. It will also provide better background for understanding whether and to what degree the mechanisms and works of the Marshall Plan and of the OEEC are relevant to the issues faced by today's economies in transition.

The opinions expressed and arguments employed in this publication are the sole responsibility of the authors and do not necessarily reflect those of the OECD nor of the governments of its Member countries. This work is published on the responsibility of the Secretary-General of the OECD.

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PREFACE

In December 1991 the Council of the OECD decided to release the papers of the OEEC for historical research and to deposit them at the Historical Archives of the European Communities in Florence. Less than a year later the first deposit was made and the archives could be officially opened. To celebrate this event, on 16 November 1992, the European University Institute (EUI) organised a small conference on the history of the OEEC, which was attended by the Secretary-General of the OECD, Mr. Jean-Claude Paye, and several ambassadors to the Organisation.

Together with an introductory article, the papers presented at that conference form the backbone of the current volume and have become chapters 2, 9, 14 and 18. Especially among the researchers working on postwar history at the EUI, the opening of the OEEC archives was an occasion for great excitement. Many of them had already worked on topics relating to this history. They suggested that the usefulness of the volume would be enhanced if they could add shorter ''case studies'' based upon their research. These contributions make up the remainder of the volume.

I would like to thank the administration of the OECD, in particular Mr. Lucien Dantin, Mr. W.J. (Jock) More, Mr. Thomas Weir, Mr. David Doyle, Ms. Sy1via Thompson, and Mr. Bernard Colas for their generous and unstinting help in preparing the archives for release, in arranging the opening conference, and in facilitating the publication of this book. I would also like to record my appreciation to all the staff of the historical archives of the European Communities, and, in particular, the director Mr. Jean-Marie Palayret. Finally, I would like to thank Ms. Susan Baines for her general assistance in editing and preparing the book for publication.

Richard T. Griffiths
July 1993
EUI, Florence

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LIST OF ACRONYMS

BICO	Bipartite Control Office (United Kingdom and United States in Germany)
BLEU	Belgian-Luxembourg Economic Union
CEEC	Conference for European Economic Co-operation
CEMT	Conference of European Ministers of Transport
CTCA	Committee for Technical Co-operation and Assistance in Africa South of the Sahara
DAC	Development Assistance Committee of OECD (superseded the DAG)
DAG	Development Assistance Group of the OEEC (superseded by the DAC)
ECA	Economic Co-operation Administration (United States Department of State)
ECSC	European Steel and Coal Community
ECE	Economic Commission for Europe
EDC	European Defence Community
EEC	European Economic Community
EFTA	European Free Trade Association
EMA	European Monetary Arrangement
EPA	European Productivity Agency
EPC	European Political Community
EPC	Economic Policy Committee (OEEC)
EPTA	Expanded Programme for Technical Assistance (United Nations)
EPU	European Payments Union
ERP	European Recovery Programme (The Marshall Plan)
FOA	Foreign Operations Administration (United States)
FTA	(European) Free Trade Area
FTZ	(European) Free Trade Zone
GATT	General Agreement on Tariffs and Trade
HA	High Authority of the European Coal and Steel Commission
IMF	International Monetary Fund
ITO	International Trade Organisation
MAC	Mutual Aid Committee (United Kingdom)
MAD	Mutual Aid Division (United Kingdom)
MDAA	Mutual Defence Assistance Act
MSA	Mutual Security Agency (United States)

NAC	National Advisory Council on International Monetary and Financial Matters (United States)
NATO	North Atlantic Treaty Organisation
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
OMGUS	Office of Military Government of the United States (United States Zone in Germany, 1946-1949)
OSTP	Office of Scientific and Technical Personnel (OEEC)
OTC	Oversees Territories Committee of the (OEEC)
PRA	Productivity and Applied Research Committee
SUNFED	Special United Nations Fund for Economic Development

Chapter I

EXPLORING THE OEEC'S PAST: THE POTENTIALS AND THE SOURCES

Wendy Asbeek Brusse and Richard T. Griffiths

Any researcher interested in the role of the Organisation for European Economic Co-operation (OEEC) in European history will inevitably be struck by the scarcity of publications. The OEEC's functioning as an organisation has rarely been examined in depth by ''unofficial'' (*i.e.* non-OEEC) authors, and its general economic activities have seldom received more than a superficial treatment. The only exception lies in its role in the European Recovery Programme (ERP), an initiative launched in the summer of 1947 and widely known as ''Marshall Aid''. The OEEC was created to administer this American aid, and it is in this context that it has received most attention from contemporary observers and historians alike. A pioneering work in this genre is H. Price's traditional study of 1955, which was commissioned by Governmental Affairs Institute and based on the records available at that time. It discusses what the author considered the main accomplishments of ERP and OEEC, such as saving Western and Southern Europe from economic and political (communist!) disaster and contributing to the unprecedented economic growth of the 1950s. Illustrative for the Cold War climate of that period is Price's conclusion that the Marshall Plan's main, unfinished task consisted of ''containing'' the communist forces in underdeveloped areas.[1]

Not suprisingly, for a long time, the extensive literature on ERP has been dominated by the debate between traditionalists, revisionists and post-revisionists that is so characteristic of historical literature on the Cold War era.[2] The revisionist interpretation of ERP that emerged in the late 1960s and 1970s tended to highlight the strategic and political motives behind the American government's hegemonic, ''imperialist'' operations in Western Europe.[3] It argued that Marshall's offer to Eastern European countries and the conditions formulated in ERP were part of a tactical device aimed at shifting the blame for the division of Europe to the Soviet Union. By the 1980s, however, a ''post-revisionist'' consensus developed among historians and political scientists who had begun researching the postwar period on the basis of newly released governmental policy documents. They stressed that American political leaders had goals other than communist containment, and that they were genuinely concerned with Europe's economic integration and growth by promoting a rise in productivity and efficiency.[4] Rather than

singlehandedly imposing their programme on the European nations, American planners lacked both the consistent, carefully formulated ''master plan'' and the power or will to dictate to the Europeans.

The post-revisionist reinterpretations that emerged as a result of new, archival research have tended to shift the balance to the economic and domestic political background of ERP and OEEC.[5] For example, Immanual Wexler, in examining the economic context and impact of ERP, has argued that it was a successful undertaking because it fulfilled most of the objectives of planners in the Economic Co-operation Administration (ECA). It contributed to a sharp rise in European production, investment and trade. Two other objectives, internal financial stability and European economic integration, fared less well, but Wexler concludes that these were ''with hindsight (...) unrealistic over such a short period of time''.[6]

Wexler's study has triggered off a lively debate on the effectiveness of ERP. In 1984, Alan Milward published a widely researched, archival based study called *The Reconstruction of Western Europe, 1945-1951,* in which he rejected the generally accepted view among historians that dollar aid saved Europe from economic collapse. At the risk of some oversimplification, his arguments can be summarised as follows. Firstly, contrary to what the Americans claimed, there was no real threat of economic collapse since European industrial production had already reached prewar levels by the time ERP was implemented. Secondly, if the Europeans would have cut back on dollar imports for industrial requirements, reduced per capita food consumption to a necessary minimum and used these savings to finance their massive food imports, they could have survived without American aid.[7] Industrial recovery would have slowed down but the European economies would certainly not have collapsed. There were only two exceptions to this rule; the Netherlands and France. These countries needed such massive food imports that no reallocation of investment would have been able to finance their food requirements without causing the complete stagnation of industrial production.

Milward's main critics are Michael J. Hogan and Charles P. Kindleberger. They argue that his counterfactual model leads to ahistorical and absurd conclusions. The Americans, they argue, began their planning for Marshall aid during the bad harvest of 1947, when everything still pointed to economic collapse by the end of the year. How could they have foreseen a continuation of the investment boom? More importantly, Milward's counterfactual scenario of reducing food consumption to ''survival levels'' would have been socially and politically unfeasible. With memories of wartime deprivation still fresh, the Europeans would not have accepted such measures from any government.

A survey of the latest publications indicates that the debate on Europe's needs for Marshall Aid has by no means ended. Inspired by Milward's counterfactual approach, Italian, German, British and Dutch historians have tried to reach definitive conclusions for their ''own'' countries by detailed analyses of material from their national archives. Very gradually, as still more archival material from the late 1950s is being released, some of these authors are also shifting attention to the period after Marshall Aid and beginning to highlight the role of their countries within the OEEC's Trade Liberalisation Programme, the EPU and the EPA. Nonetheless, over 70 per cent of the historical studies

still begin and end in the Marshall Aid period (1947-1952) and there is not much evidence that this is going to alter significantly in the next few years, if only because of the superficial attractiveness of ERP as a policy option for the current problems of East and Central Europe and the ex-Soviet Union.

In looking at the remaining 20 per cent of this literature, we can see only a handful of publications examining the OEEC's contributions to trade liberalisation. Although written as early as 1951, William Diebold's *Trade and Payments* is still exceptional in looking beyond ERP, towards the Organisation's role in the wider context of European economic integration. Other, both old and new studies, only briefly glance at this and tend to underplay the OEEC's role in European economic and political life. To a large extent, this eclipse of the OEEC is the result of an old propaganda war with those who saw European co-operation in terms of the future *political* shape of Europe, and integration as a path or means towards European federalism. Hence, contemporary authors writing in the 1950s have highlighted and often glorified a small, visionary – and clearly visible – elite of European top politicians who considered supranationalism the sole answer to Europe's political and economic problems. Their ''explanations'' of the historical process of integration usually start with the plans for closer economic co-operation developed during the Second World War, continue from there with the failed attempts, in 1947 and 1948, to create a customs union between the Marshall Plan countries and, having missed out other (OEEC) efforts in between, end with the success stories of the ECSC and the EEC. Consequently, for the period after 1950 there is much more literature on the integrative experiments within the ECSC, the EDC, EEC and Euratom than there is on the OEEC's efforts.[8] Many an interested student of European economic co-operation can therefore be forgiven for concluding that ''real'' progress towards economic co-operation and integration was only made by the Six, while the OEEC watched helplessly on the side-lines.

With the opening up of national governmental archives of the 1950s, this elitist, propagandist approach had to give way to reinterpretations of the drives towards European co-operation in which other frameworks than those of the Six have received attention. Yet the few new studies that also deal with the OEEC have not redressed the balance towards a more realistic view of the organisation. Significantly, the best known archival study, Milward's *Reconstruction of Western Europe*, also stresses the OEEC's ''depoliticization'' and ''collapse'' by 1949.[9] It argues that the American failure to turn the OEEC into an early prototype of a western federal government, as well as the British refusal to accept majority voting by the Council, marked the end of its prominent role in European economic reconstruction and integration. Therefore the book pays no attention to the OEEC's achievements in the field of trade liberalisation, productivity, promotion or currency convertibility.

As we have seen earlier, those authors who do stress these contributions are often former civil servants of the OEEC and ECA or former national delegates to the Organisation.[10] Lord Franks, for instance, has rightly remarked that while the OEEC's Convention was ''...broadly on the lines of the British rather than the French model: it was inter-governmental in character and decisions were reached by agreement'', it did develop into an influential body, ''a ministerial conference in permanent session'' with its own identity. Similarly, Sir Eric Roll has argued that the OEEC succeeded in building up

a climate of common responsibility among European governments. Its consultation and permanent co-operation procedures ''...resulted in a real limitation of national sovereignty in economic matters.''[11] While such judgements might be valid, they are not based on systematic, verifiable evidence or analysis and remain within the realms of speculation and assertion. They will only enter the mainstream historical literature if they are fully documented and based on the latest archival material.

* * *

The development after 1945 of modern governmental bureaucracies has contributed to an ever increasing wealth of paper and policy documents from which historians may reconstruct their stories. Most OECD governments allow policy documents to be released for research after thirty years, which means that it is now possible to write a historical study on the entire period of the OEEC's existence based on all the relevant governmental archives. The efficient use of these sources requires a good knowledge of the complexities of these governmental structures and of the various processes of national and international decision making. It also calls for a systematic research method. Our experience suggests that a hierarchical method, starting at the top levels of the decision making pyramid, is most effective for a systematic study of large policy archives. This approach will therefore be taken as a guideline throughout the description of the relevant European archives.

The governmental records discussed in detail below are limited to those of France, Germany, the Netherlands, the United Kingdom and the United States.[12] Some choice was necessary for reasons of space, and their selection was decided by consideration of the states' importance to OEEC history and of the openness of the archives. There will follow a brief, and far from exhaustive, survey of the state of other Western European archives. However, we will start with an overview of the contents of the OECD's own historical archives.

The OECD's historical archives have been reconstituted over the last years from paper material preserved in the Organisation's numerous holding areas and from documentation held by the Organisation's ex-officials. The core of the archive is the extensive set of coded documents on microfilm. These archives have been transferred to the Historical Archives of the European Community which form part of the European University Institute in Florence. There they will join not only the archives of the European Coal and Steel Community, of the European Economic Community and EURATOM but also such other international collections as the archives of the European Space Agency, the Union of European Federalists and the European Movement.

The political steering of the OEEC took place through the Council and the Executive Committee. The Council met on 506 occasions between 1948 and 1961 and the Executive Committee on 433 occasions. A complete paper set of the minutes of both is available. All the coded documents relating to these meetings are on microfilm. The Council generated 4 118 documents of this nature and the Executive Committee a further 1 081 documents. All of this documentation is central to the OEEC's history and would need careful scrutiny.

Excluding the above, the remaining coded documents relate to the work conducted in the various OEEC committees and sub-committees. Some of these are central to the OEEC's work while many others are not immediately relevant since they deal with problems of a highly technical nature. Altogether we have identified 40 000 separate documents in this microfilm collection, which include both meetings and discussion papers.

A third set of documents contains the OEEC's working archives, which are available in their original form. As will become apparent, their coverage is somewhat patchy and will in some places overlap with the collection of coded documents described above. The largest and best ordered part of these archives refers to the European Payments Union (EPU) and the European Monetary Arrangement (EMA). Some of this material formed the basis of the volume on the history of the EPU published by Kaplan and Schleiminger in 1989.[13] It contains coded documents of the Council and various lower-level Committees, while it also gives a good reflection of the work of the OEEC's Secretariat in this field. Qualitatively, we would rate this collection very highly. Its total size is 8 metres. In terms of size, the second largest collection is that on trade issues. However, most of this material comprises coded documents from the Trade Committee; original material of the Secretariat is relatively scarce. This collection requires declassification before it will be released. An exceedingly high-quality series of files deals with the negotiations for the Free Trade Zone and its aftermath which provide a unique opportunity to follow the evolution of thinking within the top of the OEEC towards events as they unravel and the development of a policy response. Apart from these larger collections, there are files dealing with the bilateral associations of individual countries with the OEEC and on the organisational structures. These provide useful information at an administrative level but they clearly need to be supplemented by material from other sources.

The National Archives and Records Administration (NARA) in Washington is the main depository for the papers of the US central government administration. That being said, the fact remains that many archive collections necessary for OEEC study have not yet – and perhaps may never be – deposited with the NARA. As a result the records of the entire top of the policy making structure on European affairs have to be reconstructed from papers that are deposited in various different places. For example, much of the decision making process can only be reconstructed by use of the presidential papers from the Truman Library in Independence (Missouri) and from the Eisenhower papers in Abelaine (Kansas). And although Secretary of State Dean Acheson's office papers are in the NARA, those of John Foster Dulles are in the Princeton University Library. This practice of creating private libraries for large archival sections is fairly common in the United States.

A second drawback to the NARA collections is that two major departments which one would expect to have been centrally concerned with OEEC activities have still to deposit the major part of their archive collections. This concerns the records of the United States Treasury, and of the Commerce Department. Permission to consult these has to be sought separately and, at the time of writing, we were unable to make a proper assessment of the material contained therein. Nonetheless, the material in the NARA provides a vital component for any historical study.

By far the most important part of the NARA collection are the records of the US foreign assistance agencies, 1948-61 (Record Group 469). These centralise all the material prepared for the distribution of US civil and military assistance and all the intelligence gathered through the ECA's Office of the Special Representative in Paris and its missions in the ERP countries. It gives a uniquely detailed overview not only of American policy preparations but also of the economic, security and political situation throughout OEEC Europe. These records, comprising some 900 boxes, appear to be reasonably complete and of very high quality. In addition, the collection contains a master file of official OEEC documents assembled by the ECA and later the Foreign Operations Administration (Inventory No. 340).[14]

The other major collection are the records of the State Department (Record Group 59). Within this, the most voluminous series are the ''correspondence files'', which are broadly synonymous with the diplomatic files in European foreign office archives. The collections are formed on the basis of country and subject codes and are grouped in clusters of five years (*i.e.* 1944-49, 1950-54, 1955-59). There is no way of estimating the total volume of the portions of these archives.[15] The largest single section, that referring to Marshall Aid in the sub-period 1945-49 (840.50 RECOVERY), is itself 50 boxes. Other sections are probably much smaller. It is important to note that, at the time of writing, the documents released cover the period up to 1959 only. Within the State Department there exists also a collection of ''lot files''. These were assembled on an *ad hoc* basis by individual civil servants or sub-sections of the Administration. The most important of these are the records of Dean Acheson, 1944-1953 (5 metres), the General Records of the Office of the Executive Secretariat, 1944-1954 (10 metres) and the Records of the Policy Planning Staff, 1947-1956 (3 metres).

The entire collection of **British central government files** are housed in one building, the Public Record Office (PRO) in Kew, London. In general, records are open in accordance with the 30-year rule. There are some withholdings but these seem connected mainly with military matters. Starting again with the top level in the policy process, the Cabinet, there are three separate layers, each of which are recorded in minutes and discussion documents: the full Cabinet, the general ministerial committees and issue-related Cabinet committees.

At the weekly meetings of the Cabinet all ministers were present to discuss all aspects of governmental policy. Therefore, OEEC issues covered only a small part of Cabinet's work. The full Cabinet records consist of 20 volumes of minutes and 89 volumes of papers and are on open shelves in the reading room. At the second layer of Cabinet, we find the general ministerial committees with a more limited range of participants and fields of discussion that still held decision making powers. For our purposes, the most important is the Economic Policy Committee (EPC, 1947-1960), the records of which amount to 53 volumes of minutes and papers. Its work was supported at the civil service level by the Committee on Economic Development (until 1950) and the Economic Steering Committee. Their records amount to some 40 volumes. However, it is the third layer of discussion, that of issue related Cabinet committees, that the most valuable material can be found, since several of these were exclusively devoted to OEEC matters. Therefore, these will be discussed in greater detail.

Cabinet prepared its response to the offer of Marshall Aid by setting up an *ad hoc* European Economic Co-operation Committee. Until 1951, it held over 300 meetings and discussed 1 200 papers. Its subcommittees also generated 15 files of material. Already in 1950, however, its work was largely subsumed by the Mutual Aid Committee (MAC). Between 1950 and 1960, MAC held 335 meetings and discussed some 1 500 papers, while the sub-committees that it generated produced another 58 files of documentation. In 1955, in response to the Messina initiative, the Economic Steering Committee established a sub-committee on closer association with Europe. It prepared the British policy towards the Common Market and its subsequent response, through the failure of the wider European Free Trade Zone to the creation of EFTA. The records of this sub-committee contain about 10 files.

These three layers of cabinet discussion together give the decision making at the top level. They enable us to follow all the significant input into the discussion and provide the same type of background information as was considered necessary for the officials preparing the policies themselves. More detailed material being generated upwards from the departments can be found in the files of the Treasury – the department directly responsible for executing British policy in these fields – the Foreign Office and, to a much lesser extent, the Board of Trade.

Almost all Treasury material concerning the OEEC in the widest sense was dealt with by four divisions. The first one is the European Economic Co-operation Division, whose work was largely confined to the period 1947-1950 with some spill-over into the mid-1950s. It has 440 files (almost all concerned with UK policy towards the OEEC). Its work was taken over in 1950 by the Mutual Aid Division (MAD) and then in 1956 transferred to the Home and Overseas Planning Division (HOPS). More than half of the MAD files are closed for security reasons, or so it seems, but HOPS' major collection gives another 110 files dealing with the wider Free Trade Area, the reorganisation of the OEEC in 1959 and scientific co-operation within the OEEC. Although these latter two divisions represent the thrust of Treasury policy making, their contribution is limited to partial, although important, elements of the OEEC story. The continuation of the mass documentation of the European Economic Co-operation Division is held in the Overseas Finance Division (Marshall Aid). It produced 350 files of a very detailed nature.

Like the Treasury, the Foreign Office had several departments that were involved in day-to-day policy making on OEEC matters: the Economic Intelligence Department, the Economic Relations Department, the Western Department and the European Recovery Department. The latter department was created in 1950 and one year later transformed into the Mutual Aid Department. This provides the largest source of OEEC documents because it formed two sub-sections of civil servants who specialised in OEEC and EPU affairs. MAD continued to function until 1960, when it was replaced by the European Economic Organisations Department.

Finally, as far as the Board of Trade archives are concerned, only the files of the Commercial Relations and Exports Division offer useful information on British governmental policy towards the Organisation. These files, which are described in some detail in the PRO's reference books, provide both official OEEC material and minutes, memoranda and correspondence from departmental officials. A preliminary estimate suggests

they total some 120 files. However, in view of the vast amount of OEEC material available at the higher levels of British decision making, Board of Trade files should have a lower priority in any research strategy.

The German *Bundesarchiv* in Koblenz (BA), deposit for the large majority of central government files, also adopts a thirty year rule for the consultation of documents. For several reasons, it is now one of the most important European sources for historical research into the OEEC. First, the BA has a large microfilm collection of files of the central Offices of the Military Government of the United States in Germany (OMGUS) and the Bipartite Control Office (BICO). These microfilms were supplied by the National Archives in Washington (from its Record Group 260). They contain a complete set of official documents from the period 1947-1949 relating to the implementation of the ERP in Germany, to the CEEC and to the activities of the OEEC in that period.[16] These provide the most complete European source of ERP and OEEC documents dating from the period 1947-1949.[17] Second, the former Federal Republic of Germany created a separate ministry for Marshall Plan affairs that built up an impressive archive related to ERP and OEEC. This archival material has been deposited in the BA and made easily accessible through a detailed inventory of the documents. Finally, West Germany's role in the reconstruction and growth of postwar European economies was pivotal. Whether it concerned the Marshall Plan, trade liberalisation, transport issues or convertibility, the German Ministry of Economic Affairs was usually among the first to be informed of the latest developments or initiatives within the OEEC. In addition, throughout the 1950s it played an active part in bridging the gap between British and French aspirations for European co-operation. This key role is reflected both in the quality and quantity of its archives.

The archives of the Chancellor's *Bundeskanzleramt* are the source for cabinet papers and written minutes of cabinet meetings. Unfortunately, it is at this high level of the German decision making process that the thirty-year rule is abandoned; only after a committee of historians has classified and published a selection of the Cabinet papers and minutes are other researchers allowed access.[18] However, it is unlikely to cause too many problems, since most of the papers that actually reached Cabinet can also be found in the files of the Ministry of Economic Affairs and the Ministry of the Marshall Plan.

In 1949, the German government created a separate Marshall Plan Ministry, the *Bundesministerium für den Marshall Plan*. At the height of power, its minister, Franz Blücher, directed a central department for economic co-operation with four sub-departments. In 1953, after the ending of ERP, it became the Ministry for European Co-operation (*Bundesministerium für europäische Zusammenarbeit*) and gradually lost influence on European (economic) affairs to the Ministry of Economic Affairs under Ludwig Erhard. The archives of the Marshall Plan Ministry consist of some 1 250 files. The first 225 files contain monthly, quarterly and annual progress reports to the ECA, statistics, status reports, import programmes and German delegation reports related to ERP matters. The following series of some 20 files is more varied, ranging from documents on the EPU, the trade liberalisation programme and the impact of ERP on Germany, to European integration and productivity growth. The remaining 950 files are equally diverse, but of particular interest because of their large collection of official OEEC documents from the period 1950-1958.

The German economics ministry, the *Bundesministerium für Wirtschaft*, has left such a large quantity of material from the period 1949-60 that its files are still being classified. There is still no official inventory of documents, but researchers can use a provisional draft that adopts fairly global, sometimes vague, descriptions of the files. Given this situation, it is particularly important to know the internal organisation of the economics ministry because this departmental structure is being used by the archivists as the main guideline for the classification of files. The ministry had six departments, some of which can be divided into 5 or 6 sub-departments. Each of these departments is likely to have dealt with some aspects of OEEC policy.[19]

Apart from ministerial archives, the BA also holds a collection of smaller archives with documents related to the ERP and the OEEC that should be mentioned. The archives of the *Länderrat des Vereinigten Wirtschaftsgebietes* covers the implementation of ERP in 1948/9. The *Gesellschaft zur Förderung des deutsch-amerikanischen Handels* (GFDAH) was created in June 1950 to promote exports to the dollar area and to finance dollar imports after the ending of ERP. From 1952 it played a role as intermediary in off-shore procurement and ceased to function in March 1959. It contains 521 files. Finally, the BA holds the private papers (the so-called *Nachlässe*) of Franz Blücher, Minister for the Marshall plan; Franz Etzel, energy matters; James K. Pollock, advisor to the US military government and the High Commissioner in Germany (1945-1950); Hermann Pünder, Chief director of the *Verwaltung für Wirtschaft*; and Fritz Schäffer, Minister of Finance.

In **France**, records can usually be made public after 30 years. This period can be extended to 60 years in the interests of privacy, state security or national defence, and to 100 years or more for certain statutorily defined categories of documents. These periods can be waived under certain circumstances. In practice, accessing sections of the archives may prove difficult even after 30 years, due to filing and indexing backlogs. In such cases, consultation will require the assistance of an archivist.

The *Archives Nationales* (national records office) keeps the records of central government departments on file, except for those of the Ministry of Foreign Affairs, Ministry of Defence and Ministry of the Economy, Finance and the Budget, which each have their own records service. These records are available for consultation at the national records registration office by any member of the public on presentation of an identity card.

Of the documents on file at the national records office in Paris, the main series likely to be of relevance to the history of the OEEC are: F10, agriculture; F12, trade and industry; F60, government secretariat and the Prime Minister's office (especially papers of the general secretariat to the interministerial committee on European economic co-operation, which was set up in 1948 in connection with the Marshall Plan); 80 to 82 AJ, *Commissariat général du Plan* (co-ordinating body for France's economic and social plan). The national records office also holds collections of politicians' private papers: for example, there are documents pertaining to the foundation the OEEC among the papers of Georges Bidault, reference 457 AP. National records office documents from 1958 onwards are held in Fontainebleau.

The records and documentation departments of the **Ministry of Foreign Affairs** keep ministry records on file. The ministry has a reading room at the Quai d'Orsay in Paris, which can seat approximately 50. The files of the Economic Co-operation Service are key documents in the history of the OEEC; some 50 of these files are directly relevant to the Organisation. These documents have only recently been made available for consultation by the public and have as yet been little used by historians.

Lastly, the records of the **Economy, Finance and Budget Ministry** are kept by the economic and finance records office in Paris (rue de Bercy). The records of the Treasury Department and the External Economic Relations Department contain valuable material on the history of international economic relations in general. The Treasury Department files include many documents relating to the Marshall Plan and United States aid to France after the Second World War. As these records are archived outside Paris, it can take a few days to retrieve them for consultation.

In **the Netherlands**, all archives have adopted a thirty year rule. In the Netherlands some chunks of the ministerial files are still kept in the buildings of the various ministries, unlike Germany and Britain, where almost all central government files have been transferred to one central archive. However, since these are all situated closely together in The Hague, this does not cause any practical problems. Below, we describe the relevant files of each ministry in order of importance in the decision making pyramid.

All cabinet minutes and most of the cabinet papers can be found in the central archives or *Algemeen Rijksarchief* (ARA), where they are deposited in chronological order.[20] For minutes older than thirty years, permission for consultation is given on the spot, but for the cabinet documents permission is required from each of the ministries of origin (for OEEC related research, this concerns the ministries of economic affairs, foreign affairs and finance).[21] The full Cabinet met on average once a week, while a special economic committee of Cabinet, comprising top civil servants as well as the most important ministers, usually met once every two or three weeks, depending on the agenda.[22] The minutes of both cabinet committees give a detailed, verbatim account of the meetings. They are extremely useful in obtaining a quick overview of OEEC issues under discussion at the higher echelons.

All the relevant archives of the ministry of economic affairs or *Ministerie van Economische Zaken* (MEZ) are deposited in the ARA. The files of the ministry's department of foreign economic relations (*Buitenlandse Economische Betrekkingen*, BEB) provide another important source for historical research on the ERP and the OEEC.[23] The department was directly involved in bilateral and multilateral economic negotiations and had its own sub-department for OEEC issues. As its detailed inventory indicates, the archives are now organised as a collection of working files from former departmental officials (for example the papers of Dirk Spierenburg, head of BEB in the late 1940s and '50s). The result is that the quality and organisation of the material depend upon the civil servant whose papers have been preserved. Altogether some 17 metres of archives refer to OEEC questions. An additional, extremely rich but patchy, source for economic policy documents is the ministry of foreign affairs (*Ministerie van Buitenlandse Zaken*).

We now turn to the other west European archives, assessing their degree of openness across a spectrum from the most to the least liberal. The situation in **Norway** is broadly

analogous to that of the Netherlands and the ''thirty year'' barrier has been penetrated by national scholars. Luxembourg has a little used archive that, given the relatively short chains of policy making, is surprisingly rich in written information. It is not completely ''open'', since access has to be requested first by letter but, to date, it has met all requests in accordance with the thirty-year rule. The archives of the Irish Republic, which have long been closed to historians, were opened to researchers in accordance with the thirty-year-rule in January 1991. Prior to this only small sections had been teasingly made available for general consultation whilst other requests had been met on a personal basis. The quality of the sources is extremely good and all are in the English language. The Spanish archives observe a twenty-five-year-rule and have no discrimination on access. However, their quality and quantity is comparatively uneven. This was because there was no practice as to what should be kept and ministers (especially agriculture and foreign commerce) removed great armfuls, nay – cupboardfulls, when they left. This deficiency is compounded by the cruelly short opening hours which the archives keep. Also applying the thirty-year-rule, at least in theory, are the archives of the European Community itself, even though the declassification and deposit of archives in Florence is not always strictly on schedule. Fortunately, some of the material is available in national collections.

The formal archives rule in **Switzerland** stipulates release after thirty-five years at which point they are opened across the board. Occasionally permission is granted to work inside this limit, but anyway the material up to 1957 is now available. Denmark, which for years has had a very restrictive regime, has suddenly become far more liberal in access to its foreign office files. Certainly, upon request, they now seem to be open after thirty years, and it is possible to do much interesting work on the 1950s. Although Sweden's ministry of foreign affairs formally operates a forty-year rule, it has recently started granting access to documents within that time-span. Austria also operates a forty-year access rule for its state archives which means that full-scale investigation is still trapped in the 1950s. For the period after the recovery of sovereignty, however, the Bruno Kreisky archives in Vienna provide much interesting material. Most of Belgium's state archives are sealed under a fifty-year rule. It remains an unfortunate fact that the only archives open are those of foreign affairs. Although private collections provide some solace, access is difficult and in the case of the Spaak papers, housed in the foundation bearing his name and dedicated to spreading his ideas, impossible. Italy allows access to many of its state collections that are older than thirty years, but this is far from automatic, and depends often on the status of the researcher or his/her patron. Moreover, large swathes of archives are still closed because they have not yet been completely inventoried.

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In the first section, we discussed the methodological strengths and weaknesses of the mainstream literature on the OEEC, and also identified some of the ''gaps'' in the more recent archivally based works dealing with aspects of the OEEC. This section will identify chronologically and thematically the some of the main ingredients of an OEEC history.

Any history of the OEEC starts with **the American and European origins of the Marshall Plan** for a substantial package of dollar aid for European recovery. By now, historians have created a fairly detailed picture of the events and the stakes of the national governments at the Conference on European Economic Co-operation in Paris, but they have mainly concentrated on the perspective of the three leading governments of the United States, France and the United Kingdom. Detailed investigation of other countries has still to be undertaken and historians still lack a genuinely multi-country study. Moreover, we also need studies that explain in greater detail the exact form of the Convention for European Economic Co-operation and the structure and procedures of the OEEC. Such work could also inform the current debate on the institutional form of co-operation among the constituent republics of the former Soviet Union.[24]

The second research focus of the early years of the OEEC is **the distribution and use of dollar aid**. The original conditions of American aid, the extent to which the Europeans met these demands and the question of whether dollars did ''save'' Europe, have tended to dominate the recent historical discussions. There is still, however, a need for a synthesis and an overall assessment of the gains from ERP for Europe as a whole. Such research should also deal with the specific features of the ERP administration, such as its reliance upon corporate bodies (trade unions, employers' organisations, business, agricultural and professional leaders) which, in the interest of European economic growth, were encouraged to support an agenda of corporate planning, technical assistance, scientific management and national production centres. These complex interrelationships are vital if the concept of a new ''Marshall Plan'' for Eastern Europe, for the Commonwealth of Independent States or for sub-Saharan Africa is going to be any more than a potent but empty political slogan.[25]

The ERP not only financed dollar imports, it also allowed countries to draw on tranches of dollar funds made available for an **intra-European payments scheme**. It was agreed from the very start that a substantial rise in European productivity and trade could not be brought about without a transformation of the existing bilateral payments agreements into a genuinely multilateral scheme that would allow countries to settle their net deficits or credits with OEEC members as a whole rather than on a country-to-country basis. More work is needed on the formulation of the first multilateral agreements and the way in which these contributed to the creation, in 1950, of the European Payments Union (EPU). Still more research is required on the subsequent negotiations for the modification and prolongation of the EPU agreement and the eventual achievement of convertibility. The EPU's success in fostering Europe's financial rehabilitation has recently renewed the interest in its use as a model for payments schemes, particularly among the new democracies in Eastern Europe.[26] To be convincing, however, such parallels require a deeper understanding of the context in which the original scheme operated.

While it is fair to say that in the popular mind the OEEC has always been considered synonymous with ERP, for ''insiders'' the removal of quotas according to **the Code for Liberalisation**, has been recognised as its second main achievement. Yet it is surprising how little historical research has been done into the practical experiences of the OEEC's trade liberalisation programme and the Organisation's experiments with methods for removing quotas other than the famous percentage-wise liberalisation (such as with common lists, commodity groups or sectoral integration). Moreover, it is still virtually

unknown that the OEEC became the forum for a lively debate on the reduction of other barriers to trade such as tariffs and cartels as well as barriers to services. Despite all the practical insights that this experience could offer, it has been virtually ignored in the current discussion on institutional economic reform in the former Soviet bloc.

Apart from such indirect methods as trade liberalisation, the OEEC also promoted direct **methods for raising European productivity**. In 1949, the Council set up a Working Party on Scientific Questions which immediately singled out productivity as a major bottleneck in European economic growth. Three years later, it opted for a long-term productivity programme to be planned by a permanent Productivity and Applied Research Committee composed of technical experts and government representatives. This eventually led to the establishment, in 1953, of National Productivity Centres that were financed by counterpart funds. A European Productivity Agency (EPA) served as the coordinating body for these National Productivity Centres. By 1955, it had an operational staff of 200, representing some 45 per cent of the OEEC's total operational staff. Since Western Europe and the United States are even today puzzling on how best to organise and coordinate technical assistance to the ex-socialist states,[27] the successes and failures of the EPA would seem more relevant than ever.

Although **transport** has always been the Cinderella of European integration, the OEEC cannot be blamed for this. In 1948, it created the Inland Transport Committee and in October 1953 established the Conference of European Ministers of Transport (CEMT). This was intended as the permanent platform where European ministers could achieve inland transport liberalisation and rationalisation in Europe. They could also set up investment programmes such as Eurofirma, created in 1955 as a common acquisition body for railway rolling stock. Yet despite these genuine attempts to promote transport liberalisation at the highest political level and despite the intention to avoid a duplication of tasks undertaken in other frameworks, the CEMT soon reached a deadlock and became a debating club. Fundamental problems such as the unification of railway rates or the coordination of transport routes disappeared from the agenda to give way to less sensitive issues such as the combat of noise pollution or urban traffic control. Those (few) countries favouring drastic liberalisation measures therefore simultaneously turned to the Council of Europe and the ECE, which also discussed transport issues. This suggests that transport liberalisation was at least as difficult as removing quotas and tariffs. It still remains to be studied as part of the general context of the OEEC's attempts at freeing impediments to intra-European trade and services.

The OEEC has also been concerned with both the general problems of **Europe's energy supply** and the problems of particular sectors. As early as 1948, three vertical committees were set up to deal with the oil, electricity and coal sectors respectively. These helped to make available and distribute energy supplies while also stimulating technical developments in these sectors. The OEEC's activities in the field of energy peaked at two specific phases of high political and economic tension; the Korean war and the Suez crisis. However, it would be wrong to focus solely on these moments of ''crisis'' because throughout the 1950s the Organisation was involved in shaping European energy policies. In 1955, for instance, a study of the European energy problem resulted in the setting up of a commission for the study of the long-term supply and demand prospects for energy, while in 1957 a newly established Nuclear Energy Agency

was charged with the harmonisation of nuclear programmes of the member states and the promotion of joint nuclear projects. Virtually all these questions have been ignored by contemporary historians.

At the beginning of 1957, the OEEC became involved in negotiations for a **European Free Trade Zone** (FTZ). These took place within the Organisation's Working Parties Nos 21-23, from February 1957 to November 1958. They started with the initiative for the removal of barriers to trade in industrial products but soon spilled over into agriculture, ''flanking'' policies (taxation, social security legislation etc.) and towards the problem of accommodating the ''weaker'' OEEC economies. The eventual collapse of these negotiations led to the division of Europe into two separate trading blocs, the EEC and EFTA. When coupled with the dissolution of the EPU, it also marked the beginning of the end of the OEEC's existence. What emerged was a new organisation with new tasks and within a wider, Atlantic setting embracing the United States and Canada.

A final area of investigation lies in **the quantification of the OEEC's role** in European economic growth in the 1950s. The OEEC contributed to the elimination of trade and payments impediments. It also provided the forum for discussion of a wide variety of issues such as agricultural policy, energy problems, productivity etc. All of these aspects of its work undeniably contributed to the growth of prosperity on the Continent. This growth was not only extremely rapid in the recovery phase but also continued with an intensity and resilience unparalleled in contemporary history. That being said, we have to recognise that there existed many other factors contributing to economic growth that are unrelated or only indirectly related to the areas of activity covered by the OEEC. There have been many studies that have sought to explain European growth in this period and to quantify the role of individual growth components. This literature falls into almost mutually exclusive supply and demand analyses, both of which contain fragments of OEEC-type issues but which have not yet allowed for an overall view. Still missing is an assessment and review of these reported results for the purpose of coming to a firmer quantitative and more comprehensive analysis of the Organisation's contribution to European prosperity.

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The OEEC was a unique institution whose membership embraced all western European countries and whose existence spanned the period of Europe's economic reconstruction and rehabilitation. It became the vehicle for the implementation of a range of policies aiming at both domestic economic growth and international commercial viability. It also provided the context in which European countries, at different stages in their development and with different problems of macroeconomic management, attempted to construct a common framework for their economic policies, even if not always successfully.

Most historians have so far approached aspects of OEEC history from a purely national perspective, and often only from one set of domestic archives. From the viewpoint of a research strategy this implies that the effectiveness of domestic and foreign policy stances is only perceived through the ''filter'' of national policy makers at the

time. The opening of archives throughout Europe now allows historians to see how the other states assessed those initiatives and responded to them. Thus, even if the national dimension is maintained, the analysis would benefit from the multi-archival approach.

The national dimension is, however, sub-optimal for the analysis of problems and solutions affecting all western European states. By its very nature the OEEC's history throws up issues which could be more usefully tackled from a problem-oriented, comparative or international perspective. And again, the source material for such an approach is now open to historians.

We believe that a wider use of sources and a broader formulation of questions would enrich the appreciation of European economic reconstruction and co-operation in the fifteen years after the Second World War. It would also benefit policy advice explicitly drawn from the ''lessons'' of that period. Even so, the provision of better history does not guarantee better policy advice. This can only come about when those who try to draw parallels between past and present events take full account of the differences and similarities in the contexts of both periods.

NOTES

1. H.B. Price, *The Marshall Plan and its meaning*, Ithaca, 1955. Other examples of early, by now traditionalist literature on ERP are: W.C. Mallalieu, ''The origins of the Marshall Plan. A study in policy formation and political leadership'', *Political Science Quarterly*, 73 (1958) 481-504; W. Gomberg, ''Labor's participation in the European Productivity Program. A study in frustration'', *ibid.*, 74 (1959) 240-255; O. Costa, *Politique et économie dans l'administration du Plan Marshall*, Louvain/Paris, 1965.
2. See for an analysis of these approaches: L.S. Kaplan, ''The Cold War and European revisionism'' in: *Diplomatic History*, 11 (1987) 143-156.
3. Two important representatives of this revisionist school are G. Kolko and J. Kolko, who published *The Limits of Power. The World and United States Foreign Policy, 1945-1954*, New York, 1972.
4. This is what W. Diebold's excellent pioneering study already proved in 1952. It is still a classic among the studies of European co-operation after 1945. See: W. Diebold Jr., *Trade and Payments in western Europe. A study in economic co-operation, 1947-1951*, New York, 1952.
5. This has resulted in detailed studies of the role of productivity and the European Productivity Agency, of trade union co-operation and economic integration.
6. See I. Wexler, *The Marshall Plan revisited. The European Recovery Program in economic perspective*, Greenwood, 1983.
7. Milward's assumption is based on the assessment that European recovery was fuelled by a huge investment boom, in most countries amounting to some 20 per cent of total GNP. This would prove that there existed enough room for reallocating finances.
8. See for instance: A.J. Zurcher, *The struggle to unite Europe 1940-1958*, New York, 1958; R. Price (ed.), *The dynamics of European union*, London/New York, 1987.
9. Milward devotes an entire 40-page chapter to this subject. He writes: ''There is no history of the OEEC, only descriptions of its functions and juridical guides to its labyrinthine structures. This may seem entirely understandable. For what can there be to interest a historian in an international organization which annually repeated the same functions and, while on rare occasions it may have done something to influence the decisions of a particular government, for the most part existed only to record and reconcile those decisions and analyse their consequences? Its task, for most of its life was merely to adjust to and then chronicle decisions made elsewhere.'' Milward, *Reconstruction,* 168.
10. L. Gordon, ''The Organisation for European Economic Co-operation'', *International Organizations* 10/1 (1956) 1-11; M. Camps, ''Comment'', OECD, *From Marshall Plan to global interdependence* (Paris, 1978) 30-34. R. Marjolin, *Le travail d'une vie, mémoires 1911-1986*, Paris, 1986.

11. Lord Franks, ''Lessons of the Marshall Plan experience'', OECD, *From Marshall Plan to Global Interdependence*, 18.
12. The field work for the detailed archive descriptions was undertaken in Spring 1992. It is possible, indeed likely, that improvements or changes have been made since then. It is advisable to check with the relevant archives in good time before commencing research.
13. J.B. Kaplan and G. Schleiminger, *The European Payments Union: Financial Diplomacy in the 1950s*, Oxford 1989.
14. This collection is arranged under the alphabetical filing system created by the OEEC. It contains only the English language documents.
15. No indication is given in the inventory of the size of each collection and the archivists have no idea either.
16. See for a detailed decription of this American-German microfilm project see J.J. Hastings' description in: *Vierteljahrshefte für Zeitgeschichte,* 24 (1976) 57-101.
17. The relevant inventories are the volumes 18, 19 and 20 of the Record Group Z 45 F. Since the amount of documents on each microfiche or microfilm varies widely, it has proven impossible (even with the help of archivists) to assess the size of this document collection. However, the inventories are fairly accurate in their desciptions of the contents of the material.
18. These (annotated) cabinet papers and minutes are published in the so-called *Kabinett-sprotokolle*. The most recent volume in this series covers the year 1953.
19. At a more general and higher level in the departmental hierarchy, we can single out the following sub-departments and sections as immediately relevant to ERP and OEEC affairs:

    I A (ERP capital, investment programmes, counterpart funds; internal monetary and financial stability; liberalisation, tariff reductions; EPU; creation of a FTA; OEEC general; OEEC WP No. 19; OEEC vertical WPs);

    II A (OEEC's technical information; trade liberalisation; ECA's import programmes; FTZ);

    II D (EPA committees, research projects, productivity programmes);

    V A (ERP; trade liberalisation; import controls; tariff reduction plans; convertibility; FTZ; EPU/OEEC, 1951-1960);

    V B (Trade liberalisation; ERP finances; import controls);

    VI B (OEEC's liberalisation and harmonisation of insurances, 1954-61).
20. In some cases, cabinet papers have remained in the archives of the *Prime Minister*, who has a separate ministry, the *Ministerie van Algemene Zaken* (MAZ). A system of cross-referencing helps the researcher to trace these documents.
21. This authorisation from the ministries of origin may take some time (sometimes a month or more) but is always granted.
22. After 1950, the activities of this economic cabinet (or *Raad voor Economische Aangelegenheden*) gradually diminish and most economic issues are dealt with by the full cabinet.
23. At present, the archives of this department are not available since they are being reorganized and reclassified. However, while this process may take some years, the ARA is prepared to retrieve files for individuals who might need these files urgently for their research.
24. H. Ticktin, *Origins of the Crisis in the USSR: Essays on the Political Economy of a Disintegrating System*, London, 1992; V. Sobell, *The CMEA in Crisis; Towards a New European Order?* London, 1990.

25. I. Alderman, ''W. Arthur Lewis Lecture: Should There be a Marshall Plan for Eastern Europe?'', *Review of Black Political Economy*, 19/2 (1990) 17-42; C.A. Cerami, *A Marshall Plan for the 1990s: An International Roundtable on World Economic Development*, New York, 1989; P. Gowan, ''Old Medicine, New Bottles. Western Policy Towards East Central Europe'', *World Policy Journal,* 9/1 (1992) 1-34; M. Hughes, ''Can the West Agree on Aid to Eastern Europe?'', *RFL/RL Research Report*, 13 March 1992; P. Mihaly and J. Smolik, ''Lending is not Enough: An Assessment of Western Support for Reforms in Hungary and Poland, 1989-90'', *Communist Economies and Economic Transformation,* 3/2 (1991); J. Pinder, *The Community and Eastern Europe*, London, 1991.
26. P. Bofinger, ''A Multilateral Payments Union for Eastern Europe?'', *Banca Nazionale del Lavoro Quarterly Review*, March 1991, 69-88; J.M. van Brabant, ''Integrating Eastern Europe into the Global Economy: Convertibility Through a Payments Union'', *International Studies in Economics and Econometrics,* 25 (1991); J.M. van Brabant, ''Key Problems of Creating a Central European Payments Union'', *Banca Nazionale del Lavoro Quarterly Review*, June 1991, 119-49; P.B. Kenen, ''Transitional Arrangements for Trade and Payments among the CMEA Countries'', *IMF Staff Papers*, June 1991, 235-67.
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Chapter II

THE MARSHALL PLAN AND THE ORIGIN OF THE OEEC

Daniel Barbezat

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.

Secretary of State George C. Marshall, 5 June 1947

Probably more than any other post-1945 programme, the Marshall Plan has attracted the most attention. It has naturally been seen as the breakpoint of the post-World War II era, moving the European economies from the uncertain years immediately after the war to the period of unprecedented growth over the 1950s. Countries embarking on large structural adjustment programmes naturally look for external aid to complete them. Given the need for new policies within eastern Europe and the rather dismal performance over the 1980s throughout the rest of the world, regional adjustment programmes are being currently reexamined. It is only natural that people look to the successful postwar regional adjustment programme of Europe for possible *lessons*.[1] However, over the last decade the Marshall Plan has come under close scrutiny by historians and economic historians, and the consensus is that the European Recovery Programme had less economic impact than had previously been thought.[2] While recent work has more carefully assessed the impact of Marshall aid, it has generally not seen the aid within the context of the much broader economic recovery programme effected by the Organisation for European Economic Co-operation (OEEC) and the Economic Co-operation Agency (ECA). This paper places the Marshall Plan within the context of the broad efforts of the OEEC from which it should not be taken out and examined as if it were a separate policy; the Marshall Plan was one part of a massive recovery programme operated by the OEEC with help from the ECA.[3] The European Recovery Programme, based on the European Co-operation Act of 1948 had five components: 1) Aid; 2) Production and productivity; 3) International financial stability; 4) Expansion of trade; 5) Development of European economic co-operation. Seen from this broader vantage point, the Marshall Plan becomes more than simply an aid programme. The Marshall Plan was more than aid to separate countries; it was the beginning of the attempt to jump start the cooperative effort of

European economies and end the malaise of restrictive, bilateral trade. Throughout the process the role that the OEEC played was crucial in the recovery programme's successful implementation.[4]

* * *

In the first two years after 1945 the United States contributed about $4 billion in aid to western Europe through the United Nations Relief and Rehabilitation Administration (UNRRA) and other programmes. Although these are similar figures to the aid under the Marshall Plan, they were given in an *ad hoc* basis, so that European countries were unable to commit to any broad-scale structural programmes since they could not count on aid from year to year. There was no broad scale plan for the interim aid, nor were there European-wide organisations to allocate and to extend the aid programmes to restructuring programmes.

The United States began its active long-range post-1945 intervention in Europe's structural problems with the European Recovery Programme (ERP). The ERP began in 1947 with a commitment to provide aid and guidance for European reconstruction for a period of four years. Over these years it transferred about $12.5 billion to Europe in grants, loans and conditional aid.[5] In Europe, the Committee for European Economic Co-operation (CEEC) and its successor the Organisation for European Economic Co-operation (OEEC) had the responsibility. These European organisations represented an attempt to allocate the aid and to solve Europe's problems collectively.

On 27 June 1947, just 22 days after Marshall's speech, Ernest Bevin, the British Foreign Secretary and Georges Bidault, the French Foreign Minister, convened a meeting to which they invited Vjacheslav Molotov, the Russian Foreign Secretary, where they attempted to design a programme in response to Marshall's offer.[6] The USSR would not discuss co-operative recovery plans and only presented a ''shopping list of imports to be bought with United States aid''.[7] On 12 July 1947 European countries, with the exception of Spain, were invited to a conference to discuss co-operation; this meeting set up the Committee of European Economic Co-operation (CEEC) and produced a report presenting Europe's needs to: 1) increase production; 2) eliminate inflation; 3) promote economic co-operation; 4) solve the dollar payments problem. They suggested a European-payments deficit of $22 billion and asked that the United States finance $19 billion of it. The volume of aid to individual countries was determined by the size of the dollar deficit on foreign trade and not by any measure of national income. The United States responded by setting up a committee headed by Secretary of Commerce Averell Harriman, which proposed aid of between $12 to $17 billion. Aid was allocated from 1 April 1948 and in the first year $5.05 billion was paid, with aid immediately available for France, Italy and Austria up to $600 million. $350 million was given to Germany. On the American side, the Economic Co-operation Agency (ECA) administered the aid and worked with the CEEC and its successor the OEEC.

The CEEC met in March 1948 in Paris to attempt to establish a permanent body to foster co-operation and help to allocate Marshall aid. On 16 April 1948 the ''Convention for European Economic Co-operation'' was signed by the Foreign Ministers of the CEEC

countries. It was perhaps the opening step to the Treaty of Rome. The OEEC was set up by Article I of the Convention. Its functions were to obtain increased co-operation between members, to aid members to fulfill their international undertakings and their national programmes, and to assist the United States government in putting into effect its programme of aid to Europe.[8] The Council, comprised of all members, met weekly, sometimes at the ministerial level, but mostly at the level of high officials. All decisions were taken unanimously, but a member country had the possibility to withdraw from a decision and not take part in its implementation. Similarly, the Council could exempt a country because it was in a special situation. Decisions could also be prepared in restricted committees. The Council took the decisions in the name of the member governments who remained responsible for implementation. The Executive Committee, made up of seven members elected by the Council from member countries, two members from the associated member countries Canada and the United States, and two Council members, examined all questions to prepare them for general decision-making but could only act on instructions from the Council. The Executive Committee was not empowered to take decisions.

One of the first accomplishments of the OEEC was to get member countries to reduce their initial requests so as not to exceed the yearly allocation. ''That it was able to submit recommendations in September 1948 that were accepted by all member countries but Greece and Turkey was a remarkable achievement''.[9] One of the key reasons for these remarkably fast allocations was the conditionality of the aid: if any one country did not agree, then no country would receive aid. This harsh condition made a potentially intractable negotiating process necessary to complete very quickly. So, less than one year after the Marshall speech, a general recovery plan had been agreed to and enacted into law by the United States, an aid programme had been studied and a permanent organisation for co-operation had been established.

The foreign currency aimed at providing vital imports for reconstruction. The importers, in turn, paid the equivalent in domestic currency to their governments who could use the money on capital projects. Use of these ''counterpart funds'' was subject to United States approval. The United States used its power to force countries to use the funds to retire public debt or prevented the governments from using the funds at all. About 17 per cent of the aid was spent directly on ''machinery and vehicles''; the rest was spent on raw materials and agricultural products. This mechanism freed domestic funds for capital formation and, in addition, provided a means for direct United States influence in the reconstruction programmes of the OEEC countries because ECA approval was necessary to spend the money. This reinforced the market orientation of the OEEC countries (no nationalisation was supported under the ECA),[10] while allowing them to commit funds to large projects because they could be sure of the availability of future funds. Countries generally are unwilling to change their domestic structures and policies if there is uncertainty about the availability of funds and about the stability of international arrangements; the promise of the funds along with the structure built to deploy them provided a stable atmosphere in which the European countries could conduct their structural adjustments.

* * *

Perhaps the biggest challenge confronting western Europe was to establish a relatively free trading environment along with a payments system to accommodate it. As the Managing Board of the Payments Union pointed out in its final report, trade and payment liberalisation need to work together:

> ... one of the earliest tasks of the OEEC was to seek to free European trade from the restrictions and bilateralism that had grown up in all member countries. [However] it was clear that ... trade liberalization would not be possible without adequate intra-European payments arrangements which would ensure complete transferability of European currencies.[11]

Through the efforts of the OEEC and backed by Marshall Plan money both of these goals were finally achieved through the trade liberalisation programmes of the OEEC and the European Payments Union.

By 1947 trade had been eased but was held stagnant by the many bilateral trading agreements containing various amounts of automatic hard currency credit. The first suggestion was to pool such debts so that countries would have to settle in dollars or gold only if the bilateral agreement between them so specified.[12] This would have the effect of preventing creditors picking their debtors according to their credit-worthiness. In addition, it was suggested that countries approaching the point at which hard currency payments became due could have their debts rescheduled over a longer period, thus reducing the dollar flow to creditors. Under this system, the participants had debts among themselves of $762.1 million. The clearing, however, amounted only $1.7 million, just 2 per cent of total. The figure was kept so low partly because there was an automatic transferability of debts. Certain countries were creditors to the whole group and others net debtors to it; net debts of this sort amounted to about $400 million. In addition, only France, Italy and Benelux, and later the Bizone of Germany agreed to first category compensations; the rest of the group[13] were ''occasional'' members and did not agree to automatic adjustments.

A system of ''drawing rights'' was also established, which were grants from one country to another, matched by ''conditional aid'' from the United States. Deficits were forecast, the surplus country granted the amount to the deficit country and, in turn, received compensatory aid from the United States.[14] American conditional aid, through the Marshall Plan, financed about one-third of the total intra-European imbalance. Of course, this meant that the imports were gifts, so there was not real incentive to correct the deficits.

The 1947 agreement did not solve Europe's payments problems and neither did its immediate successors. The 1948 and 1949 agreements both provided the same perverse incentives as the 1947 plan and were directly tied to the many (105 for fifteen countries) bilateral trade agreements. This made an overall working system impossible.[15] Of course, maintaining convertibility in these circumstances was also very difficult. For example, if a country did not limit its convertibility, others might manipulate controls to engineer a surplus with it and thus obtain dollars. Switzerland had this problem and reacted by making its currency convertible to its own citizens and other hard-currency countries.

Responding to these problems, and under American pressure, the OEEC members in September 1950 established the European Payments Union (EPU). In order to begin, the

EPU needed a fund of working capital. The United States provided $350 million, of which some was given to countries with ''structural'' problems, leaving the initial capital of EPU at $271.6 million. Under the EPU, a country's position was determined by its debts to or from all the other members and dollar/gold payments were established by a uniform formula. Debits were paid by central banks on a sliding scale partially, in domestic currency and partly in hard currency, up to a ''quota''. After that, payments were entirely in dollars or gold, unless some special arrangement was made. The quotas totalled $3 950 million and were calculated for individual countries on the basis of 15 per cent of the value of their total merchandise trade.[16] In each 20 per cent step toward the quota limit, debtors paid a greater proportion of hard currency. By the time a country had reached its quota limit, it would have paid 40 per cent in gold and 60 per cent in domestic currency. In times of extreme crisis, countries could renegotiate payments bilaterally; this emergency clause worked well and helped countries through temporary disequilibria.[17]

Of course, to run such a system required a well-functioning governmental body: the OEEC was perfectly placed to create an operative structure. To decide conflicts there existed a Special Restricted Committee of five persons chosen by lot from a list nominated by each of the members. None of the members could be from the countries involved in the dispute. The committee reported to the OEEC Council which then pronounced judgement. The Managing Board of the EPU, comprising seven representatives and one American observer, worked on majority vote. This was at odds with standard OEEC procedure, but since the Board was responsible to the OEEC Council any serious disputes were likely to end up there anyway.

As a temporary scheme to build a sustainable multilateral payments system out of the restrictive bilateral agreements and trade restrictions before 1950, the EPU was a great success. Without the EPU, or a similar mechanism, the members of the OEEC could not have unilaterally freed payments, and they would have found its creation extremely difficult without the start-up funds provided under the Marshall Plan. They would then have needed to retain their trade and exchange controls in order to save scarce hard currencies for their import requirements. Even the OEEC trade liberalisation programme could not have stimulated trade had payments still been restricted. The EPU, therefore, permitted the expansion of intra-European trade while not separating Europe from the dollar and sterling areas. However, the EPU, alone, could not have produced the growth in intra-regional trade during the 1950s.

A multilateral payments union would not ease trade if frontier barriers, like quantitative restrictions (QRs) and tariffs, were not removed. The Americans saw the decontrol of goods and service trade and the construction of a payments union as a single issue; policies with respect to one must be matched in the other. Piecemeal relaxation of import quotas had been underway since 1947 but progress had been neither geographically nor sectorially even. They had largely been removed on essential raw material imports and had been left intact on manufactures and foodstuffs. In 1948 trade liberalisation proceeded with Britain removing 66 per cent of its quotas, France 18 per cent, Belgium 78 per cent. Countries conducted trade under private compensation agreements, which were not under the liberalisation. In addition, surplus countries like Belgium, Germany, Switzerland and Italy were excluded from import liberalisation by Denmark, the United Kingdom, Norway, the Netherlands, Ireland and Austria.

At the end of January 1950 the OEEC Council decided that after establishment of the EPU, members were to remove additional QRs on private trade with other members until 60 per cent of goods were freed. They could, of course, maintain them towards non-members. The restriction to private trade was introduced to avoid the charge of interfering with national as opposed to international policy. However by exempting (semi-) governmental import agencies, which were particularly prevalent in agriculture, the impact of the experiment was dampened from the start. This bias in the operation was compounded by dropping the initial obligation to remove QR's evenly over broad product categories once the targets were raised further; an over-performance in raw materials, for example, could compensate for an under-achievement in agriculture. Moreover, the base year for the calculations also presented difficulties. If the base was a year in which imports of certain categories of goods were virtually non-existent whereas a fairly liberal quota regime was applied elsewhere, or none at all, the target of removing QR's from imports worth 60 per cent of the total in that year might be relatively easy. Furthermore, the Liberalisation Code allowed countries with balance-of-payments difficulties to reimpose restrictions if necessary, causing a rebound effect on its trading partners and undermining the EPU's ''discipline'' in the process. Finally, the whole operation excluded tariffs, considered the preserve of GATT, so that QR removal was often accompanied by the imposition of suspended tariffs. As the CEEC put it, ''As quantitative restrictions are progressively eliminated, tariffs will re-emerge as the principal factor influencing the flow of trade between the participating countries''.[18]

On 27 October 1950 the OEEC Council agreed that by February 1951 members should remove QRs on 75 per cent of imports from other members. Because of the dissent over agriculture, the target only applied to the total and not to each category. In addition, there was an attempt to construct a common list of products to liberalise, so that there would be a unified market, but that came to grief. Further progress was slowed down by successive balance-of-payments crises in West Germany, in the United Kingdom and in France which compelled their governments to suspend temporarily their liberalisations. This crisis atmosphere inhibited discussions on the timing of a further advance. It was also inhibited by the hardening attitude of so-called ''low tariff'' countries towards the failure to tackle tariffs, and therefore to deal with all frontier barriers to trade. Finally, as QR removal advanced it threatened to touch the hard core of protectionism around politically, socially or strategically vital sectors.

Despite these problems, in January 1955, the OEEC adopted the target of 90 per cent liberalisation; the low tariff countries made the renewal contingent upon progress on the tariff front. The target was indeed renewed, and when France attained it in December 1958, private trading within Western Europe had, to all intents and purposes, been purged of quantitative restrictions. There remained residual quota discrimination against the United States and, of course, state trading in agriculture was widespread. Nonetheless, for an experiment with such tentative beginnings, the achievement was remarkable, and while the broader multilateral GATT agreement began the arduous task of addressing tariff issues, it was within the Steering Board for Trade supervising the implementation of

the ''Code of Trade Liberalisation'' of the OEEC that western Europe was to begin liberalising trade and moving beyond the legacy of the trading morass of the 1930s.

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The productivity gap between Europe and the United States was a major concern of the OEEC Council and the United States throughout the Marshall Plan. In fact, concerns about the productivity gap between Europe and the United States jeopardised Congressional funding for the European Recovery Programme, and the Economic Co-operation Administration made it clear in 1949 that future funding would depend upon efforts to address the productivity differences.[19] In 1949 the OEEC Council had set up a group of productivity experts under the heading ''Working Party No. 3,'' which later was expanded under the Marshall Plan by a Committee for Scientific and Technical Matters and a Technical Assistance Group; the National Productivity Centres formed during the 1950s originated from these committees.[20] In 1952, growing directly out of the Marshall Plan, the United States Congress approved Benton-Moody aid for ten OEEC countries to receive $100 million and the OEEC $2.5 million in order to fund a European productivity campaign. Countries receiving the grants paid 8 per cent as counterpart funds in national currencies to the new agency.[21] In response the OEEC Council established the European Productivity Agency (EPA) in March 1953, which was to work with the newly created National Productivity Centres in the OEEC countries[22] in order to disseminate information and coordinate productivity programmes. The total capital of the EPA, from the direct United States grant and the members' counterpart funds, was FF 3.5 billion. Up until the Treaty of Rome, the United States contributed an average $1.5 million each year on an *ad hoc* basis to encourage certain projects it deemed important. The Council was the supreme governing body, but the Agency was run by a Productivity and Applied Research Committee (PRA) along with an advisory board made up of representatives from national producer, labour and technical organisations. The budget of the EPA was allocated over twelve areas, including business management techniques, applied research, agriculture and underdeveloped areas.[23]

The overall effectiveness of the EPA was first hampered by a lack of clear direction and then by a breakdown in communication with the National Productivity Centres; a clear definition of its aims and contact with the national centres was first necessary before it could begin sponsoring projects. Once these links were firmly established, the projects could be funded. As countries had to contribute their own counterpart funds, they were more careful in their requests. This, coupled with American supervision, kept the allocation and use of funds under some control. Through the 1950s the EPA did sponsor a great number of programmes that effectively impacted on regional or sectoral problems through applied research and extension programmes, general scientific education, and vocational training. The EPA provides an interesting model for technical assistance programmes for developing countries today; both the counterpart funds and the international nature of the research funding make for important suggestions in current policy making. Even in areas that have had very little international economic integration, like sub-Saharan Africa, international co-operation in technical development and research has

been quite successful. Perhaps the EPA can provide further guides to increase these efforts.

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As for the Marshall aid, estimating the contribution of aid is extremely difficult. We must first understand what the Marshall Plan was and what it actually did. The mechanics of the aid and the specific contexts in which it was supplied were very complicated and involved over seventeen very different nations. This is critically important to realise before attempts are made to use the Marshall Plan as a guide to current reconstruction attempts. No one doubts that European economic growth was very strong over the Marshall Plan years; in every sector save coal the OEEC production goal was surpassed by 1952/53. Total production was 65 per cent above the 1947 per cent, over 160 per cent higher than the targeted 40 per cent. The impact of the Marshall Plan on European growth has been the subject of some debate over the last ten years. The controversy has centered on the question whether Europe ''needed'' aid in 1947 to have any growth and to fight the growing popularity of communist parties in countries like Italy and France, or whether it was needed to sustain over-ambitious governmental investment programmes, like the Monnet Plan in France. Certainly the scale of funding was not large enough to explain the super-growth of the 1950s. The figures below illustrate the size of the payments relative to capital formation for the United Kingdom, France, Germany and Italy. Note that it was in the first two years of the Plan that the aid was a relatively large share of capital formation but this hardly seems likely to explain even most of the growth during the period.

Ratio of United States Aid to Gross Domestic Capital Formation

(%)

	1948	1949	1950	1951
United Kingdom	9.0	11.2	9.8	2.0
France	13.9	11.9	10.4	7.8
Germany	31.4	21.8	10.7	6.8
Italy	26.6	33.6	9.5	8.7

Source: Charles S. Maier. ''The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe'', American History Review, 86(2), 1981, 342.

Eichengreen and Uzan[24] calculate that out of each dollar of Marshall aid about two-thirds went to increase production, and the rest went to investment. Although the returns to European investments were high, they estimate that the aid, in total, would have contributed to annual economic growth about one half of one per cent; that is about two per cent over the four years of Marshall aid. This is an important contribution, but does not explain the rapid growth rates of the period. Even if the aid were applied to key

industries in order to attack costly bottlenecks, it seems that Eichengreen and Uzan's assessment of the direct impact of Marshall aid is broadly correct.[25]

The main results of Marshall aid was that it helped Europe to avoid having to depress consumption levels in order to free foreign exchange for their investment programmes and, to a lesser extent, contributed to the process of domestic capital accumulation. Given the political sensitivity of structural adjustment programmes and the large social costs that are brought about by them, these results should be very important considerations for proposed structural adjustment programmes. On an institutional level, the ERP created the organisations that oversaw the entire European integration effort. Together the ECA and the OEEC laid the groundwork for the completion of the common market at the end of the 1950s. In order to assess this impact, we need to consider each of the components of the Recovery Act.

Although not the prime cause for the rapid European growth, the Marshall Plan did have important effects. On the microeconomic level, it stimulated output by promising a flow of raw materials in the future and therefore allowed industry to use existing stocks more freely.[26] In addition, it contributed to the removal of important bottle-necks in sectors such as coal and transport. Moreover the resource allocation risk was reduced so that expansion with given resources was less costly, especially for lump capital-intensive investments. On a macroeconomic level, the aid, and the assurance of aid, stimulated trade by removing the dollar constraint from payments. The Plan's financing of the European Payments Union made a very important contribution to the establishment of multilateral payments for European trade. Finally, Marshall aid reduced the social and political costs of structural adjustment; assuming that demand exceeded aggregate supply by five to seven-and-a-half per cent, then the aid, which was on average about two-and-a-half per cent of GDP, could have reduced the distributional conflict of the adjustment programmes by up to 50 per cent.[27] By increasing the pie from which the distribution was taken, the costs of the adjustments were reduced. In fact, Eichengreen and Uzan claim that the main contribution of the plan was that it ''facilitated the restoration of financial stability and the liberalisation of production and prices''.[28] Without the reductions in instability, they argue, perhaps Europe would not have adopted market-oriented policies and Europe would not have found its way to the growth path of the 1950s.

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Although many underlying conditions were very different, the experience of western Europe during the two decades after World War II was markedly better than during those after World War I. Part of the reason for this is the multinational cooperative effort during the post-1945 period as opposed to the nationalistic, bilateral inter-war international economy. Perhaps, as some have argued, the OEEC's efforts were slow to reach fruition and could have been handled by other organisations. However, the OEEC did play a crucial role in the creation of a trade and payments system that had never existed before in western Europe, resulting in ever-increasing intra-regional trade and growth and economic integration.

NOTES

1. See for example B. Eichengreen and B. DeLong, ''The Marshall Plan: History's Most Sucessful Structural Adjustment Program,'' NBER Working Paper No. 3899, 1991.
2. See A.S. Milward *The Reconstruction of Western Europe*, Chapter III ''The European Recovery Programme,'' London, 1984 and W. Abelshauser, ''Westeuropa vor dem Marshall-Plan. Entwicklungsmöglichkeiten und Wirtschaftsordnung in Großbritannien, Frankreich, Westdeutschland und Italien, 1945-1950'', in: O. Haberl and L. Niethammer, eds. *Der Marshall-Plan und die europäische Linke*, Frankfurt am Main, 1986, 99-131.
3. Here I ignore the broader political goals of direct United States involvement in European matters that characterized the cold-war era. For interpretations of the analyses of United States foreign policy see M.P. Leffler, ''The United States and the Strategic Dimensions of the Marshall Plan,'' in: *Diplomatic History*, 12/3 (1988) 277-306.; S. Jackson ''Prologue to the Marshall Plan: The Origins of the American Commitment for a European Recovery Program,'' *The Journal of American History*, 65/4 (1979) 1043-1068; H. Arkes *Bureaucracy, the Marshall Plan, and the National Interest,* Princeton, 1972; J. and G. Kolko. *The Limits of Power: The World and United States Foreign Policy 1945-1954,* New York, 1972.
4. This is not to say that the OEEC's role was necessary for Europe's success. Possibly, its functions could have been undertaken by other organisations; however, the OEEC's administrative coordination of the many aspects of the Recovery Act set the stage for the economic integration of western Europe.
5. Grants accounted for $9 199.4 million, loans for $1 139.7 million. Conditional aid was awarded as backing the intra-western European payments agreement of 1948 and came to $1 542.9. Milward, *The Reconstruction,* 95.
6. Although it has been claimed that this invitation was not ''genuine,'' Kindleberger claims that it was and quotes Acheson responding to Molotov's walkout, ''Once again General Marshall's judgement and *luck* combined to produce the desired result.'' (emphasis mine). C.P. Kindleberger, ''The Marshall Plan and the Cold War,'' in: *Marshall Plan Days*. London, 1987, 92.
7. OEEC, *A Decade of Co-Operation: Achievements and Perspectives* Paris, 1958, 21.
8. Members were Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, United Kingdom, founding. Germany (October 1949), Canada and United States, associated members (June 1950), Spain for food and agriculture (January 1955), associated (January 1958), Yugoslavia, observer (February 1955).
9. B. Eichengreen and M. Uzan, ''The Marshall Plan: economic effects and implications for Eastern Europe and the former USSR'', *Economic Policy*, 1991, 44.

10. Eichengreen and Uzan stress this point, ''one can imagine, had the Marshall Plan not been forthcoming and had the postwar crisis deepened, democratic institutions and the commitment to the market might have broken down, preventing Europe from returning to [its] growth path at all''. *Ibidem*, 15.
11. Quoted in I. Wexler, *The Marshall Plan Revisited: The European Recovery Program in Economic Perspective*, Greenwood, 1983, 200.
12. Eleven countries signed the agreement on 18 November 1947. It established a first and second category compensation system. ''First category compensations'' were the only automatic operation of the arrangements; countries could veto second category compensations. In the first category, each pair of countries settled its debts through its net positions with other countries, using the surplus with one country to pay a debt on another, so long as the first country owed the other. A second category compensation involved an increase of a currency balance and had to meet the approval of all countries involved. For more on this agreement see J. Kaplan and G. Schleiminger, *The European Payments Union: Financial Diplomacy in the 1950s*, Oxford, 1989, 23-27.
13. Austria, Portugal, Norway, Sweden, Denmark, United Kingdom, Greece and the French zone of Germany. Switzerland and Turkey sent statistics only; Ireland had no payments agreements, and Iceland only had one.
14. This, then, was a ''little Marshall Plan,'' Diebold says, for it ''added to the real resources currently devoted to the recovery of intra-European trade and thereby brought about a further distribution of American aid, in addition to the allocation of dollars''. W. Diebold, *Trade and Payments in Western Europe: A Study in Economic Co-operation, 1947-1951,* New York, 1952, 44.
15. These bilateral agreements caused all sorts of distortions. For example, often goods which were not normally traded, like luxury goods, were ''tied-in'' to contracts for the trade of other goods, so that in the postwar period luxury goods such as expensive textiles, cosmetics, perfumes, jewelry, gourmet foods, wines and even vacuum cleaners were extensively traded.
16. Originally the largest quotas were United Kingdom 27% of total, France 13%, Belgium and Luxembourg 9%, Netherlands 8% and Germany 8%.
17. The system of increasing gold payments reversed the disincentives from the former agreements: gold or dollar losses would force countries to cure persistent deficits, and growing soft currency reserves would make surplus countries reduce their surpluses. The 40:60 balance was subsequently altered because it was seen as being too ''soft'' on debtors and because of the skewed operation of the system. See the chapter by M. Dickhaus in this volume for more information.
18. *CEEC Report*, summer 1947, para. 87.
19. Cable sent to United States Embassy in Paris from ECA Administrator, 6 October 1949. Quoted in Wexler, *The Marshall Plan Revisited,* 157.
20. OEEC, *European Productivity Agency: Results Obtained and Future Prospects*, EPA(57)11, September 1957, 9.
21. *Ibidem.,* 11-13.
22. In 1952 eleven out of the seventeen OEEC members had productivity centres.
23. For a description of these activities and their impact on labour see A. Carew *Labor under the Marshall Plan: The politics of productivity and the marketing of management science*. Manchester, 1987.
24. Eichengreen and Uzan, ''The Marshall Plan'', 14-15.

25. Since each country had very different economies, these broad estimations are intelligent guesses. In order to study all the feedbacks of attacking the bottlenecks within any given country, one would have to build a general equilibrium model for the country, with its own unique input-output table, taking into account all the forward and backward linkages of the aid's impact.
26. See for example, K. Borchardt and C. Buchheim, ''Die Wirkung des Marshallplan: Hilfe in Schlüsselbranchen der deutschen Wirtschaft,'' *Vierteljahrshefte für Zeitgeschichte* 35/3 (1987) 317-47.
27. This assumption is used by De Long and Eichengreen, ''The Marshall Plan'', 45.
28. Eichengreen and Uzan, ''The Marshall Plan'', 15.



George Marshall enters Harvard on 5 June 1947 to deliver his speech.



Ernest Bevin addresses the Conference for European Economic Co-operation, 1947.



Georges Bidault signs the OEEC Charter, April 1948.



Opening of the meeting of the sixteen OEEC countries, 25 July 1948.



OEEC Council, 17 February 1949.



Sir Hugh Ellis-Rees arriving at the Château de la Muette, 1949.



Château de la Muette, Paris France as seen from the front.



Château de la Muette, Paris France as seen from the park.

Chapter III

AUSTRIA
A SPECIAL CASE IN EUROPEAN ECONOMIC INTEGRATION?[1]

Fritz Weber

Post-war Austria has always been considered a ''special case''[2] in the East-West conflict: a country which, for both great powers, served as an outpost to prove the willingness to negotiate with one another. Whereas, in Germany, the division of the country closed the door to co-operation very early, there was no serious attempt to split Austria. Besides obvious foreign influences, success in maintaining the country's unity may also be attributed to a generation of Austrian politicians who withstood the temptation of solutions that, at certain moments, seemed within easy reach.

The image of Austria as a special case can also be applied to Western European integration carried through by the OEEC. When the OEEC was founded in 1948, Austria was a liberated country, but still occupied. Its room for manœuvre, therefore, was limited. While it could aspire to economic integration into the West, it had to take care not to antagonise the Soviet Union. Any political or military bias in the integration process would inevitably cause severe difficulties. As a contemporary internal Government paper put it, Austria was forced to ''walk with soft paws''.[3] In 1961, when the OEEC was at last transformed into the OECD, the Austrian State Treaty had been already signed and military neutrality continued to form an essential and indispensable part of Austria's foreign policy. In line with other neutral nations Austria, too, became a member of the EFTA, a choice which began to be revised only recently. As in any other solution that did not delegate sovereign rights to a supranational institution, its participation in the EFTA project met no difficulties. It was itself a reaction to the European disintegration that resulted from pushing political and even military integration.

Furthermore, in the climate of the Cold War, any economic integration into the Western bloc involved a certain risk to a country with traditionally narrow ties with the Danube basin. Although the economic interrelationship between the successor states of the former Habsburg Empire weakened in the interwar years, immediately after World War II Austria again showed a strong ''natural'' tendency towards trade with her neighbours. About two-thirds of ''commercial'' foreign trade (*i.e.* excluding relief goods

from imports and reparations from exports) was with Czechoslovakia, Italy and Switzerland.[4] Trade with Germany had almost been reduced to nil by the occupation forces. Between August 1945 and May 1946 Czechoslovakia's share in Austrian external trade amounted to about 40 per cent and, as late as 1949, that country remained Austria's third largest trading partner.[5] At least in part, this particular development may be attributed to the damaged transport system in Central Europe as a whole. But even the economic experts of the ZIFO (Austrian Institute for Economic Research) favoured an ''Eastern'' orientation at this time.[6] Only the consequences and repercussions of both the Marshall Plan and the Cold War, in other words the political as well as economic partition of Europe, cleared Austria's economic way towards the West. Nevertheless, in that respect too, Austria remained another special case: the country took part in the Western embargo policy *vis-à-vis* the Soviet block. Although the share of its trade with the East decreased, trade with its Eastern neighbours remained relatively high throughout the period (see Table 1).

Table 1. **Share of exports to Eastern Europe as a percentage of total exports in different OEEC countries 1937-1957**

	1937	1947	1949	1953	1957
Austria	27.9	17.3	17.9	10.9	13.8
France	4.5	1.9	2.4	1.3	2.3
United Kingdom	3.6	2.6	1.6	0.6	1.7
W. Germany*	12.6	–3.6	1.2	2.8	

* Trade between West and East Germany excluded.
Source: Adler-Karlssom, *Western Economic Warfare*, 173; UNECE, *Economic Bulletin for Europe*, 9/2 (1957), 37.

To date, the story of the special case of Austria has been the subject of scientific research mainly with the political aspects of Western orientation in mind. When the economic position was considered, scholars largely limited themselves to analysing either the domestic consequences of the Marshall Plan or the implications of American foreign policy in and towards Austria.[7] Few studies have paid attention to Austria's foreign economic policy.[8] The only study which has so far been based on archive material is a *Hausarbeit*, presented to the *Institut für Zeitgeschichte* in Munich in late 1989.[9]

A main reason for the gap in research on Austria's foreign economic policy may be sought in the lack of access to Austrian archives. It was only in 1988 that the Austrian State archives reduced the blocking period to 30 years, but even this concession must be seen more as a formal than a real progress. In fact, particularly the Foreign Ministry has always had an excuse in store for those interested in the history of its activities in that, until 1959, foreign policy was executed by a special department of the Federal Chancellory, the *Sektion für Auswärtige Angelegenheiten*. Moreover, since the resources of other ministries concerned with the problem of European economic integration (Ministry of Finance, Ministry for Transport and Nationalized Enterprises) also show big gaps, there remains only the archive stock of the Ministry of Commerce to support the researcher.[10]

Besides the sad state of archive access, there is an ''ideological'' reason for the gap in research: the main hypothesis of historians interested in Austria's position towards European integration has ever been that integration policy only started in 1955 with the signing of the State Treaty. Studies covering the immediate postwar decade tended to see Austria's foreign policy only as an interrelationship between Austria and the Allied occupation forces: in other words, as the struggle for the State Treaty.[11]

In contrast to this orthodox view, this chapter will try to show that the beginnings of Austrian integration policy were set within the Marshall Plan era. The decision to participate in the ERP was the point of departure of all subsequent integration efforts.

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The starting point of the Austrian policy of integration into Western Europe was the meeting of the Allied foreign ministers held in Moscow in March/April 1947, at a time when tensions between the Western Allies and the Soviet Union obviously were rising. The failure of the Moscow Conference was correctly interpreted by Austrian politicians as postponement of the expected State Treaty for years.[12] At this time the Austrian economy was going through a critical period. Although rising, industrial production remained insufficient. There was a cruel shortage of coal and raw materials, and, above all, of foodstuffs. Austria was still dependent on foreign aid. Spiralling inflation was imminent and social tensions were on the increase. Political stability, too, worsened in 1947. Although a member of a tripartite coalition government, the Communist Party tried to strengthen its influence by supporting social unrest and to drive a wedge between the two big parties, the Conservative People's Party and the Socialist Party. Moreover, the sovereignty of the government *vis-à-vis* the Allied occupation forces was still limited.

Since 1945 the Austrian government had considered foreign aid, which – in the given constellation – could only come from the West (*i.e.* the United States), an essential prerequisite for economic reconstruction. It was not surprising, therefore, that the immediate reaction to the announcement of the Marshall Plan was rather enthusiastic. The foreign minister instructed the Austrian envoy in Washington to make further inquiries about the intended scheme and its consequences for East-West relationship.[13] A day after the start of the Paris foreign ministers' meeting on the United States aid scheme, the Council of Ministers in Vienna approved a motion, submitted by the foreign minister, Karl Gruber, officially expressing the Austrian government's great interest in the Marshall Plan.[14] Even the only Communist minister in government agreed.

As is well known, some days later, the situation in Paris changed dramatically. Molotov left the French capital, and the USSR was excluded from the list of invitees to the preparatory conference for the Marshall Plan. Nevertheless, the Austrian Government stayed on course. On 7 July, after an interministerial meeting, it voted for participation in the proposed conference and, the following day, it agreed to join the expected organization of the member states of Marshall Plan. Although no detailed minutes have survived, the decision does not appear to have been controversial. The Communist minister, Mr. Altmann, again concurred in the decision.

Despite taking the lead, Gruber was quite aware of the risks of Western integration. As the American Ambassador in Vienna reported a conversation with him on 4 July, ''He points out that Austria must proceed cautiously.... He feels it might owing to the lack of a [State] treaty be unwise for Austria to take part unreservedly...''. In Paris, Gruber had told him that the Austria delegation had to take care ''in order not to further weaken chances of obtaining a treaty''.[15] Indeed, the delegation's instructions for Paris provided the greatest possible support for co-operation with Eastern Europe, and especially with Czechoslovakia. They should support any motion to include the USSR, but not too obtrusively: ''Don't be in the limelight, in general hold a middle course, in critical situations abstain from voting, walk with soft paws...''.[16] This belief in the need for caution was not unfounded. Three days after the instructions had been issued, the Soviet High Commissioner in Austria launched a fierce attack on the government. This accused it of signing a bilateral ''relief agreement'' with the United States concerning the ''Foreign Relief Program'', which already anticipated the control mechanism of the European Recovery Programme.[17] Moreover, between 7 and 10 July, the international situation as a whole deteriorated, since the USSR had forced the Czechs to withdraw their promise to participate in the Paris Conference. Whilst the reply of the Austrian Chancellor was courageous, there was a strong fear that Austria might be split along the existing demarcation lines. Although this fear receded, Austrian policy continued to be conditioned by the need to avoid the risk of Soviet intervention, which could ultimately have led to the partition of the country. Thus Austrians had to refrain from any steps towards Western European integration that could be interpreted as presenting a challenge to national sovereignty.

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At the Paris conference, which started on 12 July, only Finland and the Eastern European states failed to come. On 16 July the Committee of European Economic Co-operation (CEEC) was established with the limited task of preparing an integrated four-year recovery program for Western Europe. The results of the work, which concentrated on presenting the different ''national'' needs for assistance, were poor. Nevertheless for Austria there were grounds for satisfaction, since the supporters of a rather loose co-operation, led by the United Kingdom, carried the day. The Austrian delegation also participated in the working group on a possible future European customs union. Gruber's instructions were clear. Austria should play for time since any decision about a customs union would be ''too early''.[18]

Subsequently, the Austrian strategy followed the path set out in spring 1947. The only substantial change concerned the gradual substitution of the initial ''emergency concept'' of foreign aid (valid to the end of 1947 and focusing on food and fuel) by a more elaborate and offensive strategy aimed at improving Austria's economic structure and international competitiveness. The ultimate goal was to make possible a closer integration into the Western economies participating in the Marshall Plan. In the words of a contemporary source, this meant ''the shift of part of the trade with non-participant [*i.e.* Eastern European] states to participants and the Western sphere in general''.[19]

Pressed by the United States, which favoured the creation of a stronger organization to push European integration forward, a new CEEC meeting took place in March 1948. This established a working committee to discuss a more binding organizational structure. Again the Austrians backed the British strategy of reducing the responsibility of any new central authority to coordination of decisions of the different national governments. They also considered that its sphere of activity should be restricted purely to economic objectives. Austria's main anxiety was to avert any development whereby economic matters could have become enmeshed with political and military goals. Indeed, the OEEC convention, signed on 16 April 1948, ignored the French position of delegating sovereign national rights to the new supranational organization. Its articles limited its activities to the planning and execution of a European reconstruction scheme, to the liberalisation of intra-European trade and to the establishment of a multilateral payment system.

Austria was not initially elected a member of the Executive Committee of the OEEC,[20] but succeeded in initiating a close co-operation with Switzerland which had gained a seat. Its main concern was not information, but preferential treatment. The delegation was under strict instructions to press for the recognition of Austria as a special case, whereby, because of considerations of internal political stability, it should have a claim for greater benefits. This became part of a double strategy. On the one hand, it tried to extract more aid from the United States but, on the other, it wanted to be excused from certain duties inherent in OEEC membership.

The liberation of trade and payment rules serves as an example of this strategy in action. At the start of European Payments Union (EPU), Austria succeeded in being granted drawing rights, *i.e.* additional means to finance its balance of trade deficit. At the same time, it succeeded in obtaining suspension of immediate trade liberalisation obligations, despite the OEEC rules of 18 August 1950 which provided a step-by-step decontrol of foreign trade. Moreover, when EPU was created in September 1950, the Viennese ECA administration in Vienna had to support Austria's initial position in the EPU by placing $80 million from counterpart funds.[21]

Despite the weak starting position, already in 1952/53, Austria achieved a creditor position within the EPU. In the words of the Austrian OEEC delegation, reporting to Vienna, this fact ''had an effect like a bomb within the OEEC''.[22] On the one hand, Austria was to become an ordinary member of the EPU in mid-1953; on the other, the improvement in the balance of payments provoked criticism of the dilatory policy of trade liberalisation.[23] In mid-1953 the overall liberalisation embraced only 35 per cent of imports. The increase of the quota to 50 per cent in December 1953 was considered insufficient by the OEEC authorities which insisted upon a target of at least 75 per cent (which was reached in 1954). Finally, in 1956 Austria surpassed 90 per cent.[24] One has the impression that the acceleration of liberalisation to Western European standards in 1954 would not have taken place without gentle admonition from the OEEC. Certainly the pace of adjustment was faster than internally announced by the Chancellor at a Council of Ministers meeting in the beginning of 1954.[25]

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In the long run, the idea of Western European unity could not be confined to economic integration. The particular international position of Austria, however, required a slowdown of the integration process until the main problem of Austrian foreign policy, the conclusion of the State Treaty, was solved. In 1949, the first alarm bells sounded in the Foreign Office, when a plan was discussed which threatened to make military interests the main criteria of raw material allocation within OEEC.[26] The outbreak of the Korean War portended another irritating mix of NATO interests and OEEC policy. The potential danger of any such agreement was recognized also by American diplomats. ''Any formalization of work agreements between NATO and OEEC'', the Assistant United States-High Commissioner in Austria wrote to Dean Acheson, ''would probably necessitate Aus[tria's] withdrawal from the latter organization.''[27] Under these circumstances Austria had no other option than to find allies to vote against any of these plans.

On the other hand, in 1950 several ''civilian'' projects to advance integration, like the Stikker Plan and the Pella Plan, were presented within the OEEC. Although the Austrians noted, with growing suspicion, the more determinedly integrationist spirit by which the OEEC seemed to have been seized, they decided to support an examination of the plans. As the head of the Austrian OEEC delegation put it, they were ''for the present more or less academic projects with chiefly propagandistic aims''.[28]

Until May 1955, Austria's foreign policy on European integration was subordinated to the most urgent goal: the restoration of political sovereignty and independence. Only if the policy towards Western Europe remained a calculable quantity for the Soviet Union could Austria hope to obtain the State Treaty. A ''calculable quantity'' meant limiting integration efforts to the realm of the economy and to avoiding any solution with the least whiff of ''politics''. With hindsight, the government's restraint was the correct choice. In 1952, when Austria was confronted with the foundation of ECSC, it was informed by Soviet diplomats that their leaders were ''worried that Austria... could join Atlantic pact. Suggests strict policy of neutrality similar to Sweden, Switzerland.'' The Soviet Union was waiting for a declaration of Austria's determination to accept neutrality and it ''expected similar statement also with regard to... trade policy''.[29]

Despite the strong economic interest in a rapprochement with ECSC, Soviet pressure kept integration policy on the lines pursued since 1948. Austria's fuel imports from ECSC countries in 1950 equalled more than 15 per cent of her total imports or 60 per cent of her fuel imports. 31.5 per cent of Austria's iron and steel exports went to the ECSC states in 1952.[30] Moreover, these states were Austria's most important overall trade partners. Not surprisingly, viewed purely in economic terms, the tenor of the first reactions was that Austria should join.[31] However membership was considered impossible at the time because the Soviet Union considered the ECSC (which comprised the most important Western European steel producing countries) as the ''armoury'' of NATO. Austria's approach to the ECSC problem was similar to that to the OEEC: it tried to obtain a special status. Only in 1954, when it had become clear that the attempt to put through an isolated special arrangement with ECSC had failed, was the strategy altered, and Austria started to coordinate its negotiations with the ''Six'' with other non-ECSC members.[32]

After 1953, the new Austrian Chancellor, Julius Raab, designated the State Treaty an even more acute goal of foreign policy. Gruber, head of the foreign office since 1945,

was dismissed and replaced by Leopold Figl who seemed to be less ''Western biased''. Moreover, inquiries were made about the Swedish and Finnish view on ESCS and economic integration as a whole.[33] Finally, in 1955, Austria obtained the State Treaty.

Although, in general, the government continued to try to act cautiously in the realm of foreign policy, after the conclusion of the State Treaty it seemed to be willing to test the scope for action. Not only did it join the Council in 1956, it also resumed negotiations for association to ECSC, which culminated in May 1956 in a customs agreement[34] and the announcement of Austria's readiness for a formal membership at the same time.[35] It is probable that the hurry in concluding an arrangement with ECSC was related to the fact that the ''Six'' had already started negotiations towards their customs union.

The other non-ECSC members of the OEEC had also become increasingly worried by the separate integration path being followed by the Six. This spilled over into a conflict within the OEEC Council in February 1956 and on 19 July the OEEC Council passed a resolution advocating an association between the ''Six'' and the other OEEC member states. In February 1957, a report of a special OEEC working group on the creation of a European free trade zone was published. One week later, the Council voted for negotiations on the establishment of a general free trade zone that would link the EEC to the other members of the OEEC. As is known, these negotiations collapsed in November 1958.

When informing his colleagues about the February 1956 OEEC meeting, Figl supported the view that the OEEC should take the initiative in replying to the creation of a European common market.[36] Although Austria was informed that it, together with Switzerland, was considered the first possible candidate for membership of an extended EEC, it did not take part in the negotiations with the Six. It is clear that political reservations, associated with the will not to provoke the Russians about a Western tendency in Austria's neutrality, determined this policy. It was, therefore, with great relief that Figl accepted the OEEC proposal of July 1956 to investigate the possible creation of a European free trade zone as ''an initiative of special importance for Austria''.[37]

Thus began the road to Austria's participation in the European Free Trade Association (EFTA) project. Austria started to cooperate closely with the other neutrals, Sweden and Switzerland. After autumn 1958 it took part in the preparatory meetings designed to establish EFTA. The EFTA Treaty was put into effect in the beginning of 1960. At the end of the same year the agreement on the transformation of the OEEC into the OECD was signed. With the establishment of a more ''moral'' than practically orientated organization, a new era began in the interrelationship between Austria and the international community.

Despite Austria's membership in EFTA, however, real economic integration into Western Europe involved mainly the EEC states. The Austrian boom of the 1950s was based on the great increase in exports.[38] Already in 1957, the share of the later EEC countries in Austria's foreign trade amounted to almost 50 per cent, compared with less than 10 per cent with the EFTA partners. Even after the establishment of EFTA, this pattern remained unchanged.[39]

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Although, on a European scale, Austria's economic significance has always been comparatively small, its exposed location at the very frontier of the Cold War made the country an important participant in the process of economic integration. At first sight, Austria's integration policy may seem rather ambiguous. However, the country had to take into account its difficult international position. Until 1955, any decision on Western integration was subordinated to the attainment of the State Treaty. After 1955 considerations on neutrality had to determine foreign economic policy. As long as the activities of the OEEC or any other institution concerned with European integration confined themselves to purely economic issues, Austria met no difficulties in participating. If, however, political or military considerations arose, Austria had to stay aloof. Nonetheless, Austria's integrationist zeal seems to have been more evident than that of its neutral Alpine neighbour: Switzerland.

NOTES

1. Abbreviations used in the notes:
   AA Sektion Auswärtige Angelegenheiten (see BKA)
   BKA Bundeskanzleramt (see ÖStA)
   BMfAA Bundesministerium für Auswärtige Angelegenheiten (see ÖStA)
   BMfHuW Bundesministerium für Handel und Wiederaufbau (see ÖStA)
   BMfVuvB Bundesministerium für Verkehr und verstaatlichte Betriebe (see ÖStA)
   ÖStA Österreichisches Staatsarchiv, Vienna.
2. M. Rauchensteiner, *Der Sonderfall. Die Besatzungszeit in Österreich 1945-1955*, Graz/Wien/Köln, 1979.
3. ÖStA, BMfAA Sekt. II pol. 1947, Amerika 2, GZl. 107.651, Zl. 108.194-pol/47: *Amtsvermerk des KBA, AA über die Besprechung Gruber betr. die vom Gesandten Vollgruber auf der Pariser Konferenz über den Marshallplan einzunehmende Haltung*, 8 July 1947.
4. *Monatsberichte des österr. Instituts für Wirtschaftsforschung*, 1/3 (1947) 36.
5. *ZIFO*, 1/6 (1946) 98; *Statistik des österreichischen Außenhandels für 1949*, 5-6.
6. *Cf. ZIFO*, 1/3 (1947), 29-30; K.W. Rothschild, *The Austrian Economy since 1945*, London/New York, 1950, 6-7.
7. *Cf.* P.C. Eggleston, *The Marshall Plan in Austria: A Study in American Containment of the Soviet Union in the Cold War*, PhD, University of Alabama, 1980; A. Einwitschläger, *Amerikanische Wirtschaftspolitik in Österreich 1945-1949*, Wien/Köln/Graz, 1986; W. Mähr, *Der Marshallplan in Österreich*, Wien/Graz/Köln, 1989.
8. *Cf.* S.G. Steiner, *Österreich und die europäische Integration zwischen Moskauer Deklaration und Europakongreß in den Haag (1943-1948)*, PhD, Universität Salzburg, 1981; H-P. Novak, *Die österreichische Eisen-und Stahlindustrie und ihr Verhältnis zur Montanunion*, PhD, Universität Wien, 1954; H. Vorbach, *Die Auswirkungen der westeuropäischen Wirtschaftsintegration auf den österreichischen Außenhandel*, PhD, Universität Linz, 1978.
9. F. Weiß, *''Auf sanften Pfoten gehen'': Die österreichische Bundesregierung und die Anfänge der westeuropäischen Integration 1947-1957*, Hausarbeit, University of Munich, 1989.
10. Unfortunately the resources of the *Stiftung Bruno Kreisky Archiv* in Vienna, which follows a rather liberal access policy, offer little help for the years prior to 1959 because of wide gaps in the materials preserved.
11. *Cf.* G. Bischof and J. Leidenfrost (eds.), *Die bevormundete Nation. Österreich und die Aliierten 1945-1949*, Innsbruck, 1988; R.G. Knight, *British Policy towards Austria, 1945-1950*, PhD, London, 1986; A. Schilcher (ed.), *Österreich und die Großmächte. Dokumente zur österreichischen Außenpolitik 1945-1955*, Wien/Salzburg, 1980.

12. K. Gruber, *Zwischen Befreiung und Freiheit. Der Sonderfall Österreichn,* Wien, 1953, 143; Rauchensteiner, *Sonderfall*, 201.
13. ÖSTA, MBfAA, Sekt. II pol 1947, Amerika 2, GZl. 107.651, Zl. 107.679-pol/47.
14. *Ibid*., Zl 107.768-pol/47.
15. Cited in W. Mähr, *Von der UNRRA zum Marshallplan. Die amerikanische Wirtschaftshilfe der Jahre 1945-1950 in Österreich*, PhD, Universität Wien, 1985, 250.
16. ÖStA, BMfAA Sekt. II pol. 1947, Amerika 2, GZl. 107.651, Zl. 108.194-pol/47: *Amtsvermerk des BKA, AA über die Besprechung Gruber betr. die vom Gesandten Vollgruber auf der Pariser Konferenz über den Marshallplan einzunehmende Haltung*, 8 July 1947.
17. Mähr, *Marshallplan*, 41-50.
18. ÖStA, BMfAA Sekt. II pol. 1947, Amerika 2 GZl. 107.651, Zl. 108.781-pol/47: *Konzept Grubers zu Fragen von Zollunionen im Rahmen der Marshallplan-Konferenz*, 18 August 1947.
19. ÖStA, MBfAA W-pol 1948, Wirtschaftsakten ERP, Zl. 144.381-Wpol/48. *Beschluß-Protokoll Nr. 49a des Wirtschaftlichen Ministerkomitees*, 19 March 1948.
20. In 1949, however, the Austrians successfully applied for a vice-presidency.
21. Weiß, *Auf leisen Pfoten*, 46-52.
22. ÖStA, BMfHuW, Sekt. IV 1953, 401/14, GZl. 73.553, Zl. 87.513: Österr. *ERP-Büro Paris an BKA. ERP-Zentralbüro*, 11 August 1953.
23. *Zehn Jahre ERP in Österreich 1948/58*, Österr. Staatsdruckerei, Wien, 1958, 101.
24. On the liberalization of Austrian foreign trade see F. Breuss, *Österreichs Außenwirtschaft 1945-1982*, Wien, 1983, 23-24.
25. ÖStA, BMfVuvB, MR, 33. Sitzung. 11. Januar 1954: *Memorandum des BKA, Sektion für wirtschaftl. Koordination zu den bevorstehenden Rallonge-Verhandlungen und der Verpflichtung Österreichs zur Erfüllung des § 2 des Liberalisierungskodex*.
26. ÖStA, BMfHuW, Sektion V, 1949, 101/2-2/14, G.Zl. 90.066, Zl. 94.245. BKA-AA to BMfHuW, 27 January 1949.
27. Cited in *Foreign Relations of the United States* (FRUS) 1952-54, Vol. VII, 7.
28. ÖStA, BMfHuW, Sektion V, 1950, 101/2-3/3, GZl. 102.724, Zl. 120.378. Österr. ERP-Büro Paris (Standenat) to BKA, ERP-Zentralbüro, 14 November 1950.
29. Cited in Schilcher, *Österreich*, 158.
30. Österr. Statistisches Zentralamt, *Statistik des Außenhandels Österreichs 1950*, Wien 1951: 1954, Wien 1955.
31. Weiß, *Auf leisen Pfoten*, 68-87.
32. *Ibid.*, 92-97.
33. ÖStA, BMfHuW, Sektion IV, 1953, 401/14, GZl. 73.553, Zl. 88.038: Kolb to BKA, AA, 14.8.1953; G. Stourzh, *Geschichte des Staatsvertrages 1945-1955. Österreichs Weg zur Neutralität*, Graz/Wien/Köln, 1985, 114.
34. Weiß, *Auf leisen Pfoten*, 139-149.
35. See *Die Presse* and *Wiener Zeitung*, 24 October 1956.
36. ÖStA, BMfVuvB, MR-Material 1956, Sitzung vom 2. März 1956: *Vortrag Figls an den Ministerrat betr. OEEC-Ministerratstagung Febr. 1956*.

37. ÖStA, MBfVuvB, MR-Material 1956, Sitzung, 20. July 1956: *Vortrag Figl an den Ministerrat betr. OEEC-Ministerratstagung 17.-19. Juli 1956*.
38. F. Butschek, *Die österreichische Wirtschaft im 20. Jahrhundert*, Stuttgart 1985, 119-125.
39. Swiss foreign trade showed a similar picture: In 1957, only 11 per cent of its exports and 9 per cent of imports fell to the share of EFTA: the figures for the EEC were 38 per cent and 58 per cent respectively. See U. Wartmann, *Wege und Institutionen zur Integration Europas 1945-1961*, Paris/Köln/Opladen, 1961, 158.

Chapter IV

IRELAND AND THE MARSHALL PLAN: A CARGO CULT IN THE NORTH ATLANTIC?[1]

Brian Girvin

At the end of the Second World War, the Irish Free State was ill-prepared for the challenges which the postwar world presented. The Fianna Fáil government had been in office since 1932 and had won a convincing victory in the 1944 General Election. This election had been an endorsement of the war-time government and its relative success in maintaining Ireland's integrity towards the outside world. Irish neutrality was deemed a success by Irish policy makers: indeed there was a veritable consensus that Prime Minister Eamon de Valera had won the public exchange with Churchill at the end of the war over this issue. This was not a view which commended itself to the allies, and most particularly not to the United States. Relations between Ireland and the United States were subsequently to be complicated by American suspicion of Irish motives and behaviour during the war. Irish complacency was to an extent well founded. Neutrality may have isolated the state from European events, but this is precisely what the government and public opinion seemed to want. Isolationism was not unwelcome and many believed that the advocacy of Catholicism, a rural way of life and its democratic political tradition offered much to the world. If the world ignored this, so much the worse for the world.

There were political and economic reasons for this. In particular, recalling the disastrous policies adopted by the major states in the League of Nations during the 1930s, the Irish government was wary of any international entanglement. While Ireland applied for membership of the United Nations, and was vetoed by the Soviet Union, it was a cautious approach and one which sought to keep the Irish government at a distance from more integrative schemes such as the World Bank, the IMF, the ITO and later GATT.[2] Thus, the Irish reluctance to cooperate in Europe after the war was complex and arose from a number of considerations. In economic terms, moreover, it was widely believed that the Irish economy had functioned well in a protectionist environment. De Valera's economic advisor, Professor T. Smiddy, noted that the experience of the 1930s confirmed the policy mix adopted by the government. He highlighted the point that, in contrast to most other states in Europe, Irish national income had declined less than the average. The lesson to be learnt was that remaining outside the international trading system, and not integrating into the industrial network, allowed for greater flexibility and meant that

Ireland avoided the price of adjustment which heavily integrated states had to pay during the 1930s and which was believed to be the case after the war again:

> One might state that generally the countries which are largely agricultural but whose industries cater only for the domestic market and which were able to import the raw materials at depressed prices, but which had normally no industrial exports, such as Ireland, were not adversely affected from the point of view of unemployment.[3]

Despite this optimistic assessment, the Irish economy experienced serious setbacks during the war and its resources had been seriously depleted by 1945. This was typical in Europe, but what was unusual was the continuing commitment to a policy framework which sustained Smiddy's assessment. Moreover, the mix within the economy may have been such as to prevent any serious attempt to transform the economy at this time. Certainly when Seán Lemass launched his political initiative in 1944 to achieve full employment and rapid economic growth, he experienced the full weight of opposition from the various sectors of the Irish economy and institutions. On each occasion between 1944 and 1947 that he attempted to generate new initiatives, the more conservative forces within the government effectively vetoed him. The problem for the innovator was that Smiddy was right in his assessment of the nature of the economy, and it may have been the case that most sectors welcomed the security which this implied. By 1947, effective tariff protection for the bulk of domestic industry had been restored. Moreover, a sort of normality had been restored within the agricultural sector, especially for beef producers. Although there was doubt about the viability of restoring the traditional export trade to the United Kingdom, policy making was based on the assumption that this objective would be achieved if possible.[4]

Tables 1 and 2 highlight the extent to which the Irish economy was heavily dependent on agriculture for exports and focussed on a single market.

Table 1. **Irish exports and imports by region**

(%)

	Exports				Imports			
	United Kingdom	EC 10	US	Other	United Kingdom	EC 10	US	Other
1929	92	3	2	3	78	6	8	8
1938	93	5	1	2	51	10	11	28
1950	88	7	2	3	53	7	13	27
1960	75	6	8	12	50	14	8	28

Source: K.A. Kennedy, Thomas Giblin and Deirdre McHugh, *The Development of Ireland in the Twentieth Century*, London, 1988, Table 9.1, 183.

Table 2. **Composition of exports**

	1929	1938	1950*	1960
Live animals	42	50	38 (42)	30
Other foods	33	31	35 (35)	30
Beverages and tobacco	11	10	7 (7)	5
Crude materials, fats and oils	12	8	8 (16)	10
Manufactures			7	19
Other	2	1	6 (1)	6

Source: K.A. Kennedy *et al.*, *The Development of Ireland*, 184-85. *SITC classification only from 1950. The figures in brackets relate to previous classification. Until 1950 manufactures and crude materials etc., were combined.

Industry recovered quickly from the war and had passed its pre-war index by early 1946. By contrast, agriculture lagged behind, and was not to reach its 1938-39 figure until 1950. There is little in the immediate postwar years to suggest that agriculture would expand rapidly or that it would contribute to growth on a large scale. The Minister for Agriculture offered an optimistic prediction in 1945 that, if particular reforms were in place, the country might expect a 15-20 per cent increase in output and an increase in employment of around 10 per cent. Whatever prospect there might have been in theory for implementing a radical departure in agriculture, this did not occur in practice. One reason was that the agricultural sector had become extremely stable and there was a resistance among farmers to any changes in their condition. The government appeared to connive with this attitude, continuing to emphasise the exporting link with Britain rather than to search for innovative solutions to Ireland's economic problems. Yet in reality, the government's room for manœuvre was also limited. While Ireland had benefitted from the collapse of the inter-war trading system, it found itself in a difficult position as it remained heavily dependent on access to the British market for its exports. Irish growth seemed to be linked to Britain' which was not expanding rapidly after the war and which, sought to link Ireland into its trading system.

In fact the Irish economy was under considerable pressure after the war. Despite the restoration of industrial production, manufacturing industry in particular suffered from a shortage of raw material, capital goods and investment capital. The home market was limited by the nature of the protection drive and by a distinct reluctance on the part of the native industrialists to consider exporting or indeed deepening the production process. Once production had been restored to pre-war levels, it became clear that there was relatively little further room for expansion without either export-led growth or a considerable increase in farmers' income. Yet the farming sector did not appear to offer this opportunity either. The volume of gross agricultural output had only risen by 2 per cent above the 1912 figure in 1958. Moreover, agriculture generally was very unsettled during and after the war, as evidenced by the growth of a strong political party representing farmers in the marginal lands of the west of Ireland (Clann na Talmhan). Though a protest party, it was fairly successful on a number of occasions, giving voice to those who were squeezed between the industrial expansion of urban areas and the priority given to the large exporting sector of farmers in the east and midlands of the state. In addition,

growth was not forthcoming. There is a fall of 13 per cent in agricultural production between 1945 and 1947 and though there is considerable growth between 1947 and 1949, this is followed by a further fall of 8 per cent between 1949 and 1952.[5] This is not to claim that the agricultural sector did not benefit from the isolationist and protectionist policies, only that whatever incentives were available were utilised to secure the consumption patterns and stability of the family farm rather than as leverage to develop new areas for investment and expansion. The Irish state transferred considerable resources to the farming community throughout the 1930s and this was continued into the 1950s. By 1950, state expenditure on agriculture accounted for 23.9 per cent of total expenditure. The comparable figure for Denmark was 5.4 per cent and for New Zealand 2.1 per cent. In fact, agriculture was doubly advantaged in these circumstance as it contributed less than average to the tax net and received considerably more than this might allow.[6]

At a social, economic and political level, the future for the Irish economy after 1945 appeared problematic, though such a prognosis was not shared by the political elite or public opinion. Most expected that growth patterns would follow those of the 1930s and some even expected a deepening of Ireland's isolation from world markets and trade. The difficulties experienced by Britain in 1947 introduced a note of realism into Irish thinking, as it was to prompt the Americans' more active involvement in Europe. If part of Ireland's success was predicated on access to an adjacent market, then any threat to that market was going to have reverberations in Ireland as well. Insofar as Ireland had an interest in the development of European integration at this time, it was prompted by problems with the United Kingdom. Self interest was an obvious factor for all the states involved in the development of a European market, but for the Irish it was a removal from the situation, as its focus remained on Britain and what it would do.

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The Irish were not particularly enthusiastic about the Marshall Plan as such. The Department of Finance, at once realistic and rationalistic about Irish economic affairs, found the idea of a European-based recovery programme questionable at best. Ireland's real interests rested elsewhere:

> Our interests in the matter are obviously related to those of Great Britain because of the direction of our foreign trade and our position as a large sterling creditor.

A little later, another Finance official complained of the ''indignity'' involved in receiving financial assistance from the United States. While the Department of Finance remained sceptical throughout the exercise, the Department of External Affairs became the primary advocate of a closer connection with Europe and the United States. In addition to this, the Department of Industry and Commerce, or at least its radical Minister, Lemass, believed that the capital which would become available under any plan would benefit the economy and also help to generate further growth.[7] There was unease among the Irish élite on how to handle the question. With the exception of Finance, the spending departments understandably wished to utilise any funding which might be available. An additional consideration involved a reluctance to distance Ireland from the United States. To an extent, the Irish had begun to mend fences even if the memory of

Ireland's neutrality, the attack on the American embassy in 1945 and the Taoiseach's condolence to the German embassy on Hitler's death could not easily be forgotten. There is also some evidence to suggest that early Irish analysis of the emerging cold war, though sympathetic to the United States, was suspicious of American dominance though not enough to distance them from anti-communism.[8]

There was an unstated assumption in Irish circles that Irish Christian idealism was superior to the atheistic materialism of the Soviet Union but also to the hedonistic commercialism of the United States. In this view, many circumstances would draw Ireland and the United States together, but significant differences also operated. Yet as one senior civil servant was to note in a retrospective assessment in 1952:

> The OEEC is one of the very few organisations of which we can retain membership. It is surely most important to us to retain a forum where our views may be heard in international councils. Isolation may be possible for countries of the economic and military strength of the USA; it would spell disaster for a small country such as ourselves dependent so largely for its economic survival on international trade... active membership in such organisations is the only way in which a small country may redress the balance between her weakness and the strength of the Great Powers.[9]

If Ireland had a somewhat superior view of the frailties of its fellow Europeans and Americans, it was forced to put them in perspective once the invitation to attend the Paris Conference in July 1947 was circulated. The Department for External Affairs linked the Marshall Plan directly to the collapse of British power in the Mediterranean and the willingness of the Americans to become involved there. The department noted that ''many people think that the plan has not only an economic but a political'' aim. For the department, the linkage between the Truman doctrine and the Marshall Plan was clear from the outset, though this did not affect the department's willingness to counsel support. Agreement on attendance was quickly reached, and the Ministers for Industry and Commerce and Agriculture were appointed to represent Ireland. At the conference, Lemass promised that Ireland would contribute to European recovery within the limits imposed on a small economy. He suggested further that individual economies could not recover in isolation from the rest of the world, though he noted significantly that attempts to create international economic co-operation in the past had not been successful.[10] Much of what Lemass said in Paris may have been cosmetic, and structured to gain the financing which he believed was on offer. Indeed he hinted that free trade might be the way forward, and this at a time when his department was restoring effective protection to the Irish economy. De Valera's contribution on 22 September reflected his puritanical view of economics and a continued belief in the merits of self sufficiency.[11]

Despite these reservations, there were a number of reasons for Ireland's commitment to the OEEC. In the first place, Ireland had a significant dollar deficit in 1947 and was under pressure from the British to contain its demands on the sterling pool. In addition, if Ireland was to benefit from the availability of raw materials and machinery in the immediate future, these were likely to come from the United States and would have to be paid for with dollars. Furthermore, during 1946 Irish exporters had identified a number of outlets for Irish agricultural products in continental Europe. Exports to Belgium, France

and the Netherlands were on the increase and were above the pre-war level. While the Irish share of this market remained small, a redirection of efforts into these markets remained a possibility at least until 1948. Moreover, in a submission to the CEEC, the Irish government estimated that agricultural production would reach pre-war levels by 1951. Notwithstanding this, it was claimed that Ireland had a significant role to play in the recovery of Europe, but that this could only be achieved if adequate provision of inputs were available for Irish agriculture.[12] The State Department shared the Irish view, noting that:

> The major portion of Irish exports are commodities which will remain in short supply for a considerable time. In the case of cattle, which is the dominant export, Europe as a whole will not have regained even its pre-war status for many years to come.

It was expected by the State Department that Ireland would continue to pursue its traditional economic policy and to maintain its conservative fiscal and monetary policy. This would be reinforced by the close connection with Britain and much of the future for Ireland was dependent on the British economic situation.[13]

By March 1948, the internal Irish situation had changed somewhat. After an inconclusive General Election, a new multi-party coalition government was formed, known at the time as the Inter-Party Government. The Minister for External Affairs, Seán MacBride, was to play an important role in directing Irish policy within the OEEC and with respect to the European Recovery Programme. In contrast to his predecessor, his approach to the question of European recovery was more active and interventionist, though not without an element of unreality. One consequence of this activism was to place the Department of External Affairs at the centre of foreign policy making, a function which previously had often been controlled by the Taoiseach. It is also the case that the Department recognised the attractiveness of having a foreign policy which was not solely concerned with the United Kingdom. The new government quickly ratified the convention which established the OEEC after MacBride's active representation at the March 1948 Paris conference.[14]

Despite his own optimism, MacBride's contribution at the Paris meeting was not a success as he attempted to link the partition question with that of recovery. Such an approach was welcomed neither by the British nor the Americans, indeed it raised doubts in American minds of the seriousness of the Irish in the project. On his return to Dublin, MacBride advised his colleagues on the approach to be taken with any available funds. He claimed that the Americans were insisting that proposed programmes had to be ambitious. A dynamic approach should be taken and economic development actively promoted. MacBride was the most active in promoting this developmental approach, but the Ministers of Agriculture, Industry and Commerce, Education and Health all recognised the possibilities for expansion. The Minister for Agriculture in particular believed that the main consideration should be for the development of agriculture.[15]

If there was a danger that Marshall aid would take the form of a European style ''cargo cult'', the Department of Finance was alert to this possibility:

> While it might seem to be a great advantage...to have access to a large volume of funds easily obtained, there were dangers inherent in a facility of this sort which

provided a standing temptation to governments to incur expenditures without true regard to the economic consequences.

In contrast to the spending departments, Finance believed that dollars, if available, should be used with care and then only to support the sterling pool. The Finance position was an extremely restrictive one and in line with its traditional approach to the economy. However, in political terms, Finance may have been able to obstruct specific initiatives, but was not in a position to challenge the decision to co-operate in the recovery programme.

A much greater challenge to the programme came from the American decision that Ireland would receive funding in the form of a loan rather than a grant. This shocked the government and a number of attempts were made to reverse the decision once it became known. MacBride again appears to have miscalculated on this, complaining to Jack Hickerson of the State Department that the United States was pursuing a partitionist position by allowing Northern Ireland to receive dollars in the form of a grant as part of the British state while Ireland received only a loan. This he added:

> will be construed as support by the United States to the continuance of partition. This will tend to create an unfavourable impression.

The problem for Ireland was that this line of argument had virtually no impact on American sensibilities. Paul Hoffman at the ECA remarked that it would be Ireland's ''funeral'' if the loan was refused, as there were many others anxious to obtain credits. Moreover, the Americans were convinced that Ireland's economic potential was such that it was among the best placed to repay a loan. Despite fierce lobbying by Ministers and civil servants, the American position remained unchanged. Indeed, it appears that the Irish approach irritated the United States, which hardened its position. Even more importantly, the British learned that the decision was a political rather than an economic one and reflected continuing American hostility to Ireland's war time neutrality, MacBride's insistence on raising the partition issue and the mobilisation of Irish-American opinion to exert pressure on the Administration.[16]

Ultimately the decision had to be taken by the government whether the loan should be accepted or not. Finance recommended that it be accepted on the grounds that, without dollar aid, the Irish economy would experience severe destabilisation. MacBride opposed this, arguing that further pressure should be exercised on the United States, especially by the British. While the British were sympathetic with the Irish case, because of the common interest in the sterling pool, it was unable to achieve any change in policy. In the first place, the American decision rested on political grounds and the desire to punish the Irish for neutrality. In addition, the sterling pool entered a crisis during June 1948, and the British notified the Irish government that it could no longer draw on the pool for dollars after 30 June. The main consequence of this was the decision to revise the original decision and to accept the terms of the American loan.[17]

* * *

After a rather shaky start the Irish became fully involved in the European Recovery Programme and received funding between 1948 and the end of 1951. Ireland was

disappointed by the allocation it received as this usually proved to be less than that which was originally claimed necessary. Thus, for the year ending 30 June 1949, the Commission of Four of the OEEC reduced the Irish estimate by 29 per cent. In total, Ireland received $148 million, mostly in loans, but with a small grant of $18 million and technical assistance amounting to $1.25 million (a total of just over £40 million). The debate over how to utilise these resources continued, with Finance urging caution and the spending departments advocating ambitious spending programmes. In the main the latter were successful, and a considerable amount of capital investment took place during the years of the programme. In the long term programme prepared for the OEEC, which was published as a White Paper in 1949, quite ambitious projections were made. The basic assumption was that exports would double by the year 1952/53 and that the volume of agricultural output would expand by some 22 per cent over the 1947 figure. The optimism contained in the programme was based in part on the improvement in the Irish economy in 1948 (an improvement which continued into 1949), but may also have been a recognition that this was what the Americans wanted to hear. Certainly, one of the participants in the programme later recalled that the exercise was ''undertaken to persuade the Americans to give us Marshall Aid''. Although this was the official Finance view, it is only a partial one as other departments considered that their contribution was towards economic development and this was also what the ERP was intended to achieve.[18]

The approach taken by the Irish government to funding was summarised in an External Affairs memorandum at the end of 1948. The department was still hopeful that some of the funding would be in the form of a grant rather than a loan. The government were in fact to be disappointed in this hope, but the conditions outlined by External Affairs prevailed for the next three years. Development of the Irish economy was considered to be the primary aim of the financing, but such schemes would have to be balanced with the need to repay the loans. Priority would be given to schemes which would contribute to this repayment. This, in turn, would require careful planning in order to avoid inflationary pressures. Perhaps even more importantly, it was assumed that any funding would be channelled towards areas of the economy which would not compete with subsisting private companies. This consequently narrowed the options to expanding production in the primary sector or to investing in areas ancillary to agriculture.[19]

In retrospect it seems that Irish participation in the ERP was fairly passive, though the immediate impact of the available finance was important. One million acres of farming land was reclaimed at a cost of £10 million with most of the financing coming from Marshall aid. Rural electrical development was supported, reafforestation was promoted and considerable monies were spent on hospital buildings. It has been suggested, however, that most of the investment was politically biased in that the greatest proportion went to areas in which cabinet ministers had their constituencies.[20] More indirectly, but no less importantly, counterpart funding provided the opportunity to import materials and products which would either not have been available or would have proved expensive to obtain. Although difficult to demonstrate, it can be suggested that the funding received during this period provided Ireland with a breathing space to allow recovery and lay the basis for further growth during the 1950s.

In retrospect, however, Ireland's contribution to European recovery was limited, and to the extent that it existed, was indirect. The 1948 Trade Agreement with the United Kingdom was more important for Ireland than either the OEEC or Marshall Aid. This Agreement institutionalised privileged access to the British market for Irish agricultural products. Moreover, the British insisted that Ireland accept a limit on exports to other areas. This, and the stability of Irish production, conspired to maintain the traditional links between the two economies and closed off any possibility of Irish involvement in continental Europe. Likewise, industrial production returned to its traditional focus on the domestic market. Despite impressive expansion up to 1950, it proved impossible to sustain such growth into the 1950s. The absence of expansionary budgets, facilitated in 1950 by the extra funding, and the constraints of the balance of payments deficit plunged Ireland into economic crisis in 1951, from which it was not to emerge for a decade.

The OEEC had never been convinced of Irish commitment to the ERP or to trade liberalisation, while the Irish were suspicious of the movement for free trade. In any event, by 1951 Ireland had once again alienated the United States by refusing to adhere to the Mutual Security Act, which was necessary if any further aid was to become available. While Dublin was worried about what it deemed to be a militarisation of aid, and expressed its commitment to achieving world peace, the real reason was the traditional obsession with partition:

> It is because they seek these objectives without qualification or reserve that the Irish government wish to obtain a peaceful and early ending of the unjust partition of Ireland which not only adversely affects the internal development of the Irish nation but dominates its approach to all questions of external policy.[21]

* * *

Ireland's involvement with the Marshall Plan was essentially a by-product of its economic relationship with the United Kingdom and its natural concern to avail itself of finance to improve the condition of its economy. In respect of the wider issues involved in the ERP and the OEEC, the country had little interest and sought on most occasions to reaffirm its traditional isolationism in all matters. While some benefits were derived from participation, these were short lived and, unlike many other states in Western Europe, this period did not provide Ireland with the stimulus to expand rapidly during the 1950s.

NOTES

1. Abbreviations used in the notes:
   NADT National Archives Dublin, Department of the Taoiseach.
2. NADT, S.13590 *Small Nations in the Post War World* De Valera's contribution to a debate in Trinity college, Dublin 1 November 1944 with contributions by Jan Masaryk and Arnold Toynbee.
3. *Ibid.*, Smiddy to de Valera, 31 November 1944.
4. B. Girvin, *Between Two Worlds: Politics and Economy in Independent Ireland*, Dublin, 1989.
5. Kennedy *et al.*, *The Development of Ireland*, 202-03 for data.
6. R. Crotty, *Irish Agricultural Production*, Cork, 1966, 120; NADT, S.14197, *Farming Community*, memorandum Department of Finance, 23 December 1947.
7. R. Fanning, *The Irish Department of Finance*, Dublin, 1978, 411-13. For other remarks by the department F121/16/48, ''United States Country Study'' and F121/28/48 for a review of use of aid. I am grateful to the Department of Finance for permission to consult these files which have not yet been transferred to the National Archives.
8. R.J. Raymond, ''The Marshall Plan and Ireland, 1947-52'' in P.J. Drudy, *The Irish in America: Emigration, Assimilation and Impact*, Cambridge, 1985, 295-328; D. Dinan, ''After the 'Emergency': Ireland In the Post-War World, 1945-50'', *Eire-Ireland*, 24/3 (1989) 85-103.
9. NADT, S14106/I, Fay to Aiken, 13 February 1952.
10. NADT, S.14106A, Report on Paris conference, July 1947.
11. Speech cited in M. Moynihan (ed.), *Speeches and Statements by Eamon De Valera 1917-73*, Dublin, 1980, 496.
12. The discussion here draws on Bernadette Whelan, unpublished manuscript, 32-33.
13. NADT, S.14106B, Memorandum by External Affairs circulated with copy of State Department ''Country Study'', 3 March 1948.
14. *Ibid*., Memo: Department of External Affairs, 1 April 1948 on OEEC and cabinet agreement on ratification 2 April 1948.
15. *Ibid.*, Memorandum by MacBride, 9 May 1948; James Dillon, 12 May 1948. Department of Education, 11 May 1948.
16. For a discussion see Whelan; Raymond, ''The Marshall Plan and Ireland'', 308-09; Dinan, ''After the Emergency'', 90. NADT, S.14106B, *General Considerations on Ireland's Position in Relation to the European Recovery Programme*, 4 June 1948; S.14106C, Reports on attempts to influence the United States, June 1948.

17. Fanning, *Irish Department of Finance*, 424-29. NADT, S.14106C, G.C. 5/20 Cab. for the decision to reverse rejection, 25 June 1948.
18. Fanning, *Irish Department of Finance*, 406. The External Affairs view is expressed in NADT, S.14106D, report circulated to government 16 December 1948.
19. NADT, S.14106, Department of External Affairs, memorandum on use of Marshall Aid funding, 16 December 1948.
20. B. Whelan, ''The European Recovery Program (The Marshall Plan) and Ireland: Summary and Assessment'', in *Eire-Ireland*, 24/3 (1989), 78-84; 81 for comment.
21. NADT, S.15231 A, Department of External Affairs to American Embassy, 24 December 1951. This file contains the correspondence between the United States and Ireland on this issue. For the correspondence on NATO cf. S. 14291 A: *Atlantic Nations*.

Chapter V

NORWAY, THE UNITED STATES AND THE MARSHALL PLAN, 1947-52[1]

Helge Pharo

While most of Western Europe greeted Secretary of State George C. Marshall's Harvard speech with enthusiasm, the late response of Norway's Labour government was deliberately non-committal. Initially Foreign Minister Halvard M. Lange stated that Norway would not commit itself until the Soviet Union had made its position clear.

In closed quarters the Labour cabinet and its small foreign policy élite vacillated. As late as 17 June, Lange in a cabinet conference mused that it might be preferable for Norway to remain outside if that were economically feasible. He was supported by Minister of Finance Erik Brofoss, who thought it not unlikely that Norway would be able to do without American aid through 1948. Only after Lange towards the end of June had secretly journeyed to Stockholm to discuss the issue with Swedish Foreign Minister Östen Undén, did the Labour cabinet decide to join.[2]

In retrospect the response of the governing Labour Party may appear paradoxical. The party had launched a massive industrialisation drive after the war. Norway's comparative advantage in terms of cheap hydroelectric power was to be exploited for the purpose of constructing large-scale plants for the world market, producing aluminium in particular. Labour's growth strategy in itself thus required a huge influx of foreign capital.

This strategy presupposed a relatively liberal economic world order. The goal of Norwegian trade policy, the government stated in an early 1947 white paper, was to give it ''such forms, such dimensions that the economy of our country will be tied to and integrated into world trade in the most suitable manner''. Restrictive trade practices were, according to Foreign Minister Lange, temporary measures designed to help Norway and other nations solve the problems of transition from war to peacetime normalcy.[3] Growth based on exports could only be successful if Norway remained closely tied in with the kind of liberal postwar economic order designed by the western powers during the war.

In terms of security Norway was no less dependent upon the West. Since 1905 the independent Norwegian state had enjoyed the benefit of a British defence umbrella. When this implicit security guarantee failed to prevent five years of German occupation, the wartime government in exile in London drew the conclusion that in a threatening

international situation Norway would need an explicit security guarantee from the western powers, Britain and the United States. For a while the London government promoted a postwar North Atlantic alliance system. The subsequent postwar Labour government of Prime Minister Einar Gerhardsen initially pursued a so-called ''bridge-building'' policy, in reality a low-profile endeavour to stay out of conflict between the great powers. Yet its reserve or fallback position was clear. If tension rose, then Norway would look to the West, as historian Olav Riste has pointed out in a number of works.[4] Thus, it would appear that the basic tenets of Labour's security as well as foreign and domestic economic policies should have given the Gerhardsen government cause to rejoice over Secretary Marshall's proposal. The Harvard speech, even if vague, documented a clear intention to maintain United States influence in Western Europe, and to promote economic growth and stability as well as a liberal trading system.

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However, at the time of Marshall's Harvard speech, Norway's needs and position were not analysed in such straightforward terms. To contemporaries the situation was fraught with uncertainty and contradictory trends. As the western option was relegated to a reserve position by Labour's foreign policy makers, bridge-building, to the public at large and in particular to Labour's voters, gained the position of official ideology. Thus the government's room for manoeuver was sharply circumscribed.

Bridge-building represented a major adjustment to the domestic political scene. The majority of the Labour Party and the Communists viewed any alignment with the United States as undesirable. In the eyes of the Communists, Britain was certainly no less suspect an ally. The bourgeois parties were significantly weakened. For most of those who had spent the wartime years in Sweden and to parts of the influential former Home Front leadership, a Nordic foreign policy orientation seemed more desirable than a North Atlantic one.

Analogous complexities can be discerned in the areas of foreign and domestic economic policy. Foreign trade and the domestic economy were subject to an elaborate set of direct controls. When the Marshall Plan was launched they formed an important part of the means of economic policy available to the Government. In the short term liberalisation did not appeal to Minister of Finance – later of Trade – Erik Brofoss and his planners. The system of controls was designed and maintained to help Norway avoid the worst consequences of the expected postwar depression.

The leading Norwegian economist Ragnar Frisch in late 1946 expressed widely held views when he stated that he could not tell exactly when the postwar depression would hit, but he entertained no doubts that developments there would provide a first rate illustration of the terrible convolutions of a modern capitalist system that has been allowed to develop under a state of extreme freedom.[5]

Nationalist and isolationist sentiments reinforced economic fears across the political spectrum. The most ardent were representatives of the Communists and the Farmers' Party. In the winter of 1947 a leading Farmer spokesman expressed concern that the export-based industrialisation drive of the Labour Party would dramatically reduce the

importance of the traditional basic industries, farming, fisheries and forestry, and turn Norwegians into a ''poverty-stricken people, and our country merely into an object in the economic struggles between the great powers in the world beyond''.[6]

Spokesmen of the Conservatives were less xenophobic, but certainly concerned with both the rights of small powers and their exposed position. The Conservatives were also worried about the rapid pace of modernisation. Similar views were held by a fair number of otherwise mainstream Labour parliamentarians. Some three months prior to Marshall's speech Olav Meisdalshagen, successor to Brofoss as Minister of Finance, stated his position: ''in our trade policies, as in other cases, we must aim at securing our neutrality and thereby safeguard the freedom of our people.''[7]

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What then, tipped the scales in favour of joining the other Western European nations in the Marshall Plan? As the Soviet Union and the East European countries stayed away from the July Paris conference, the Norwegian Foreign Ministry was strengthened in its conclusion that refusing Marshall aid would represent the greater break with bridge-building. As Lange's main adviser, Arne Ording, noted, to stay outside ''would be a demonstrative alignment with the eastern bloc.''[8] Thus security considerations took precedence in cabinet discussions.

Concern for economic policy was secondary. The planners were a little worried that the Americans would either force them to dismantle their extensive controls, or would take over by instituting a United States controlled European ''supply department.''[9] While such fears strengthened Norwegian skepticism, alone they would not have been decisive.

We should have expected the desire for dollars to propel Norway towards participation. During the spring of 1947 the foreign exchange situation was discussed in increasingly somber terms. However, by July 1947 a newly found optimism reigned. In the opinion of the Ministry of Finance, Norway would be able to manage without foreign aid until the end of 1948. Foreign exchange reserves were considered in the aggregate rather than in terms of dollars and pounds respectively.[10]

The Cabinet, in a bout of wishful thinking, wanted to avoid any commitments that could undermine what was left of bridge-building. Foreign Ministry minutes concerning the estimates to be returned to Paris in early August stated that the materials would first be considered by the economic committee of the Cabinet: ''The Cabinet will then arrange the material – in consideration of the political point of view under which it is to be sent to Paris on Sunday August third.''[11]

From the outset the Norwegians tried to prevent the Marshall Plan from becoming the core of a western bloc. Wholly at variance with its policy both in the United Nations and at the postwar peace conference, where Norway tried to avoid divisive issues, the cabinet volunteered for a seat on the Executive Committee of the conference. As Foreign Minister Lange later explained to the Foreign Affairs committee of the Storting:

We agreed to do so, because we thought it to be important that just one of our countries, which have such a reserved attitude towards the political implication of the work in Paris, had the opportunity to observe the day-to-day work.[12]

Norway preferred the shopping list approach the Russians had proposed in June. The government also wanted aid to be distributed through the UN Economic Commission for Europe, where the Scandinavians would hold the balance between the Soviet bloc and the western states. Norway's minimal commitment to the plan was symbolically expressed by the appointment of a delegation of officials only. The conference was officially to be considered purely a technical one. Having taken a step towards the West by going to Paris, the Labour government tried to reassure domestic opinion and the Soviets by its resistance to bloc policies.

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The Labour government to a degree realised it was fighting a losing battle. The proposal to link Marshall Aid to the Economic Commission for Europe was doomed to failure and made mainly for the record.[13] It was not at the outset equally clear that the other Norwegian points of opposition would have to be abandoned. After the first few days of meetings the head of the delegation, Arne Skaug, cabled to Oslo that the conference would not be given the task of working out a reconstruction plan for Europe or ''establish any coordination of the economic activity between the sixteen participating countries repeat it is not the task of the conference.''[14]

In an effort to further underpin its bridge-building position within a changing international environment, the Labour government produced extremely low estimates of its dollar needs. An initial estimate of $70 million was revised upwards to $100 million as the second round of the Paris negotiations got under way in August.

This Norwegian approach proved untenable for two reasons. In the first place, as the Americans clarified their position they moved ever further away from the Norwegian one. Neither the Truman administration nor most of the other Western Europeans would accept the shopping-list approach. On the issue of a permanent organisation the Dutch were pressing even harder than the Americans. Even the British, the presumed protectors of Norway, ''wanted to comply with the American demand.''[15]

By late August Lange concluded that Norway must not put itself in a position where it could be accused of endangering the success of the conference. Thus once the Americans presented their *démarche* in September, Norwegian opposition crumbled. As tensions between east and west continued to rise, the necessity for not leaning in the wrong direction became increasingly important.

Norway's worsening foreign exchange position also played a major role in driving the Labour government along the road to the West. In early August the cabinet was informed that its reserves were running out much faster than had been assumed in July. Self-delusion was no longer possible. Import licenses were revoked, and had to be re-registered. Imports were cut by 20 per cent. In the subsequent November debate on the National Budget, Finance Minister Brofoss stated that as a consequence of the dollar crises the Norwegian position in trade negotiations had been seriously weakened, and that

the proposed reduction in imports was certainly no part of a rational economic policy. Meanwhile in Paris, Colbjornsen increased the Norwegian dollar estimates from $100 million to $170 million, only subsequently obtaining approval from the Ministry of Finance.[16]

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Ambivalence is the term that best characterises Norwegian policies from the fall of 1947 until the spring of 1948. Brofoss in November stated that until the terms were made clear, Norway would have to plan on the assumption that Marshall Plan funds would not be available. As far as security was concerned, Lange in October concluded that the international preconditions for bridge-building had disappeared. Norwegian policy was increasingly being considered a consequence of fear of the Soviet Union. Norway could only work for better great power relations if placed securely within the western camp. Still, neither he nor the remainder of the cabinet would draw the logical conclusion and join the West.[17]

While the international preconditions for bridge-building were crumbling the fragile domestic consensus was being ripped apart. The Communists and the bourgeois opposition were pulling at bridge-building from opposite directions and activist pro-westerners within the Labour Party joined the fray.[18] On the issue of the Marshall Plan, Colbjornsen attacked from a different angle. He claimed that the obligations to be undertaken were more of a moral than a legal kind, and would not really endanger the pursuit of Norwegian goals.[19]

It took a further turn in the cold war for the Labour government to take the plunge. After Foreign Secretary Bevin's call for closer Western European co-operation, the supporters of a western alignment intensified their efforts. With the coup in Czechoslovakia, the Soviet Pact proposals to Finland and rumours of a similar proposal to Norway, Labour finally decided it was time to retreat to the reserve position. The process that eventually was to bring Norway into the North Atlantic Alliance as a founding member was launched in late February and early March 1948.[20]

While the fallback option was being explored through diplomatic and military channels, Prime Minister Gerhardsen in a major speech branded the Communists potential fifth columnists. Simultaneously the Trade and Foreign Ministries set about revising the Norwegian dollar estimates. Even if some concern remained that the Americans might set unacceptable conditions, there were no longer any bridge-building reasons to hold on to the estimates made during the preceding summer and fall.[21]

Having removed the bridge-building obstacle, the government let a number of prominent Norwegians loose on the Americans, including Colbjornsen and Gunnar Jahn, President of the Bank of Norway, in order to gain increases in Marshall aid. In the short run it proved an uphill struggle. Norwegian politicians and the press had, after all, spent more than half a year preaching both the possibility and desirability of the greatest degree of self-reliance. In addition, at the moment the Norwegians entered the fray, the first difficult negotiations were almost completed. For technical as well as political reasons it would be difficult to favour Norway at the expense of other states.[22]

Nevertheless Colbjornsen achieved a slight increase in aid, and a significant increase in the proportion of grants in relation to total aid. In subsequent years aid to Norway was dramatically increased. In total Norway received $460.4 million through the Marshall Plan, $274.5 constituting direct American aid.

The decisive and dramatic turn to the west, crowned by NATO membership, was a precondition for this achievement. Furthermore, the ambassador in Oslo, Charles U. Bay, had long been an articulate spokesman for Norwegian interests. During the winter of 1948 he argued strongly for rewarding Norway for its stand against the Communists.[23]

The ECA mission in Oslo later weighed in alongside. Once the fundamental decision had been made, the obstacles created by the tortuous prolongation of bridge-building counted for less than the fundamental pro-western attitudes and the forceful reconstruction policies of the Labour Party.

The high Norwegian investment rate, hovering around 35 per cent throughout this period and reaching 39 per cent in 1949, and the emphasis on export industries met with strong American approval. So did the Norwegian long-term programme submitted to the OEEC in the fall of 1948. The plan represented an adaptation of Labour's reconstruction programme. This coalescence of interests at the same time strengthened the Labour party on the home front. The cold war ramifications of the programme brought reluctant support from the bourgeois parties, in spite of their general opposition to planning as well as large scale industrial development.[24]

However, even at the earliest stages of the Marshall Plan the relationship was not one of pure harmony. The mission found parts of the investment strategy misguided. The pet prestige project of postwar Norway, the iron and steel plant in Mo i Rana, was subjected to heavy criticism, though the Americans never actively tried to stop it. Likewise the expansion of Norwegian textile industries was criticised at an early stage. ECA chief economist in Oslo Alice Borneuf summed up the critique in a late 1949 communication to an ECA colleague:

> Although there is no proof that shipbuilding, ship repairs, textile production and ammunition production cannot be carried on in Norway in the future as cheaply as in other countries, they are certainly as yet not the industries in which Norway has shown any great comparative advantage.[25]

Acting Director of the ECA, William Z. Foster, in the summer of 1950 was even more strongly concerned with what he considered the establishment of ''uneconomic facilities in Norway for the manufacture of goods which can be produced more efficiently in other countries''.[26]

Over time the Americans concluded that the Norwegian investment rate was highly inflationary. They also objected to the system of controls and subsidies that was necessary to keep the inflationary threat under control. They became increasingly sceptical of the agricultural support system. Elements of Labour economic policy could be construed as pointing toward self-sufficiency and protectionism. Increasingly the ECA in Washington came to see Norwegian policies as subverting a rationally organised and more open European economy. By early 1950 ECA Director Paul Hoffman concluded that he could

no longer accept increases in aid ''to Norway if such aid is to be used merely to cushion existing inflationary pressures on consumption and investment''.[27]

The Norwegian position was becoming increasingly precarious. While American criticism mounted, the government in Oslo steadily asked for large aid transfers. In March 1949 Hoffman complained to Chief of Mission A.E. Staley that the government appeared to work on the assumption ''that there will be until the very end of this program continuously a very high level of assistance''. A year later the joint conclusion of Hoffman and ECA Oslo was that export growth was slower than anticipated because considerable resources were channelled into ''non essential investment and consumption''. The Americans concluded that major changes in economic policy had to be made for Norway to be viable by 1952.[28]

Relations deteriorated in particular as a consequence of the 1949 shift in American policy. The emphasis on planning was superseded by the drive to remove quotas and tariff barriers. The Norwegians were initially notoriously slow in removing quotas. At a stormy meeting in Paris in December 1949 an exasperated Averell Harriman asked Brofoss whether he did not feel that the liberalisation of trade and payments within Europe was important to the achievement of economic objectives in Norway. Brofoss's curt reply was ''No''.[29]

Obviously this statement cannot be taken at face value. Neither Brofoss nor his closest advisers entertained any doubt that the long term success of the Norwegian modernisation programme depended upon a more open international economy. In the short run, however, the export strategy had put small scale firms producing for the home market at a disadvantage relative to foreign competitors. They had been starved of investment goods, and needed fresh capital to be competitive. Brofoss spent considerable time and energy trying to convince his American counterparts that Norway was an underdeveloped nation temporarily needing selective protection. It was something of ''a frontier state, that should not attempt to reach a balance in trade and payments by 1952''.[30]

Brofoss's mounting irritation over American meddling in Norwegian economic policy was also based on the conviction that European reconstruction depended as much on the United States reducing its tariffs and other restrictions on trade as on European liberalisation.[31] On occasion Brofoss also found American interference inconsistent and potentially disastrous. The prime example was the proposal in the winter of 1949-50 to have counterpart funds released for investment purposes. This in his view would lead to an avalanche of investment proposals from the Storting for any number of local and national purposes. Alice Borneuf in March reported that Brofoss was ''extremely disturbed, angry and generally disgusted at the whole business.''[32]

At the heart of his opposition against American demands was the view that the ECA made a fetish of liberalisation. As far as Brofoss was concerned, reconstruction, growth and social equity were the goals; liberalisation, the Payments Union, regulations and quotas were merely different means to ends ''worthy of a democratic society.''[33]

However, part of the anguish displayed by Brofoss during this period was due to his realisation that American criticism was justified to some degree. Brofoss was squeezed between the ECA on the one side and the big spenders in his own party on the other: the

trade unions, local governments and his own spending departments, who were supported by a strong groundswell of demand for a higher standard of living. He particularly considered local governments irresponsible. On a number of occasions Brofoss implored Prime Minister Gerhardsen to be allowed to resign from his position of responsibility.[34]

The ECA mission in Oslo certainly understood the manifold pressures that Brofoss was being subjected to, and tried to mediate between Washington, Paris and Oslo. Members of the mission were also sympathetic to Brofoss's endeavours to exploit ECA pressures to keep his own spenders in line. They found that through rational discussions of ends and means it was possible to reach acceptable compromises over Norwegian policy. Their intimate knowledge of the domestic Norwegian scene had led them to the conclusion that the cabinet as well as Norwegians generally were acutely afraid of being dominated by the big powers. In 1948 Staley noted that the Norwegians were concerned to ''preserve their independence at all cost''. He further explained to Harriman that ''any attempt to implement a request with economic pressure will meet with quick resentment and resistance''.[35]

Washington was not convinced either of the basic soundness of Norwegian policies or of the strength of nationalist feeling. Nor were the ECA and the State Department satisfied with their own mission, which in their opinion served as more of an apologist for ''the Norwegian government than as the local exponent of the views of ECA Washington.'' Washington feared that United States demands would not be taken seriously in Oslo if transmitted by the mission, because it was on ''very close personal terms with the Norwegian Minister of Commerce.''[36]

By the spring of 1950 the complex relationship between Washington and Oslo had reached its nadir. The State Department and the ECA wanted greater incentives to business and considered ''withholding funds up to 40 million in the 1951 programme for Norway''. Furthermore Washington considered replacing the Oslo chief of mission.[37] It is not likely that either Brofoss or the mission fully realised the seriousness of the situation. They had, however, long been aware of feelings bordering on hostility in Washington. As one official expressed it, the feeling was prevalent that some of those dealing with Norway were ''intellectually and emotionally biased against socialism and government planning and therefore fear and distrust the Labour Government's program.''[38]

* * *

Neither of the two threats materialised. One reason was another turn for the worse of the Cold War. The outbreak of the war in Korea and the need to re-arm Germany made it necessary to mend other fences. Norwegian austerity and control measures were crucial to contain the new threat of war-induced inflation. Norwegian shipping and the shipbuilding programme which had been heavily criticised by the Americans came to be seen in a new and positive light.[39] In addition the Labour government made adjustments to US demands. It launched a productivity drive, which showed the Labour party and the trade unions to be the dynamic forces in the Norwegian political economy. The employers were considered reluctant participants or merely disgruntled bystanders.[40]

The war in Korea also opened up new possibilities for Norway to exploit the Marshall Plan. In 1950-51 another major aluminum plant was planned in an outlying district in western Norway. The ECA concluded in favour of support not the least because of the necessity to build ''morale and confidence in areas located in such positions in Norway''.[41]

North Norway was economically less developed and strategically more exposed. It constituted a large area, had a small and widely scattered population, bordered the Soviet Union and contained a significant proportion of communist voters and party members. When the Government in 1951 launched its development plan for the region, Brofoss made it clear to the Americans that the investments required could not be generated in Norway. During a visit to the United States in the spring of 1951 Prime Minister Gerhardsen actively solicited support for the programme, pointing to the strategic importance of the region. Both Washington and the mission in Oslo favoured the plan, making sure Norway would continue to receive dollar gifts even after the termination of the Marshall Plan.[42]

By early 1952, in an ironic reversal of policy within the space of a year and a half, ECA officials contemplated further increases in aid to Norway. If it could be done without violating basic principles of aid allocation officials wanted to ''give sympathetic consideration to Norway's 'sit[uatio]n' and the personal position of Brofoss''.[43] At a meeting between Brofoss and Harimann in late February, the Special Representative ''was willing to decide that Norway be awarded $9.8 million in general economic aid''. Harriman then added that the proposal was not based on economic considerations, ''but to make sure that the Government would not be put on the spot by the Storting'' over the implementation of the defence programme. The counterpart funds were to be used for defence purposes.[44]

The military buildup put severe strains on the Norwegian political fabric. Growth in real incomes would be further delayed and import surpluses would remain high, Brofoss feared. However, the cabinet accepted the need for higher defence spending. In a discussion of the issue in the Labour parliamentary caucus Brofoss underlined a crucial point: ''We must keep in mind that we ourselves argue for an equal distribution of the burdens, and thus we cannot only claim rights but must also accept obligations''.[45]

There can be no doubt that by this time the Americans generally were considering Brofoss the key person in keeping the Labour government on a relatively straight and narrow path in economic matters. There would continue to be disagreements over such issues as liberalisation, the Payments Union, the policies of the creditor countries and over a very wide-ranging Norwegian enabling law for economic policy. But disagreements at this juncture were no longer aggravated by matters of principle. The situation came to resemble that of 1948. The colder international climate made it necessary for Norway to move closer to the American position. On the other hand it limited the degree to which the Americans could lean on the Labour government, and certainly increased Norway's possibility for driving a hard bargain in some fields.

Thus it turned out that Colbjornsen in his 1947 prediction was both right and wrong. Broadly speaking and in the longer run there was a basic agreement between Norway and the United States. In the short run disagreements had led to harsh exchanges of opinion.

Colbjornsen was certainly wrong in assuming that American meddling in the formulation of Norwegian economic policy would be modest. The Americans paid very close attention to Norwegian policies, frequently intervening both in support of and in opposition to government decisions. Further research, however, is needed to evaluate the effectiveness of the American interventions as well as the role the OEEC and other Western European nations played in these processes.

NOTES

1. Abbreviations in the notes:
   ANLM Archive of the Norwegian Labour Movement, Oslo
   FRUS Foreign Relations of the United States
   NAHD National Archives, Ministry of Trade, Oslo
   NARA National Archives and Records Administration, Washington
   St.m Stortingsmelding, Parliamentary white paper
   St.t. Stortingstidende, Parliamentary records
   UB University of Oslo, Library
   UD Foreign Ministry archives, Oslo.
2. ANLM, Langhelle Papers, Notebook 1945-47, Cabinet Conferences on Economic Problems, 17 June 1947; UB, Ording Diaries, 30 June 1947; H. Pharo, ''Bridge-building and Reconstruction: Norway Faces the Marshall Plan'', *Scandinavian Journal of History*, 1976, 125-153.
3. St.t. 1946, 7*a*, 940-42; St.m., 10, 1947, 39.
4. See *e.g.* O. Rist, ''Nordic Union or Western Alliance?'', in E. Di Nolfo, *The Atlantic Pact Forty Years Later* (Berlin 1991); O. Riste, ''The Historical Determinants of Norwegian Foreign Policy'', in J.J. Holst, ed., *Norwegian Foreign Policy in the 1980s* (Oslo 1985).
5. *Samtiden*, 1, 1947.
6. St.t. 1947, 7, 345; for Communist position, St.t. 1946, 1506, 1873.
7. St.t. 1947, 375, see also 1026, 1792; for Conservative statement, *ibid.,* 1022.
8. UD 44.2/26, I, Memo by A. Ording, 7 July 1947.
9. Pharo, ''Bridge-building and Reconstruction,'' 139.
10. Pharo, ''Bridge-building and Reconstruction,'' 141-144.
11. UD 44.2./26, IV, 28 July 1947.
12. UD 44.2/26, V, 1 September 1947.
13. UD 44.2/26, II, Skaug to UD, 14 July 1947; UD 44.2/26, V, Lange in Foreign Affairs Committee, 1 September 1947.
14. UD 44.2/26, III, Skaug to UD, 21 July 1947.
15. UD 44.2/26, V, Colbjornsen to UD, 3 September 1947.
16. Pharo, ''Bridge-building and Reconstruction'', 143-148.
17. St.t. 1947, 1789; Pharo, ''Bridge-building and Reconstruction'', 152-153; UD 44.2/26, VI, Lange to Storting secret session, 28 October 1947.
18. Friheten, 10 December 1947; UB, Ording Diary, 11 November 1947, 11 November 1946.
19. UD 44.2/26, VI, Colbjornsen to UD, 2 October 1947.

20. For the most recent summary of the state of research on these issues, H. Pharo, ''Scandinavia'' in D. Reynolds, ed., *Origins of the Cold War in Europe* (Forthcoming from Yale U.P., 1994).
21. K.E. Eriksen, *DNA og NATO* (Oslo 1972), 29-43; M. Skodvin, *Norden eller NATO* (Oslo 1971), 66-73; UB, Jahn Diary, 23 February 1948; NAHD, B C1, Folder C1-1, Halvorsen, 19 February 1948.
22. UD 254/47, XV, 17 February 1948, 18 March 1948; UD 44.2/26 Norge, I, 16 April 1948; UD 44.2/26 Norge, II, 21 April 1948; UD 44.2/26 Paris, II, 31 May 1948; UD 44.2/26 Norge, II, 11 June 1948.
23. NARA, RG 59/840.50 Recovery/2-1148, Bay to SecState, 11 February 1948.
24. H. Pharo, ''The Marshall Plan and the modernization of the Norwegian economy,'' 598, in Comité pour l'histoire économique et financière, *Le Plan Marshall et le relèvement économique de l'Europe* (Paris, 1993).
25. NARA, RG 469, Box 5/48-55 Defence, MAAG Cables, Borneuf to Nordness, 30 December 1949.
26. NARA, RG 469, Box 22, Assistant Administrator, Folder Subject Files 1948-50, Countries Europe, Foster to Shiskin, 11 August 1950.
27. NARA RG 469, Box 7/48-55, Folder 7, Hoffman to ECA Oslo, 14 September 1950.
28. NARA, RG 469, Box 11/48-55, Folder Negotiations 1948-50, Hoffman to Staley 16 March 1949; RG 469, Box 4/48-55, Folder Defence 1950, ECA Mission Oslo, Preliminary Report on Norwegian Economic Potential, 2 August 1950; RG 469, Box 7/48-55, Folder 7, Hoffman to Oslo 14 September 1950.
29. NARA, RG 469, Box 5 Office of the Administrator, Folder Country Subject Files 1948-50, Norway, Perkins to Hoffman 2 December 1949.
30. ANLM, Brofoss Papers, Box 42, Folder 16, Brofoss to Kjolstad, 2 September 1949; Box 126, Folder Capital imports III, Brofoss presentation at cabinet level conference, Stockholm, 21-22 October 1949.
31. ANLM, Brofoss papers, Box 42, Folder 1 November-31 December 1949, Brofoss to Skaug, 26 November 1949.
32. NARA, RG 469, Box 7/48-55, Folder 13, Borneuf, Discussion with Brofoss today, 8 March 1950.
33. ANLM, Brofoss Papers, Box 43, Folder 18, Brofoss to Kjolstad, 4 February 1950.
34. ANLM, Brofoss Papers, Box Folder 22, Brofoss to Skaug, 15 June 1950; Box 43, Folder 18, Brofoss to Gerhardsen, 10 January 1950; Box 45, Folder 23, Brofoss memo for Gerhardsen, 4 August 1950.
35. NARA, RG 469, Box 13/48-55, Folder 6, Staley to Harriman, 4 October 1948.
36. NARA, RG 469, Box 7/48-55, Folder 13, Mission chiefs' meeting, 26 May 1950, minutes, 2 June 1950; RG 59/857.00/5-2250, Hulley to Stevens, 2 May 1950.
37. NARA, RG 59/857.00/5-2250, Hulley to Stevens, 22 May 1950.
38. NARA, RG 469, Box 1 Subject Files 1948-52, folder 12, Program 1949-51, Arth to Gordon, 14 April 1950.
39. NARA, RG 469, Box 5/48-55, Folder Defense MAAG Cables, Gross to American Embassy Paris, 21 August; K.R. Pedersen, ''The United States and Norwegian Reconstruction'', unpublished doctoral dissertation, University of Rochester, NY, 1988.

40. NARA, RG 469, Box 3/48-55, Folder Defense, Chambers to Wood, 10 February 1951, with enclosures; T.J. Hanisch and E. Lange, *Veien til velstand* (Oslo, 1986), 64-68; T. Bergh, *Arbeiderbevegelsens historie i Norge. 5. Storhetstid 1945-1965* (Oslo, 1989), 162-170.
41. NARA, RG 469, Box 4/49-54, Folder SM-Aluminum, Nordness-Wiggen Conversation, 21 August 1950.
42. NARA, RG 469, Box 19/53-55, Folder Finance North Norway, Gross to Secretary of State, 19 September 1951; RG 469, Box 2 Office of the Deputy Administrator, Folder Country Subject Files 1950-51, Cleveland to Bissell, 10 October 1951.
43. NARA, RG 469, Box 11/48-55, Folder Program Negotiations, Porter to ECA Oslo, 1 February 52; *ibid.,* Porter to ECA Oslo, 26 January 1952; *ibid.,* Gross to Secretary of State, 28 January 1952.
44. ANLM Brofoss Papers, Box 48, Folder 30 memorandum by Brofoss, 1 March 1952.
45. ANLM Brofoss Papers, Box 46, Folder 25, minutes from Labour party caucus meeting, 8-9 February 1951; Box 135, Folder Military Matters 1951, II, memorandum by Brofoss, 2 May 1951.

Chapter VI

A MARSHALL PLAN FOR AFRICA? THE OVERSEAS TERRITORIES COMMITTEE AND THE ORIGINS OF EUROPEAN CO-OPERATION IN AFRICA[1]

Rik Schreurs

The Convention for European Economic Co-operation of 16 April 1948 stated in Article 2 that the development of production under the European Recovery Programme (ERP) included the mobilisation of the resources of the overseas territories of the signatories.[2] Convinced of the OEEC's policy to concentrate on the disequilibrium in the balance of payments with the dollar zone, the French Minister for Foreign Affairs, Robert Schuman, would point at the role of the overseas territories and therefore at the responsibility for their development that was incumbent upon the contracting parties.[3] At its ninth meeting on 4 October 1948, the Executive Committee of the OEEC complied with this aim through the installation of a Working Party. This Working Party comprised member countries with overseas responsibilities; Belgium, France, The Netherlands, Portugal and the United Kingdom.[4] After they had contributed to the interim report of the ERP in December 1948[5] the Working Party became the Overseas Territories Committee by virtue of a decision of the Council.[6] Its terms of reference were limited to activities in the nature of a study group when the Council defined the task of the OTC as:

> ''..To carry out such surveys relating to the economic and social development of the Overseas territories as may be entrusted to it by the Council, or in accordance with decisions taken by the Council''.[7]

A rather thin mandate at first sight, but it nevertheless did not prevent the OTC from developing into something more than just one of the more than twenty technical committees that the OEEC eventually established. Although it did not belong to the set of four horizontal committees, the mere nature of the committee and the overseas interests of its members extended the scope of the OTC far beyond the purely technical matters that were the preoccupation of the other vertical committees. The desolate economic condition of the colonial empires after the war enlarged the status of the OTC beyond the restrictions of its terms of reference. The overseas territories' potential as major dollar earners had to be realised through the export of raw materials to the United States.[8] In addition, the overseas territories would have to become a market for European exports. Both aims

would contribute to the development of overseas territories, mainly in Africa. A forum in the shape of the OTC could give the feedback needed to attain these goals.

It was therefore normal that the Economic Co-operation Administration (ECA) took an interest in the overseas territories as part of the answer to the problem of European reconstruction. There was, however, an American interest as well. Their interest was the combination of free access to colonial markets for American export and capital, production of strategic materials in overseas territories to meet American needs in this field, and prevention of the impoverished colonies from becoming a playground for communism. It was with respect to this last point that the United States had to turn a blind eye to the principle of colonialism.

The insufficient European budgets would have delayed the economic development of the overseas territories and their contribution to the reconstruction of Europe beyond the critical point of recovery, if the United States had not assisted through the ERP. Almost 6 per cent of the total distributions under the Marshall Plan were channelled to the overseas territories of the European beneficiaries between 1948 and 1952. The major part was indirect dollar aid to the colonial powers which was officially assigned as aid to their overseas territories. Over $500 million of Marshall Plan aid found its way to the national colonial development schemes of the European colonial powers between 1948 and 1952. France received almost $300 million, which made up more than 10% of the Marshall Plan Aid to France.[9] According to the economic co-operation service of the French Ministry of Foreign Affairs, $276.5 million was committed by 15 February 1951. Table 1 shows the breakdown according to territory and reveals the important place French North Africa held in the redistribution of ERP funds.

Table 1. **Marshall Aid to French Territories in Africa until March 1951**

In $US millions

	Allotted	Committed
French West Africa	42.8	42.6
French Equatorial Africa	16.4	16.3
Cameroon	10.9	10.9
Togo	1.3	1.3
Madagascar	12.6	12.6
French Somaliland	0.3	0.3
Réunion	1.2	1.2
Total Africa (except French North Africa)	85.5	85.2
French North Africa	168.0	165.5

Source: MAE, de-ce 387.

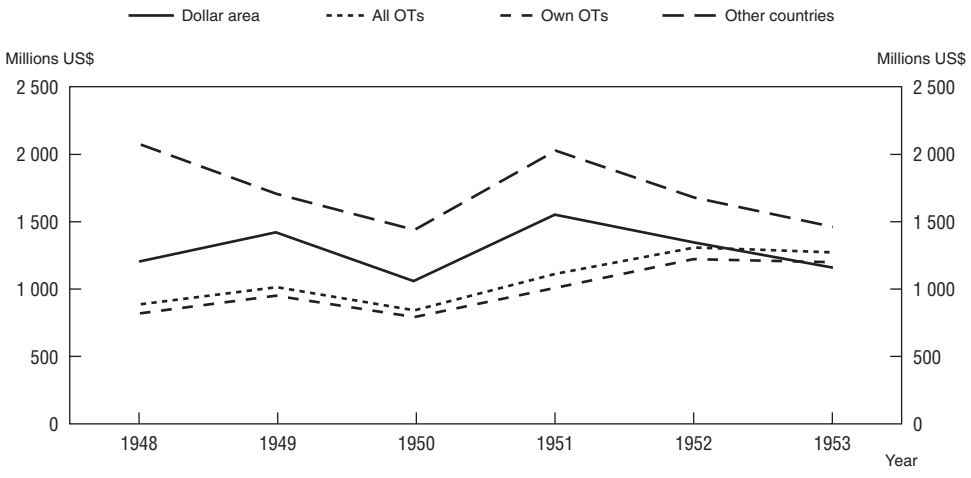
The other colonial powers were less lavishly compensated for the expenses that followed from their colonial development plans but nevertheless received substantial sums from the ERP. The Netherlands alone was the recipient of $101.5 million for Indonesia. Similarly, the United Kingdom was able to finance parts of the

Commonwealth Development and Welfare Act through the Marshall Plan aid to overseas territories, $98 million in all. Smaller sums were reserved for Belgium ($15 million) and Portugal ($0.7 million). The management of the Overseas Development Fund ($68.8 million) remained in the hands of the ECA and was focused almost exclusively on Africa. Furthermore, there was the fund for the development of strategic materials ($47 million) and the counterpart funds which were beyond the control of the metropolitan countries. This made the activities of the OTC, with no funds of its own to manage, look rather marginal. Given its advisory function, no daring policy making could be expected from within the OTC. In the twelve years of its existence, the OTC completed a great number of studies on instructions from the Council or the Executive Committee. Some of the reports were published, but many remained confidential.[10]

* * *

Did the overseas territories play the role they were expected to play? The United States did indeed run a trade deficit with the overseas territories. Part of these dollar earnings were acquired by the metropolitan countries. However, this dollar earning policy had to be completed by a dollar saving policy via import substitution. The result was that the colonial powers imported more than usual from their overseas territories. A 1955 OEEC study revealed that even the results of this particular import substitution policy were limited.[11] As can be seen from Figure 6.1, a remarkable increase of imports from the

Figure 6.1. **Value of imports of all four countries**
(United Kingdom, France, Belgium, Portugal)

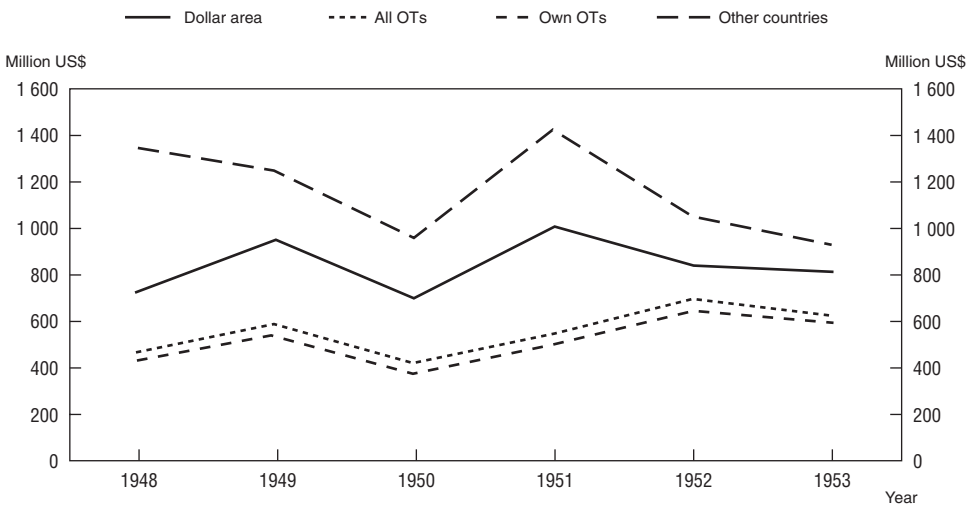


Source: Author.

overseas territories took place. They were almost fifty per cent larger in 1953 than in 1950. Nevertheless, there was no clear evidence of substitution at the expense of the dollar area. Imports of the eleven commodities from the dollar area in 1953 were only $45 million less than in 1948 and just under the value of the imports from the overseas territories, while imports from all sources put together were $310 million less. On the other hand, if 1949 is taken as the basis for comparison, imports from dollar sources were $263 million less in 1953, from all sources together $282 million less. Admittedly, imports from the category ''other countries'' showed a considerably greater tendency to decline than did the imports from the dollar area. On a closer inspection all evidence that import substitution was at the expense of the dollar area does not hold. While the imports of the eleven commodities were $830 million less in 1953 than in 1951, imports from the dollar area were only $388 million less in 1953. This illustrates that the decline in value of imports from the dollar area was in no case great enough to cover the decline in value in total imports of the eleven commodities.

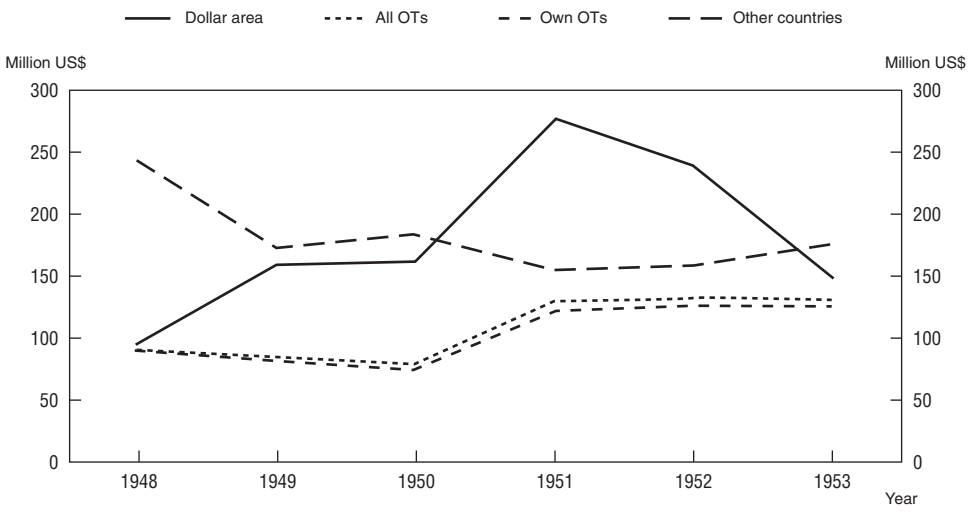
Since these were the figures for the four major colonial powers of the OTC put together, the picture changes if we break the figures down to the individual countries. As can be seen from the figures for the United Kingdom in Figure 6.2, there was a substitution in favour of their own overseas territories. However, while this led to a decrease of $411 million in imports from other countries, the imports from the dollar area increased (from $722 million in 1948 to $818 million in 1953 with a peak in 1951). A similar pattern could be traced for Belgium (Figure 6.3). The substitution of imports as a dollar

Figure 6.2. **Value of imports: United Kingdom**



Source: Author.

Figure 6.3. **Value of imports: Belgium**



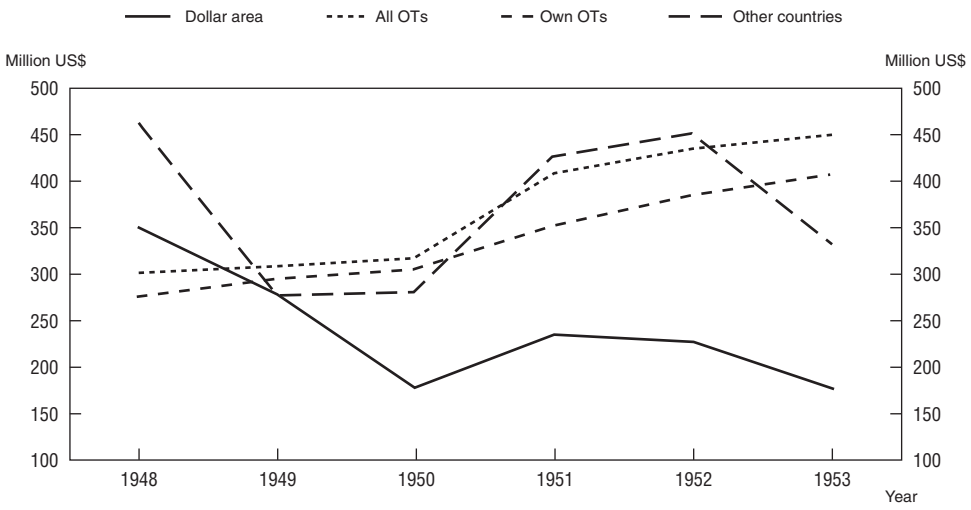
Source: Author.

saving scheme was at the expense of other countries ($242 million in 1948 and $176 million in 1953). Both the Belgian Congo (from $90 million to $126 million) and the dollar zone (from $90 million to $148 million) profited from this substitution. In contrast to the situation of the United Kingdom, whereas the value of total imports of these eleven commodities increased in Belgium (from $427 million in 1948 to $454 million in 1953), it decreased in Britain by $157 million to $2 374 million.

The only two colonial powers that succeeded in increasing imports at the expense of both the dollar area and the other countries were France and Portugal (Figures 6.4 and 6.5). As the share of the French overseas territories in the imports of the cluster of eleven commodities increased from 25% to 43% between 1948 and 1953 (from $276 million to $405 million), their share of the dollar area fell sharply from 31% to 18% (348 million in 1948, $173 million in 1953). An identical trend could be noted for Portugal.[12]

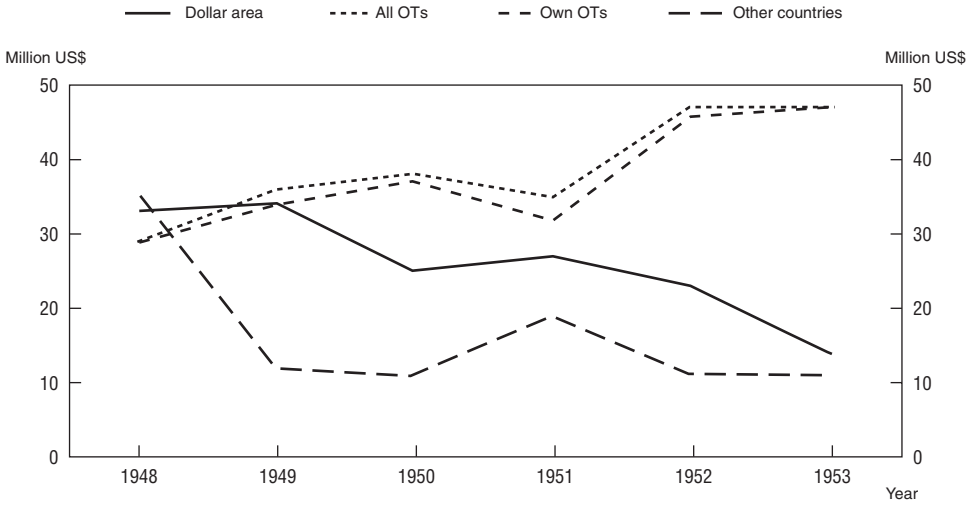
One could also question the efficacity of the ERP aid to the overseas territories. Was it not, having regard to the American interest mentioned above, rather a form of aid that primarily answered American political and economic needs? It can be doubted that the local expectations and needs were sufficiently met. In any case, it was already clear at the time that Marshall Plan Aid to overseas territories alone would be insufficient to cover the huge task of economic and social development in Africa, especially since the development in some African overseas territories had to start practically from scratch. None of

Figure 6.4. **Value of imports: France**



Source: Author.

Figure 6.5. **Value of imports: Portugal**



Source: Author.

the colonial powers could foot the bill for colonial development on its own. However, the decade in which the OTC operated would see a change in attitude towards the development of underdeveloped (overseas) territories.

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Only a few months after the establishment of the Working Group for the Interim Report of December 1948, President Truman came out with his famous Point Four speech. The direct consequence of this speech was the United Nations Expanded Programme for Technical Assistance (EPTA) which started to function in 1950. This gave the colonial powers the incentive to establish, in that same year, the Committee for Technical Co-operation and Assistance in Africa South of the Sahara (CTCA). The aim of the CTCA was to keep interference in colonial affairs from the United Nations – and *ipso facto* from the United States – to a minimum.[13] The political profile of the EPTA was smothered by the significance of the CTCA as a colonial debating club and EPTA's successor SUNFED (Special United Nations Fund for Economic Development) would in turn have to face a CTCA reinforced by independent African members.

This was significant insofar as it was an example of their fear of American interference through international organisations. There was a fear of loss of prestige with the indigenous population should it emerge that the aid was attributable to the United States, and fear of loss of sovereignty if American aid was to be spent according to American policies.[14] These fears also held for Marshall Plan Aid to overseas territories. The only difference with Marshall Plan Aid was that funds for overseas territories were subject to national policy. Despite the fact that Marshall Plan Aid to overseas territories was successfully tied to national colonial development planning, a part of the aid escaped the control of the colonial powers. These were the counterpart funds, the strategic material fund and the ECA's Overseas Development Fund. Although the spirit of the Point Four Programme only filtered through in the years 1950-1951, at the end of the Marshall Plan Aid to overseas territories, the colonial powers had already decided that the influence of the ECA and the OEEC in their overseas territories had to be neutralised: ''It does not seem opportune to me, given the current state of affairs, to entrust the OEEC with the creation and care of the technical co-ordination organisation which was planned at the conference of London. The future of the OEEC risks being curtailed, while the inter-African technical co-operation, in place since 1945, is called upon to develop itself independently from the Marshall Plan''.[15]

These words proved to be prophetic. International (*i.e.* between the colonial powers) technical co-operation aiming at the development of Africa would be in a predominantly European setting during the decade following the Marshall Plan. With the ERP period completed in 1952, and the colonial powers turning more and more to the idea of Eurafrican co-operation, the OTC was bound to fade out during the remaining years of the decade. The critical phase lasted from the end of the 1940s until the outbreak of war in Korea, when the colonial powers had to regain ground in their dependencies. What remained was the fact that during this critical phase of capital input into the overseas territories, the ERP and the OEEC enabled the colonial powers to establish economic

roots in their dependencies and stabilise their position. Now that the emergency period of American aid was behind them, the colonial powers could turn to co-operation under the less threatening auspices of European collaboration. This was confirmed by the establishment of the Mutual Security Agency (MSA) in 1952. Being the follow-up of the Marshall Plan Aid, the American foreign aid policy would also formally detach itself from the European endeavours towards co-operation in Africa. Being a national agency, the MSA had the possibility of accentuating the American ideas on foreign aid in its policy.

The decision for a joint European programme for Africa had been brought to light in previous years. The OTC still played a role as consultative body during these years, as it had in the case of the Strasbourg Plan (1952) when, on an initiative of the Assembly of the Council of Europe, an attempt was made for joint European action in Africa by both colonial and non-colonial powers. Whenever the subject of plans for Africa came up after 1952, and in the single instance that any such plans were implemented (Part IV of the Treaties of Rome, which stipulated that the overseas territories of the member states were to be associated with the European Community), reference was made to the idea of a ''Marshall Plan for Africa''. On these occasions, the Marshall Plan's success in Europe was praised, but never was reference made to what was in practice Marshall Plan aid to overseas territories from 1948 to 1952. Similar to the integration of Europe itself, the development of Africa would take place – albeit in a European setting – outside the framework of the OEEC/OECD.

As far as the OTC was concerned, at the Paris meeting for the reorganisation of the OEEC in January 1960, American Under Secretary of State Douglas Dillon proposed at the Special Economic Committee an increase in the flow of development capital to developing countries and an institution to coordinate this. The Development Assistance Group (DAG), whose membership was not limited to colonial powers, was therefore created and was recognised by the OEEC ministers.[16] Subsequently, the OTC quietly merged with the DAG to form the Development Assistance Committee (DAC) in December 1961. This was after the ministerial meeting of July 1960 where the lines of procedure for the yet unborn DAC and its place in the OECD were set.[17] As was decided at the fifth meeting of the DAG in Tokyo, the DAC held its first meeting on 14 November 1961 in Paris (though this was scheduled as the sixth meeting of the DAG).[18] It was here that a new start was made, with an international aid policy for the developing countries which applied the goals of the Common Aid Effort as formulated in June 1961.

NOTES

1. Abbreviations used in the notes:
   HAEC Historical Archives of the European Communities, Florence
   MAE Ministère des Affaires étrangères, Paris
   MBZ Ministerie van Buitlandse Zaken, The Hague.
2. ''The Contracting Parties will, both individually and collectively, promote with vigour the development of production, through efficient use of the resources at their command, whether in their metropolitan or overseas territories, in such manner as may best assist accomplishment of the joint recovery programme'', Convention for European Economic Co-operation, Article 2, 16 April 1948.
3. MAE, de-ce 386, télégramme 2849/CE, Schuman to Coste-Floret (Minister of Overseas France): ''It has been apparent for a long time that such a result cannot be obtained without a substantial development in the production of the overseas territories, which are under the control of the participating countries. You will certainly know the opinion of the American experts on the possibilities of the development of production in these territories, notably in Africa, which has to form a large contribution to the economic equilibrium of all the participating countries in a European organisation''.
4. Italy and Spain became members in 1950 and 1959 respectively; Italy after Somalia had been placed under Italian trusteeship by the United Nations and Spain after becoming a full member of OEEC.
5. *Interim Report on the European Recovery Programme,* (December 1948), Vol. III, Section XV.
6. HAEC, OEEC Archives, *Décision du Conseil portant création d'un comité des territoires d'outre-mer*, mf. 19, C(49) 37 (final), 28 March 1949.
7. *Ibid.*
8. OEEC, *Report by the Overseas Territories Committee constituting Section XV of Volume III of the Interim Report on the Economic Recovery Programme*, 1948.
9. The funding for French Indochina is not included in these figures. This was considered insufficient, according to the calculations of the ''Comité des importations'' and the ''Commission d'Aide-américaine'' of the Conseil général du Plan. The Marshall Plan Aid needed in the first year was estimated by these two bodies at $160 million. This was including Indochina but not North Africa. Together with the aid needed in other currencies, it totalled about $300 million for the year 1948/49 alone. MAE, de-ce 386, *Extrait d'une note établie par la Caisse Centrale de la France d'Outre-Mer (CCFOM) – Plan Marshall et Colonies*, 18 May 1948.
10. See Appendix 1.

11. For this study, the value figures of eleven commodities were combined; wheat, barley, maize, sugar, coffee, tobacco, oils and fats, cotton, copper, lead, zinc.
12. MBZ, 996.241 OESO 345, OT/DI/171, *The overseas territories as suppliers of ''dollar commodities'' to their metropolitan countries*, 15 June 1955.
13. Before the first meeting of the CTCA in January 1950, an inter-ministerial meeting between the French Ministry of Foreign Affairs and Overseas France discussed French policy regarding the two organisations. Delavignette, the Cabinet Director at the Ministry of Overseas France, voiced a fear of his ministry that direct interference from the OEEC member states in African affairs was a risk. He explicitly mentioned Germany and the United States. He underlined that ''... apart from the process of entrusting the studies on Africa to the OEEC, they will be criticised and exploited against us by the anti-colonialists, while the CTCA is an organisation established for the benefit of the African people, and on which we can rely to substantially develop the social infrastructure of the African continent.'' MAE, NUIO 484, *Compte Rendu de la Réunion Interministérielle tenue le 16 décembre 1949 chez l'Ambassadeur Secrétaire Général concernant la coopération technique en Afrique*.
14. An example of this fear was suggested by the Head of the Economic Co-operation Service at the Ministry of Foreign Affairs in 1949, Baraduc. When the ECA on 2 November 1949 informed the OEEC that American imports from French West Africa had been temporarily blocked because of irregularities in the French administration and mismanagement of American funds, this was quickly attributed to administrative rivalry with the ECA. Although the economic implications were regarded as irrelevant, the political implications were taken much more seriously: ''On the political level, however, the American decision is very inconvenient because there is a risk of fuelling the anti-colonialist propaganda, both in the United States and in our overseas territories, by presenting the American decision as a sanction against the carelessness of the French administration''. MAE, de-ce 386, Baraduc to de Margerie (Directeur de l'Afrique-Levant), 3 November 1949.
15. MAE, NOUI 484, 1432 AL, *Note a/s l'Organisation de la coopération technique en Afrique*, 11 May 1949. The conference of London was a round of Franco-British talks on technical and economic co-operation in Africa, which took place from 1945 onwards. Belgium and Portugal later joined the talks. It was a precursor to the CTCA.
16. HAEC, OEEC Archives, mf.549, *Working Party of Development Assistance, 1st meeting*, DAG WP/1, 21 July 1960 and *Improvement of Information on Financial Assistance to the Developing Countries*, DAG WP/2, 19 August 1960. Its charter members were Belgium, Canada, France, West Germany, Italy, Portugal, the United Kingdom and the United States. Japan and the Netherlands would become members in July and September 1960 respectively at the first and second meetings of the DAG.
17. HAEC, OEEC Archives, mf.549, Verbatim of the meeting at Hotel Majestic, 23 July 1960.
18. HAEC, OEEC Archives, mf.549, DAG/5SR 12.7.1961, Fifth meeting of the DAG, Tokyo 11-13 July 1961.

Appendix

The assignment to undertake a number of studies concerning the economic and social development of the overseas territories [HAEC, OEEC Archives, mf. 20, CE(49)50(final) and 150(final)] resulted in the following reports:

- Report on technical assistance to the overseas territories [HAEC, OEEC Archives, mf. 20, CE(49)99(final)].
- List of principal development projects [HAEC, OEEC Archives, mf. 20, CE(49)175].
- Regulations concerning foreign investment, land tenure and immigration [OEEC, OT(49)11].
- List of products of the overseas territories likely to save or earn dollars [OEEC, mf. 20, CE(49)134].
- Investment in Overseas Territories in Africa south of the Sahara [OEEC, OT(51)6, published].
- Energy in Overseas Territories in Africa south of the Sahara, May 1953 [OEEC, OT(53)1, published].
- Organisation of indigenous production, November 1953.
- The economic situation of the Overseas Territories, March 1955 [OEEC, Sixth Report, Chapter 25].
- Report on private investments [HAEC, OEEC Archives, mf. 106, C(53)79].
- Erosion and soil conservation in Africa south of the Sahara [OEEC, OT(50)5].
- Animal Husbandry in French Overseas Departments [OEEC, OT(50)10].
- Improvements of pastures and water supplies for cattle [OEEC, OT(51)7].
- Cultivation of groundnuts in West Africa, June 1953 (published).
- Exports of tropical timber [OEEC, (50)3].
- Manpower assistance [HAEC, OEEC Archives, mf. 73, C(51)317].

Also, the direction by the Council to study the measures required to increase the exports of the overseas territories with a view to improving the balance of payments of the European Payment Union members triggered off a number of commodity studies [HAEC, OEEC Archives, mf. 106, C(53)106 and mf. 107, C/M(53)18].

- Cotton, January [OEEC, OT(54)1, published].
- Cocoa, June 1956 [HAEC, OEEC Archives, mf. 178, C(56)60, published].
- Oilseeds, October 1957 [OEEC, OT(55)2, published].
- Notes on market structures for citrus fruit, bananas, cocoa, coffee, sisal, oilseeds, cotton [OEEC, OT/DI/187].
- Publicly instituted marketing schemes in the Overseas Territories [OEEC, OT/DI/179, published].
- Statistics of exports from the Overseas Territories of the OEEC countries and from the states or territories for whose international relations member countries are responsible, December 1957 (published).

– Economic development of Overseas Countries and territories associated with OEEC member countries, August 1958 (published).
– A third set of reports followed upon the OTC's own initiative to investigate the industrial development of overseas territories and the tax system [HAEC, OEEC Archives, OT/M(58)4].
– The taxation system applicable to investments in overseas territories and territories associated with OEEC member countries, 2 Vol. November 1960 (published).

Chapter VII

THE MARSHALL PLAN AND THE POLITICS OF GROWTH[1]

David W. Ellwood[2]

A historical exploration of the concept of ''growth'' as a source of political legitimacy may well begin with the era of the Second World War, which saw a revolution in the idea held by western governments and ruling groups of their responsibilities towards society. Full employment and higher standards of living became the declared objectives of politicians, bureaucrats, employers, and moderate reformers of all shades, on both sides of the Atlantic. These were people who saw themselves engaged in a dramatic effort to re-conquer the fundamental bases of state and élite legitimacy and credibility inevitably compromised by two world wars and the upheaval of the Great Depression. Hugely encouraged by the organisational feats of the war machines, the new and not-so-new leaders in Europe and America made unprecedented promises of economic security and progress to their peoples, enshrining them in the Charter of the United Nations.

In so doing all the Europeans paid tribute to the supreme role they expected America to play in the postwar world; all expected to renounce some degree of sovereignty, all foresaw the importance of the United States in supporting (*i.e.* financing) their own national visions for the future. All feared chaos and the rise of the revolutionary left should America fail them. Few understood the force of America's own will-to-power, the urge to project the presumed lessons of America's own historical experience for the presumed benefit of all Europe and all mankind. Even fewer guessed the gap between the grand Roosveltian plans for world reconstruction and the ability of Washington to intervene practically and knowledgeably on the ground with specific solutions for specific problems.[3]

This contradiction was only resolved with the drawing up of the European Recovery Programme by a group of western European nations harnessed unhappily together by American authority. But the ERP as imagined by the Americans was much more than the device for raising output quickly, revitalising economic activity and making up import deficits sought by the Europeans. With the Marshall Plan the grand Rooseveltian objectives of free trade and higher living standards everywhere returned to the forefront of America's policies in Europe: it could even be said that with the addition of the Mutual Security project after 1950, the third of the grand visions of wartime had been reinstated: collective security, now seen not in the utopian conception of the UN Security Council,

but in the much narrower and more concrete terms of Mutual Defence Assistance Act (MDAA) and NATO.

The Marshall Plan was clearly a mighty weapon in the Cold War: Ambassador Harriman, its head in Europe, went so far as to characterise it as ''a fire-fighting operation'' in a private meeting of American Ambassadors in Paris in 1949.[4] But the many other dimensions it acquired in the course of its evolution were no less important: to create a new framework of interdependence in the industrialised world, to promote European harmonisation and integration in the context of expanding world commerce, to promote global trade and payments liberalisation, all in the name of eradicating the presumed causes of war and revolution by bringing the force of the American example to bear on European chaos and backwardness. So a grand effort of modernisation was implied, not dissimilar to the one Herbert Hoover and his private sector allies had sketched out in the 1920s, but now with the full weight of America's new economic strength and organisational techniques behind it.[5]

European governments faced very different agendas. Each national society had developed its own renewal plans or priorities, usually revolving round the construction of a variant of the welfare state in which collective goods and social security received top priority, far higher than all but the most basic forms of personal consumption. That was why the few wartime joint declarations of purpose – such as the Atlantic Charter or the UN Charter itself – had always referred to full employment and higher standards of living jointly but separately. But it was American imperatives which dictated the tone and style of the ERP in practice. The long-standing aspirations of the New Dealers and the pressures of the Cold War together guaranteed that when it began work on the ground, the ideological and psychological dimensions of the Marshall Plan effort would be just as significant as its economic inputs. These additional facets of the Plan would aim to change attitudes and outlooks, aspirations and mentalities. Firstly for the sake of votes: to stop the rise in support for communist parties and left-wing trade unions, but in the longer term to bring about a renewal of Europe's ''spiritual vigour'',[6] an impulse which came to mean in reality a radical shift in the priorities and expectations of individuals, towards ideals of personal progress which could be defined in the language of income and consumption.

America was at the height of its power in the twentieth century, economically, politically and ideologically. Much of Europe still lay in ruins and showed few signs of healthy recovery in 1947-48. The onset of the Korean war revealed that the long-term ideological exhaustion and demoralisation of the European ruling classes and their governments still persisted in spite of the gains already made: ''Who hasn't heard remarks'', asked an ERP Information Officer in Paris in August 1950, ''such as 'Why rebuild when the Russians will tear it all down again?' or 'Why should I stick my neck out by taking sides? When the Commies take over, it won't be healthy to have it on my record'.''[7] It was into this void that the Marshall Plan and its propaganda drive stepped so decisively, providing a ''return of hope'', a ''psychological blood transfusion'', as the Plan's overall administrator Paul Hoffman said in the course of the 20th anniversary celebrations in 1967.[8]

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Ambitious in its aims from the beginning, the ERP ''Information Programme'' eventually emerged into the largest international propaganda operation ever seen in peacetime. Publicity divisions were set up in each country mission soon after the effective start of the ERP in June 1948. The key countries were considered to be France, the Anglo-American Bizone of Germany and Italy, followed by a second band containing Greece, Turkey, Austria, Trieste and the French Zone of Germany, a third including the United Kingdom and Sweden, and a fourth encompassing the rest.[9] It was in Italy, however, that the largest campaign emerged; the one considered ''tops'' in the Paris field headquarters of the programme.

There is no mystery about the operating principles which the information staff in Rome (mainly journalists and broadcasters; *not* advertisers or public relations people) applied in their campaign. They were arrived at fairly quickly and changed little up to the outbreak of the Korean War. They were similar to the methods used in the other ERP countries but were probably applied more intensively in Italy, taking their cue from the frantic propaganda battle of the April 1948 elections.[10] A January 1950 report by the information director explained:

> Carry the message of the Marshall Plan to the people. Carry it to them directly – it won't permeate down. And give it to them so that they can understand it.[11]

The basic thrust then was for a truly mass programme using ''every method possible... to reach Giuseppe in the factory and Giovanni in the fields'', or as the Paris office put it, ''slugging it out way down among the masses''.[12] In a January 1950 summary, prepared for a Congressional presentation, the director also listed the other key operating principles:

1. To convince the Italians ''that the Plan is his as well as Mr. Marshall's'', in other words to increase the sense of national identification with the Plan and encourage a personal stake in its outcome.
2. To demonstrate the depth and seriousness of Italian-American co-operation: ''Thus the signs which the Mission has induced the Italian Government to put up by the many hundreds over the ERP Counterpart fund projects carry the colour of both countries, side by side on the same shield''.
3. To make use of local identities, particularly regional ones, by demonstrating the work done in each area.
4. To direct special attention to key ''target groups'', particularly trade unions, Communist and non-Communist; agricultural workers; housewives, as runners of ''the economics of the household''; management in business and industry, ''in whose hands lie the guidelines of productivity'', and finally children, following the example of the Church, which ''has always maintained that the best way to win and retain followers is to convince them while they are young''.
5. To avoid direct confrontration with the massive waves of Communist propaganda directed against the Plan. Thus, ''when the Communists said the Marshall Plan was a plan of war, the Mission never said it was not a plan of war but over and over again, in thousands of inhabited centres, with every means at its disposal, the Mission put across the slogan: 'ERP means peace and work'''. Korea could not have been a more unfortunate event from this point of view.

6. To avoid accusation of interference in Italian internal affairs. Not surprisingly this was the principle which gave the publicity men most difficulty, especially since they were under pressure in Congress to step up their labelling of goods and services originating in the United States with American flags.[13]

When applied, these principles proved extremely flexible and no idea seemed too large or too daring for the Information Programme in its heyday. Ideas such as Counterpart, the dollar gap, productivity and European integration were not only quite new to European ears but difficult to communicate in the best of circumstances. Little wonder that the ERP information directors in Washington felt that ''we have become in surprising measure ... the principal fount for education about the big economic problems and developments disturbing the world today'', a challenge which no information service had ever faced.[14] They came to think in terms of tens of documentary films, hundreds of radio programmes, thousands of mobile film shows, millions of copies of their pamphlets, and tens of millions of spectators for their exhibitions and films.

Whether directed at workers or employers the key words were always mass production, scientific management and, above all, productivity. A typical portable exhibition on the subject would explain that productivity had, ''...given the United States a high standard of living... increased per man output... (resulting in) betterment of living conditions, social progress, strength and ability to defend democratic institutions''. In each country there were specialised reviews on the subject, joint committees, trips to inspect American factories, conferences and eventually, in some countries, even ''productivity villages'' where model factories and workers' communities could be seen in action.[15] The Anglo-American Productivity Council was seen as a model of its kind, sponsoring no less than sixty-six team-visits to America, covering most of the heavy industries, but also the retail sector and universities, to discover the secret of their successful links with industry. The results were summed up in a book-length presentation by the economist Graham Hutton entitled ''We Too Can Prosper''. Its message was very clear:

> Higher productivity is the brightest hope for every man, woman and child that the standard of living can be maintained and improved. Its importance and the universal concern in its achievement therefore cannot be exaggerated.[16]

For the first anniversary of the Marshall Plan, the eminent French philosopher Raymond Aron paid eloquent tribute in *Le Figaro* and over the radio to the results of the American gesture, and it was the psychological effects which he chose to emphasise. He spoke of the return of ''a sense of hope and confidence'', of ''restored courage and reawakened energy'', transforming ''almost at once, the psychological atmosphere of the 'cold war'''. A new sense of solidarity had emerged, said Aron, providing ''an occasion without precedent to bring about what has been the centuries-old dream of philosophers, and what is today an imperious necessity of history – the unity of Europe''. It was up to the Europeans themselves, he concluded, ''not to lose this unique opportunity''.[17]

The Americans, however, were not satisfied with the progress made in these directions. The great information effort itself had been set up in part because, as its director in Paris (the well known journalist Al Friendly) put it in April 1948, not only did the Europeans not know about American aid, ''they don't even know their own countries are

co-operating with each other''.[18] A few months of experience convinced the ECA men that if the basic problems were to be tackled, they had better stop diagnosing and start prescribing, because ''the Europeans are not going to do it by themselves – at least not soon enough'', as one of them put it.[19] However, the ERP was intended especially to promote European self-help, stimulating co-operation and coordination without outside interference: that was the whole point of the OEEC, in which the United States did not sit. Thus a basic tension emerged in the effort which sometimes worked creatively, but usually not. Referring to the strains it put on the propaganda front, the director of the Industrial Division in Holland said pithily: ''the United States was paying the piper and it was always a great problem how loudly we could call the tune''.[20]

In the search for ''a real tool for manœuvering the Europeans into a frontal attack on the basic problems'',[21] the obvious device was the OEEC itself. By 1949 the publicity people had agreed to get ''OEEC on top – and ECA underneath – all our major projects'', even such obviously American spectacles as the international friendship trains and the string of barges which carried a vast ERP exhibit up the Rhine.[22] But by August 1950 only one joint OEEC-ECA film had been produced compared to 50 ECA-only documentaries and, as a conference of top-level information officers was told, it was impossible to do more when you needed the approval of all nineteen OEEC members for ''every shot, comma, semi-colon''. Full-scale nationalism was what went on inside the OEEC, the meeting was told, with Spaak and Marjolin the only genuine Europeans in it.[23]

Only in the third and fourth year did the recognition come that adapting the messages and the media to local circumstances would help their effectiveness. The self-evident rightness of the Marshall Plan's goals and methods turned out to be harder to project than expected, and the regular meetings of the mission information officers in Paris reflect a steady growth in awareness of the difficulties of applying abstract principles and concepts to complex and chaotic local situations. The outcome was disappointment with the short-term results, especially when measured in terms of the rise or fall of support for Left parties and unions. ''[T]he European workman listens listlessly while we tell him we are saving Europe, unconvinced that it is *his* Europe we are saving'', complained a senior staff member in Paris in February 1949.[24]

In the early days it was possible to believe that the working man of Europe was not particularly interested in the Marshall Plan battle against Communism, but sought rather ''a promise of a larger stake in his country's economy – enough income to enjoy better food, a new suit, a picnic or the movies, less cramped living quarters, a chance to retire when he is old''.[25] But by the end of 1949, experience and extensive opinion polling had brought a significant shift in outlook, to the point that the Director of Information in Paris was told by his Research and Analysis Section that ''the underlying concern of the majority of Europeans today is old-age benefits... (or further) that a man's life, when begun, contains the reasonable assurance and expectation of a rational progress toward a reasonable conclusion''. The Director of Information must have been shocked to learn from this paper that the concept of higher standards of living was ''rapidly becoming anathematic [sic] to Europeans'', but he must have been reassured to hear that the basic ERP objectives of higher productivity and European economic unity would not be affected in any way, since only by these means, felt the writer, could the Europeans in fact achieve the social security they so anxiously sought. In the meantime, however, the

Marshall Plan would have to recognise the legitimacy of welfare capitalism, insisting simply that it be applied, as doctrine and reality, without restriction in all Europe.[26]

* * *

> ''You Too Can Be Like Us'': that was the original message of the Marshall Plan, and it was the task of the Information Programme to bring it home to Europeans everywhere. They learned [wrote ERP Administrator Hoffman in his memoirs] that this is the land of full shelves and bulging shops, made possible by high productivity and good wages, and that its prosperity may be emulated elsewhere by those who will work towards it.[27]

''Prosperity Makes You Free'' proclaimed the slogans on the Marshall Plan Freedom Trains as they brought aid and comfort in the dark days of the late 1940s. But there was more than prosperity, there was the concept of growth, which enters the language of European economics and politics at this time, starting out from the Truman administration's Council of Economic Advisers of 1949 and amplified by the propaganda of the Marshall Plan. Implying unlimited horizons of production and consumption (in contrast with conventional notions of ''prosperity'' or, say, the Keynesian vision of ''satiety''), growth was the object of the so-called ''revolution of rising expectations'', identified by a senior ERP man, Harlan Cleveland, as early as 1950.[28] It was this spirit, underlying the extraordinary expansion of the 1950s, which was historically unprecedented in the view of the economic historian Michael Postan, writing in the late 1960s:

> ''What was really remarkable.. was that economic growth was so powerfully propelled by public sentiments and policies. In all European countries economic growth became a universal creed and a common expectation to which governments were expected to conform.''

Full employment had developed ''into a policy and economic philosophy much wider in its implications... all classes of society gradually came to expect continued – indeed perpetual – rises in the material standards of life''. Politicians and economists nurtured this optimism: ''their policies and plans came to be geared to certain irreducible *minima* of growth... in this way fast growth, rather than just growth, became the principle of state policy''.[29]

Writing in the 1970s on the French case, Jean-Paul Rioux confirms Postan's judgment. Beyond the specific economic factors, whose exact weight remains impossible to measure:

> ...growth occurred because it was actively sought after, because behaviour had changed, because knowledge had increased: thus the French were prepared to accept growth even before they could actually promote it. A new-found confidence in the future, a taste for education, possibly a less deferential attitude to the status quo, were all changes as important as the rate of capital formation or the intensity of competition... In the final analysis then, an explanation of the economic leads us back to the domains of the social and the mental.[30]

And in none of these domains was any influence so powerful or all-pervasive in these years as that of the United States.

In reality, the economic Marshall Plan so well-known to history and now so scaled-down by economic historiography worked on the supply side of the market modernisation equation. Clearly there was also another ERP, perhaps even more enduring in its results, seeking to change wants, needs, attitudes and aspirations, powerfully at work on the demand side of the same equation. But it was the reality of unprecedented economic expansion which eventually allowed the American consumer vision and the European welfare vision to arrive at their historic synthesis, and with the experience of the economic ''miracles'' the arrival of that new synthesis became apparent to all.

The ''miracles'' – termed such because they were in fact so unexpected[31] – seemed heaven-sent to justify everything the Marshall Plan had stood for in its day and certainly allowed European and American politicians to claim that this was what they had intended all along. In 1960 the OEEC became the OECD, with the United States a full member, and as its founding convention stated, the OECD's purpose was ''to achieve the highest sustainable economic growth and employment and a rising standard of living''.[32] Ten years earlier, almost all of these objectives would have been familiar to European statesmen and their advisers. But the arrival of the concept of economic growth, at the maximum rate possible, as a supreme goal of policy, brought a new and significant evolution of the idea of progress itself to advanced industrial societies.

NOTES

1. Abbreviations used in the notes:
   NARA National Archives and Records Administration, Washington
   RG 286 Record Group 286, Office of the Special Representative (see NARA)
   OSR Office of the Special Representative.
2. An earlier edition of this article was published in P.M.R. Stirk and D. Willis (eds.) *Shaping Postwar Europe. European Unity and Disunity 1945-1957*, London, 1991.
3. *Cf.* D.W. Ellwood, ''The American Challenge and the Origins of the Politics of Growth'', in Smith and Stirk (eds.) *Making the New Europe,* London, 1990.
4. Harriman comment at Ambassadors' meeting in Paris, 22-24 March 1950. Report in *Foreign Relations of the United States* (FRUS) 1950, Vol. III, Washington 1977, 800.
5. This is the theme of M.J. Hogan, *The Marshall Plan. America, Britain and the Reconstruction of Western Europe 1947-1952*, Cambridge, 1987; *cf.* D.W. Ellwood, *Western Europe, America and Postwar Reconstruction,* London, 1992, Ch. 5.
6. Communist activities were not at the root of Europe's difficulties, said the State Deptartment's Policy Planning Staff in May 1947. They were attributable to war, physical destruction and ''the profound exhaustion of spiritual vigor'': *FRUS*, 1947, Vol. III, Washington 1974, 225.
7. NARA, RG 286, Central Secretariat, Information Division, Retired Subject File, ''Mission Memoranda'' subfile. Memo Norall to Drummond (Director European Information Division, Paris), 9 August 1950.
8. NARA, RG 286, OSR Information Division, Office of Director, General Subject Files 1948-49, ''Publicity and Information 1948'' sub-file. Memo Nielsen to Harriman, 26 April 1948.
9. NARA, RG 286, OSR Information Division, Office of Director, General Subject Files 1948-49, Huse (Personal File). *Principles on Guaranties for Information Media*, 13 September 1948.
10. *Cf.* D.W. Ellwood ''The 1948 Elections in Italy, A Cold War Propaganda Battle'', *Historical Journal of Film, Radio and Television,* No. l, 1993.
11. NARA, RG 286, OSR Information Division, Information Subject File, ''Previous Testimony'' sub-file. Notes dictated by Berding for use in Congressional presentation, 16 January 1950.
12. NARA, RG 286, OSR Administrative Services Division, Communications and Records Section, Country Files 1948-1949, Italy ''Publicity and Information Radio-Film'' sub-file. Shea, (Chief, Field Branch European Information Division), to Berding, 24 February 1949.
13. Both sides of the question discussed in Joseph B. Phillips, ''Italy: Making the ECA Visible'', *Newsweek*, 10 October 1949; labelling debate in *Congressional Record-Senate*, April 1949, 4209-4213.

14. NARA, RG 286, ECA Washington, Information Division, Information Subject File, ''Previous Testimony'' sub-file. Comment by Robert Mullen, (Director, Office of Information), in *Budget Estimate, Fiscal 1950*.
15. These were frequently portrayed in the monthly newsreels, ''ERP in Action'', of which 13 editions were made, and in the documentary series ''The Marshall Plan at Work in...'', dedicated to activities in 12 of the participating countries. A number of these films may be viewed in the National Archives, Washington DC, Motion Picture Branch.
16. G. Hutton, *We Too Can Prosper*, London, 1953, 150-51, 202; citation from page 5.
17. NARA, RG 286, OSR Information Division, Office of Director, General Subject Files 1948-49, ''Publicity and Information 1949'' sub-file. *Radio Address by M. Raymond Aron of Le Figaro*.
18. NARA, RG 286, OSR Information Division, Office of Director, General Subject Files 1948-49, Huse (Personal File). Friendly to Houston (Director of Information, ECA Washington), 31 August 1948.
19. NARA, RG 286, OSR Information Division, Office of Director, General Subject Files 1948-49, ''Policy (1949)'' sub-file. Memo Wilson, (Information Chief, UK Mission) to Drummond, 18 October 1948.
20. NARA, RG 286, ECA Washington, Office of Information, Office of Director, Country Subject Files, ''Netherlands''. A.S. Keller, *ECA In Action*, 13 October 1950.
21. See endnote 19.
22. NARA, RG 286, OSR Information Division, Office of Director, General Subject Files 1948-49, ''Publicity and Information 1949'' sub-file. Correspondence between Shea and Drummond, November, 1949.
23. NARA, RG 286, OSR Information Division, Office of Director, General Subject Files 1949-50, ''Information Officers'' sub-file. Minutes, Conference of Information Officers, Paris, 28 August 1950. Also Information Division, Office of Director, ''Publicity and Information 1948-49'' files. The OEEC Secretariat admitted it could do little to help on the publicity front, and endorsed the approach used by ECA based on bilateral arrangements with individual countries; correspondence of February 1949.
24. NARA, RG 286, OSR Information Division, Office of Director, ''Publicity and Information 1949'' sub-file. Memo Reuss to Friendly, 25 February 1949.
25. *Ibid*.
26. NARA, RG 286, OSR Information Division, Office of Director, ''Policy (1949)'' sub-file. Memo. Hodges, (Editorial Research and Analysis Section), to Drummond 19 October 1949.
27. P.G. Hoffman, *Peace Can Be Won*, New York, 1951, 53.
28. NARA, RG 469, Assistant Administrator for Program. Deputy Assistant Administrator. Subject Files of Harlan Cleveland. Paul Hoffman called it ''one of the best addresses I have ever read on the work of the ECA'' cited in C.S. Maier, ''The Two Postwar Eras and the Conditions for Stability in Twentieth Century Europe'', *American Historical Review,* 1981, 346.
29. M.M. Postan, *The Economic History of Western Europe 1945-1967*, London, 1967, 22, 25, 48-49.
30. J.P. Rioux, *The Fourth Republic 1944-1958*, Cambridge 1987, 335.
31. *Cf.* comments by R. Aron in *Daedalus*, Winter 1964.
32. OECD Convention, 14 December 1960.



ECA Exhibit for the OEEC Council Meeting, July 1949. French board.



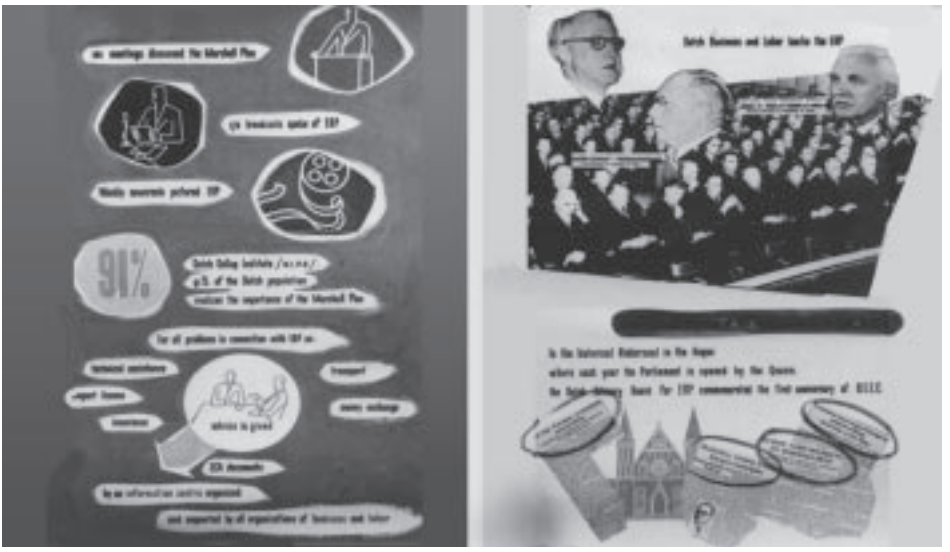
William C. Foster (new ECA Administrator), presents Paul Hoffman with the winning poster of the Intra-European poster contest at his farewell in Washington in September 1950.



The Train for Europe was a six carriage train dramatising ''Co-operation among Free Peoples''. Designed in France and built in Germany, it left from Munich in April 1951. It toured twenty German cities, went to Scandinavia, arrived in Paris in October.



In spring 1952 the Train for Europe went to Italy, arrived in Vienna in August, went to Trieste, returned to Northern France in winter 1952 and appeared for the last time June 1952 in Belgium.



ECA Exhibit for the OEEC Council Meeting, July 1949. Dutch board.



Dutch flower festival in Sassenheim, May 1951.

Chapter VIII

THE EUROPEAN PRODUCTIVITY AGENCY, 1953-1961[1]

Bent Boel

In March 1953 the European Productivity Agency (EPA) was created as a semi-autonomous organization within the framework of the OEEC to promote productivity in the member countries. Acting as the ''operational arm'' of the OEEC, it accounted for over 40 per cent of its annual expenditure.[2] Only eight years later, at the same time as the OEEC was transformed into the OECD, it was wound up and its name subsequently slid into oblivion.

Its future had once seemed brighter. In 1954, the OEEC's Secretary-General Robert Marjolin had considered that problems of trade liberalization, balance of payments, currency convertibility, or expansion of production were all on the way to a solution; the only fundamental difficulty that remained was productivity. The EPA was therefore designed to lead the European efforts to solve ''the truly European problem of this decade''.[3] Two years into its existence, the director of the Norwegian Productivity Institute enthusiastically asserted that the EPA had become ''a better known institution in Norwegian circles than the United Nations itself.''[4]

The EPA was an American brainchild. After the War the American authorities came to see enhanced productivity as a solution to manifold problems. Only in this way could Western Europe solve the structural balance of payment problems and thus make United States financial aid superfluous. Moreover, if Western Europe were to be economically prosperous and thereby socially and politically stabilised, a ''crusade'' for increased productivity was deemed necessary. An essential complement to this strategy was the strengthening of the ''free'' (*i.e.* non-communist) trade unions.[5]

The American Administration was divided over the means to be used to achieve such a productivity growth. Although some favoured directing important sums specifically at increasing productivity, the prevalent attitude was to trust market mechanisms as the catalyst and to emphasize the need for European economic integration.[6] Thus, funds allocated to the Technical Assistance Program remained an extremely modest component of total American aid: they rose in the period 1948-52 from less than $2 million to $20 million, while more than $12 billion were overall spent on the Marshall Aid.[7] However the continued balance of payments crisis in 1949 and the outbreak of the

Korean War in June 1950 prompted a change in attitudes. Productivity became the key concept of the United States' (diminishing) aid policy. Increased productivity appeared indeed to offer a cheap way out of the dilemma of recovery versus rearmament.[8]

* * *

An OEEC Committee for Productivity had been created in 1949. This group was soon split into a Committee for Scientific and Technical Matters and a Technical Assistance Group. In January 1952 a first, unsuccessful, American proposal for a unified European productivity agency was put forward. Instead, by merging the two existing committees, the OEEC member states decided to create the Productivity and Applied Research (PRA) Committee.[9] Like its predecessors, this committee was handicapped by the strict rules of unanimity aimed, in the words of an American official, at providing ''a maximum of discussion and a modicum of action''.[10]

The Conditional Aid, also called the Benton-Moody program, conveniently provided the financial means to help realise the idea of a stronger agency. The purpose of the Benton Amendment to the Mutual Security Act of 1951 was to discourage restrictive business practices, to promote productivity and to strengthen the ''free'' labour union movements. To secure these objectives, an Amendment by Senator Moody in June 1952 added section 115(k) to the 1948 European Co-operation Act earmarking $100 million in counterpart funds. In addition the Moody Amendment set aside a grant of $2.5 million to further European co-operative action in the field of productivity, which the Administration decided to use for the specific purpose of creating a European Productivity Agency (EPA) within the framework of the OEEC. This would strengthen the OEEC as a European integrative force and also guarantee a certain autonomy and efficiency.[11]

Although the prospect of $100 million was attractive,[12] the OEEC members were initially less enthusiastic about a productivity agency. The greatest scepticism was expressed by the United Kingdom, partly supported by the Netherlands. Some British officials even protested against the ''distasteful proposal'' of the United States.[13] They feared for excessive intrusion by the new agency in domestic matters and, more generally, they were wary lest any supranational tendency in productivity activities spill over into other sectors. Therefore they tried to limit the autonomy of the new agency and the financial means at its disposal (insisting on the non-convertibility of the British contribution).[14]

The American proposal for a fairly independent agency was better received elsewhere. France, the main recipient of Moody aid, was most adamant in its support for a strong autonomous organisation.[15] On 24 March 1953 the Council decided to establish the EPA from 1 May 1953. It was to

> ''seek, develop and promote the most suitable and effective methods for increasing productivity in individual enterprises, in the various sectors of economic activity in the Member countries, and over the whole field of their economies. To this end, [the EPA] shall undertake and promote measures tending to the acceptance and adoption of the best and most modern techniques and to the removal of factors limiting their adoption.''[16]

The assets of the new organization were overwhelmingly of American origin. Aside from the $2.5 million envisaged in the Moody Amendment, the OEEC recipients of Benton-Moody aid further contributed 8 per cent of the counterpart funds of this aid, $7.5 million, to the Agency. Most of these latter payments were partially inconvertible, and remained so until July 1957. The only purely European contribution was the FF 150 million which the OEEC each year paid into the EPA funds, raised in 1957 to FF 600 million to top up the Agency's dwindling reserves and to anticipate reduced United States assistance. Indeed in addition to its subscription to the EPA's initial capital, the United States had until 1956 contributed an average of $1.8 million annually to different EPA projects. Thereafter this flow was reduced but, in 1960-61, it still amounted to approximately one third of the total budget.[17]

As created, the EPA largely reflected a compromise between American and British views. The OEEC Council retained the final authority over the EPA and approved its annual programme and budget. Moreover all larger projects (*i.e.* involving expenditure of over FF 5 million) required separate approval by the Council. On British insistence, smaller projects could also be referred individually to the Council if a member country deemed its interests, or those of the OEEC, seriously affected. The EPA itself comprised three main elements: the Director of the Agency, the Productivity and Applied Research (PRA) Committee, and the Advisory Body. The Director, the head of the Agency's secretariat, was responsible for preparing the programme, for its passage through the PRA committee and the Council, and for the programme's execution. The PRA committee, comprising representatives from member states, established the rules and methods of work. It examined and approved by majority vote all projects worth over FF 1 million and reviewed the activities of the Director, whom it guided by means of directives. This decision-making framework was supplemented by an Advisory Board consisting of independent personalities.[18]

Since it was a compromise, the organizational structure left many frustrated. The EPA was often plagued by complaints over the inefficiency of its secretariat and the lack of relationship between its work and that of the rest of the OEEC, on the one hand, or with the national Productivity Centres, on the other.[19] And, especially during the first years, there was a continuous fight between those, led by the United States, who espoused greater autonomy for the EPA and its director in relation to the OEEC, and those, foremost among them the United Kingdom, who would have preferred the Agency as an academic forum for discussion.[20] When, in 1957, the decision to prolong the EPA was linked to an improvement in its operational efficiency, the United States approach seemed to have prevailed. In the ''Amended Constitution'' the PRA committee was replaced by a Governing Body consisting of high-level representatives of each of the member countries, which took over from the Council the approval of the larger projects. The Advisory Board survived in name, but its composition and functions were altered. To induce a more direct link between the EPA and professional bodies, its members were no longer appointed in a personal capacity, but as representatives of international non-governmental organisations.[21]

This laborious compromise lasted merely one year. In July 1958 the Secretary-General of the OEEC requested a new reform of the EPA, proposing its transformation into an Economic Development Agency.[22] Since this met with virtually no enthusiasm,

Working Party No. 26 was asked to make suggestions for a reorganisation. Its report, completed in July 1959, suggested setting up four committees, all directly responsible to the Council.[23] This proposal was severely criticized by those who doubted whether the Council was the appropriate place for such co-ordination, and who therefore preferred the creation of a ''Super-Governing Body''. Some critics even suspected that the Secretariat was plotting to take over some of the existing Governing Body's co-ordinating functions. Heated debates on the issue went on for several months until, on American pleading, it was decided to await the conclusions from the Group of Four charged with investigating the OEEC's future.[24] The report of this group, made public in April 1960, proposed that the EPA be wound up.[25]

* * *

Compared to the tasks which it was given, the funds of the EPA were always very limited. It had no means for infrastructural investments, but had to limit itself to a double task: acting as a clearing house for discussion and exchange of information and as a catalyst of activities. The latter implied that the agency was to initiate activities (training, conferences, lectures, missions, studies, trial and demonstration areas) but to retreat once a project was over or was capable of generating its own resources. Though in principle complementary, these tasks in reality often turned out conflictual. It was a recurrent theme of discussion in the EPA whether its emphasis should lie on its first (''academic'') or second (''operational'') function.[26]

Given the modest sums at its disposal, the breadth of the activities undertaken by the EPA appears impressive. But the emphasis on the different activities changed over the years. Four overlapping phases may be distinguished.[27]

In its infancy, the EPA might best be described as a body through which Western Europe could benefit from American technical assistance. The first programme was mainly the work of the Mutual Security Agency, and many of the early projects were simply the continuation of technical assistance projects previously organised by the MSA. Transatlantic missions, recruitment of American experts and more generally the study of technological problems thus played a key role in this first period. Among the more lasting results of this initial ''American phase'' was the creation, inspired by consultants from the United States Bureau of Labor Statistics, of the influential Productivity Measurement Review. But information about technical problems remained an important task during the whole lifetime of the agency, through widely circulated publications and the creation of a European Centre for the translation and diffusion of Russian technical literature.

It was soon realized, however, that technological advantages were not the only explanation for the high productivity in American firms. The EPA's second annual programme (covering the year 1954/55) marked a change of policy. It was decided to abandon most technological projects and to concentrate instead on management problems and the improvement of the relations between labour and management. These two types of projects made up about 30 per cent of the operational budget of the EPA throughout its existence, and more than 40 per cent when added to the trade union chapter which

appeared in the programme of the EPA in 1957/58. But while emphasis in the early years lay on the dissemination of American management methods, including missions to the United States and lectures by American experts and consultants in Europe, there was from 1956 on (that is, from the moment where the European share in the financing of the EPA's activities began to grow) a move away from the more American-inspired projects and towards a ''Europeanization'' of the projects. Grants for study in the United States were still offered, but the productivity missions to the United States were abandoned and the recruitment of United States experts was greatly reduced. Instead, the co-operation within the OEEC was expanded through international research projects, seminars, conferences, and the creation of joint institutions and pilot experiments. The EPA thus contributed to the creation of several centres for training in business management and more generally created links between about 150 centres existing in the OEEC countries. It strongly stimulated the study of human relations in industry. Because of its limited funds, it generally tried to encourage the creation of permanent bodies taking over activities which it once started. Among such bodies were the International Ergonomics Association, the Mediterranean Centre for Post-Graduate Education in Agriculture and Food, the European Association for Quality Control and the European Work Study Association.

The lack of interest in the EPA's activities displayed in these early years by the poorer OEEC countries led to the recognition that they had gained little from the Agency's work. A characteristic problem in the less developed areas of these countries was endemic unemployment; what they needed was the promotion of general economic development rather than activities specifically aimed at increasing productivity. The first operations in this field were initiated in the programme for 1955/56, and they were subsequently greatly expanded to 12.6 per cent of the operational budget in 1956/57, and about 20 per cent in the three following years (but they fell to 12.9 per cent at the very end of the EPA's existence, in 1960/61). This expansion took place mainly at the expense of agriculture (whose share in the EPA's operational budget fell from 25 per cent in 1954/55 to 13 per cent in 1960/61).[28] A crucial element in the programme for regions in the process of development was the creation of trial and demonstration zones in Italy, Greece and Turkey, where the EPA promoted the development of many aspects of economic life in chosen areas. The most succesful of these experiments was the pilot zone created in Sardinia, where industries such as weaving or basket-making were created, more productive methods in agriculture were introduced, adult education was developed and the hygiene and the nutrition provided for school children was improved.

From 1956, and even more so from 1957/58 onwards, the EPA's attention was increasingly focussed on the necessity of encouraging scientific and technical research. By then Europe's economic recovery had definitely been completed. Instead there was a growing fear in Western Europe of being ''outdistanced'' by the United States and the USSR in the race for economic growth, with all the political and strategical consequences this implied. A decisive factor in lasting the course would be the ability to encourage progress in the science and technology.[29] In 1958 the Office for Scientific and Technical Personnel (OSTP) was set up within the OEEC framework, but separately from the EPA. Close contact between the two organisations was ensured by the nomination of Dr Alexander King, Deputy Director of the EPA, as Director of the OSTP.[30] In addition the programme of the EPA allotted an increasing part of its operational budget to the

promotion of applied research. Working Party No. 26 anticipated that the activities of the EPA and those of the OSTP should eventually be merged.[31]

* * *

It is impossible to quantify the impact of these activities on European productivity levels. Even a rough estimate remains to be made. Nevertheless, the sheer volume of activities initiated by the Agency, its role as centre of discussion and stimulation of the national productivity centres and as catalyst of activities that survived it, the numerous people that it familiarized with new ideas and techniques to improve productivity and its contribution to the spreading of the ''gospel of productivity'' are bound to have borne more fruits than its subsequent obscurity seems to testify. Also, the impact of these activities was probably greater than the modest sums devoted to them would suggest. The repeated interventions of both countries and professional organisations expressing support for the continuation of EPA offer a qualitative indication of that which cannot be demonstrated quantitatively.[32]

The relative success of the EPA and of the ideas it propagated turned out to be a problem for the Agency. As national productivity centres grew stronger, they tended to assert their right to act without undue interference. The ''Europeanization'' of the EPA's programme meant, moreover, that it was adapted to meet the situation in individual states, particularly countries with underdeveloped areas, such as Italy, Greece, Turkey and later Spain. This diversification of the activities of the Agency was accompanied by a dilution of the concept of productivity. It was characteristic of the projects developed in the later years (aid to underdeveloped areas and action on scientific and technical research) that they tended to go beyond a narrow productivity concept, moving towards the promotion of more general factors of economic development. Since, at the same time, American aid was diminishing and the European member countries were reluctant further to increase their contributions, it became ever more difficult for the Agency to maintain such diverse and seemingly unrelated activities under its organisational umbrella.[33]

Once the reorganization of the OEEC had been decided, in December 1959, the days of the EPA were numbered. It was clear that the United States would not participate in the ''traditional'' productivity enhancing projects. The Americans were much more interested in the more recent EPA activities in development areas and in scientific and technical personnel. But neither of these activities belonged properly to a specialized productivity agency such as the EPA.[34] The American scepticism towards the ''traditional'' activities of the EPA was shared by France and Great Britain. On the other hand, the Scandinavian countries, Denmark in particular, were keen to see these very projects continued.[35]

The deathblow was dealt by the Group of Four. Most of the countries had wanted the EPA's activities continued in some form or another, and perhaps with a different emphasis. But the reactions of the United States were negative. Moreover both the EPA's Director, Roger Grégoire, and his Deputy, Alexander King, recommended a dissolution.[36] This view, which took the proposals of Working Party No. 26 to their logical conclusion, was agreed to by the Group of Four. Its report recommended the demise of the EPA, and

the merging of those activities deemed of continuing interest with other operations.[37] The Preparatory Committee and the member states of the new organisation subsequently endorsed this view. Though the Advisory Board denounced the decision as ''inexcusable in the face of the economic expansion of the Eastern bloc'',[38] only few seriously mourned the loss of the agency. The EPA had played its role, and according to many had done well. But the ''crusading'' Fifties were over.

NOTES

1. Abbreviations used in the notes:
   NARA National Archives and Records Administration, Washington
   RG 469 Record Group 469, United States Foreign Assistance Agencies
   RG 59 Record Group 59, State Department
   CAF OECD, Central Archives Facility, EPA Archives (the archival material referred to in this category is soon to be transferred to the Historical Archives of the European Communities in Florence)
   UM Udenrigsministeriets Arkiver (Archives of the Foreign Office, Denmark).

2. If the EPA's budget had not been separated from the OEEC's, its share of the total OEEC budget would have oscillated between 38.5% (in 1959/60) and 48.1% (in 1957/58), cf. OEEC: Acts of the Organisation, Vol. 13-21, Paris 1954-62.

3. NARA, RG 469, Deputy Director for Operations, Office of European Operations, Office of the Director, Subject Files 1948-1954, Box 53, folder ''Technical Assistance June-July 1954 (1 of 2)'', Ecoto A-71, 27 July 1954, Paris to Washington.

4. RG 469, Office of the Deputy Director for Operations, Office of African and European Operations, Subject Files. 1955-59, Box 23, folder ''Technical Co-operation, Dec. 1955'', Ecoto Circular A-68, 9 December 1955.

5. See chapter by David W. Ellwood in this volume.

6. NARA, RG 469, Office of European Operations, Regional Organizations Staff, Subject Files 1948-53, Box 4, folder ''Economics: Productivity Program (2 of 3)'', Foreign Operations Administration, Executive Secretariat, note No. 390, 15 December 1954, Report on the EPA.

7. NARA, RG 469, Special Representative in Europe, Office of the Director of Administration, Office of the Director, Subject Files, 1948-53, Box 11, folder ''PTAD – General'', Memorandum, 7 November 1952: Interrelationship of requirements for Technical Assistance Dollars, 10% Counterpart, and Moody Local Currency; International Co-operation Administration: European Productivity and Technical Assistance Programs. A summing up, 1948-1958. Paris 1958, 4.

8. M.J. Hogan, *The Marshall Plan, America, Britain and the Reconstruction of Western Europe 1947-1952,* Cambridge 1989 (1st edition 1987), 341-43.

9. NARA, RG 469, Deputy Director for Operations, Office of European Operations. Office of the Director, Subject Files 1948-1954, Box 48, folder ''Productivity'', Foreign Operations Administration, 29 March 1954: 115(k) Assistance to Productivity Programs in Eleven Countries of Western Europe and OEEC (EPA) (period July-December 1953).

10. NARA, RG 469, Office of European Operations, Regional Organizations Staff, Subject Files 1948-53, Box 3, folder ''Economics: Productivity Program (1 of 3)'', Repto A-663, 21 November 1952, Paris to Washington.
11. NARA, RG 469, Special Representative in Europe, Office of the General Counsel, Subject Files 1948-53, Box 59, folder ''Productivity – Moody Amendment, Basic Documents (sec 115K)''.
12. Though some of the conditions set for granting it (especially the sharing-out of benefits accruing from increased productivity) met with great reluctance, especially in France (NARA, RG 469, USOM, Mission to Denmark, Productivity and Technical Exchange Division, Subject Files 1948-1954, Box 3, folder ''Productivity. General'', Tomus 379, 1 December 1952, Paris to Secretary of State).
13. NARA, RG 469, Office of European Operations, Regional Organizations Staff, Subject Files 1948-53, Box 3, folder ''Economics: Productivity Program (1 of 3)'', Repto 1444, 27 October 1952, Paris to Washington.
14. NARA, RG 469, Special Representative in Europe, Office of the General Counsel, Subject Files 1948-53, Box 58, folder ''Productivity OEEC'', Repto 254, 30 October 1952, Paris to London; NARA, RG 469, Office of European Operations, Regional Organizations Staff, Subject Files 1948-53, Box 3, folder ''Economics: Productivity Program (1 of 3)'', Repto A-663, 21 November 1952, Paris to Washington.
15. NARA, RG 469, Office of European Operations, Regional Organizations Staff, Subject Files 1948-53, Box 3, folder ''Economics: Productivity Program (1 of 3)'', Repto A-648, 15 November 1952.
16. OEEC, Acts of the Organisation, Vol. 12, 91-93.
17. NARA, RG 469, Office of Labor Affairs, Labor Programs Division, Records Relating to the European Productivity Agency Programs, 1955-59, Box 1, folder ''EPA Administration-Education'', Ecoto A-71, 25.7. 1958, Paris to Washington; UM, j.nr. 106.0.21, pk. 5, C(60)120, 18 June 1960, United States Contribution to the Assets of the EPA for 1960-61.
18. OEEC, Acts of the Organisation, Vol. 91-93.
19. See for example: UM, j.nr. 106.0.21, pk. 3, C/WP26/W/16, 27 July 1959, letter, Swedish delegate (Hägglöf) to Sir Hugh Ellis-Rees, attachment: Note, Swedish Productivity Council, Stockholm, July 1959: Need for Administrative Improvements in EPA.
20. NARA, RG 469, Deputy Director for Operations, Office of European Operations, Office of the Director, Subject Files 1948-1954, Box 48, folder ''Productivity (EPA)'', Ecoto 1332, 2 April 1954, Paris to Washington.
21. OEEC: Acts of the Organisation, Vol. 17, 335-49.
22. NARA, RG 469, Office of African and European Operations, Subject Files 1955-59, Box 81, folder ''Productivity April-September 1958'', letter RS-1682, 11 July 1958, Sergent to Heads of National Delegations.
23. NARA, RG 469, Office of African and European Operations, Subject Files 1955-59, Box 92, folder ''Committees – OEEC (4 of 6)'', attachment to Ecoto A-204, 13 October 1959: C(59)215, Report of Working Party No. 26 of the Council, 31 July 1959.
24. NARA, RG 469, Office of African and European Operations, Subject Files 1955-59, Box 92, ''Committees – OEEC (4 of 6)'', Ecoto A-232, 24 October 1959, Paris to Washington; UM, j.nr. 106.0.21, pk. 4, OEEC del., note, Riis, 21 March 1960.

25. A Remodelled Economic Organisation. A Report by the Group of Four established by the Resolution of 14th January 1960 of the Twenty Governments and the Commission of the European Economic Community, Paris, 1960.
26. UM, j.nr. 106.0.21, pk. 4, OEEC del., note, Riis, 21 March 1960.
27. On the programme of the EPA and its development, see: NARA, RG 469, Office of African and European Operations, Regional Organizations Staff, Records Relating to the EPA, 1953-1957, Box 1, folder ''EPA/General through 1957'', EPA(57)11: EPA. Results Obtained and Future Prospects. Report on the Agency's First Phase of Activity 1 May 1953 to 30 June 1957, Paris 3 September 1957; CAF, Classeur: EPA, 1953-1958, OECD, Paris Août 1965, Répertoire des activités de l'AEP (1953-1961).
28. OEEC: Acts of the Organisation, Vol. 13-21, Paris 1954-62.
29. See for example UM, j.nr. 106.0.21, pk. 1, C(58)8, 16.1.1958: Revised programme and Part I budget of EPA for 1957-58. Report by the Secretary-General.
30. UM, j.nr. 106.0.21, pk. 2, EC/M(59)2 Annex, 10 April 1959, Economic Committee, Summary of the Statement made by Grégoire Director of the EPA at the 249th Meeting of the Economic Committee held on 6 March 1959.
31. Acts of the Organisation, Vol. 20, 267; NARA, RG 469, Office of African and European Operations, Subject Files 1955-59, Box 92, folder ''Committees – OEEC (4 of 6)'', attachment to Ecoto A-204, 13 October 1959: C(59)215, Report of Working Party No. 26 of the Council, 31 July 1959.
32. See for example: UM, j.nr. 106.0.21, pk. 6, note, Poul Jensen, 26 February 1962.
33. CAF, Box 2: Réorganisation de l'OECE: Notes diverses d'information pour le Groupe des Quatre sur le travail de l'OECE, folder ''23'', Compte rendu de la réunion du Groupe des Quatre experts, 22 February 1960, Objet de la réunion: activités de l'AEP et du BPST; UM, j.nr. 106.0.21, pk. 3, C/WP26/W/21 (1st revision), 1 December 1959, Activities of the EPA for Areas in Process of Development.
34. NARA, RG 59840.00/12-2459, letter, 24 December 1959, Dillon to John G. McCarthy.
35. CAF, classeur: AEP, Avenir de l'agence, Groupe de travail n° 26, EPA/GB/M(59)4, 9 December 1959, Governing Body, Minutes of the 11th Session held on 26 and 27 October 1959; UM, j.nr. 106.0.21, pk. 4, Memorandum of conversation 1 February 1960, Poul Jensen, 2 February 1960.
36. CAF, Classeur: EPA, 1953-1958, folder ''EPA 1953-58'', Alexander King: The Productivity Movement in Postwar Europe (s.d.); CAF, Box 1: Réorganisation de l'OECE: Notes diverses d'information pour le Groupe des Quatre sur le travail de l'OECE, folder ''10: OEEC – Pouvoirs de décision. Recommendations to member and associate countries'', EPA/D/7577, Grégoire to Sergent, 1 February 1960, Note on decisions relating to EPA and question of United States participation; UM, j.nr. 106.0.21, pk. 4, OEEC del., note, Riis, 21 March 1960.
37. A remodelled Economic Organisation. A Report by the Group of Four.
38. UM, j.nr. 106.0.21, pk.5, C(60)115, 17 June 1960, Annex I, Resolution of the Advisory Board taken at its Meeting on 1 June 1960.

Chapter IX

LIBERALISING INTRA-EUROPEAN TRADE[1]

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In the OECD's book celebrating the thirtieth anniversary of Marshall Aid, the former head of the British delegation, Lord Franks, discussed the Organisation's economic achievements in the following terms: ''It is enough to say that as early as the second half of 1950, in member states of the OECD, industrial production was 25 per cent greater than in 1938''.[2] Similarly, others have pointed at the more than doubling of the volume of trade within the OEEC between 1950 and 1960 to illustrate its accomplishments.[3] But are such figures really sufficient proof? It does not require a profound analysis to criticize this type of causal reasoning. First, it takes more than the mere coinciding of OEEC activities with the growth of European trade and production to couple these two features as cause and effect. Second, one needs a more careful study to construct a meaningful comparison of trade and production figures at different points in time. The 25 per cent increase in industrial production between 1938 and 1950 observed by Lord Franks can take on a different meaning when set against the increase in the volume of intra-European trade of a mere 18 per cent. When we also consider that 1938 is already a reference year with relatively low levels of trade in that decade, then this trade increase becomes far less spectacular. For instance, if 1929 is taken as a point of departure for the comparison, industrial production shows an even higher rise of 35 per cent, but intra-European trade has declined by no less than 17 per cent.

The observed doubling of European trade volumes between 1950 and 1960, although equally impressive, conceals large trade differences between OEEC member states. Haphazard and isolated references to either trade or production increases should therefore be avoided in assessing the OEEC's economic achievements. Only a more systematic examination of its goals and their realisation might offer indications in that direction. This paper seeks to contribute to such an examination by highlighting one of the focal points of the OEEC's activities; the liberalisation of intra-European trade in goods, from the launching of Marshall Aid in 1947 to the Code of Liberalisation and the ending of the Trade Liberalisation Programme.

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The OEEC's concern for intra-European trade should partly be explained against the background of major disruptions in the postwar trading pattern during the 1930s and the Second World War. European states had suffered large losses of income as a result of a deterioration in their overseas capital position and in their terms of trade. In addition, they faced the burden of war indebtedness, of reduced opportunities for earning foreign currencies from services and of growing import requirements for domestic recovery. Commodity trade therefore became the focal point for western Europe's attempts to accommodate this changed economic position.[4]

In the years immediately following the war, the scope for import reduction, imports substitution and export expansion proved limited. The bulk of Europe's traditional overseas imports consisted of food and feeding stuffs and raw materials. Such products belonged to the immediate recovery requirements that were difficult to substitute by European products. The problem was aggravated by major shortages in the non-dollar countries of Latin America (which had traditionally supplied products such as grain, cotton, wool, vegetable oils and fats) and by reduced opportunities to earn dollars. In the pre-war trading system, Europe had run large surpluses from the export of textiles, machinery and other manufactures to primary producers in the Third World. These products were paid for in dollars, which the primary producers earned by running surpluses with North America. After the war, however, many primary producers faced substantial war damage and lacked the productive capacity to sustain exports to the dollar area. Evidently, this also meant a cut back on European imports. Other primary producers had begun a deliberate policy of import substitution once the war had cut off traditional channels to import manufactures. This, too, hampered the restoration of the old trading system and increased Europe's dependence on trade with the dollar area.

Within Europe itself, Germany proved a major factor hampering trade recovery. The German economy, before the war a key player within the European trading system as supplier of capital goods and importer of raw materials and semi-manufactures, had virtually disappeared from the international scene. Still in 1938, it had supplied some 42 per cent of intra-European trade in metals, machinery and chemicals, equalling 30 per cent of western Europe's total exports to other areas. Ten years later this figure had dropped to a fraction of the pre-war level; by then, the bulk of its exports consisted of raw materials.[5] It was only in 1951 that total German exports to western Europe approached their pre-war level (see Table 1).

The delayed recovery of the German economy increased Europe's dependence on the dollar area as a source for imports of foodstuffs and capital goods. This dependence was further accentuated by the disintegration of western Europe's trade with Eastern Europe, prior to the war a major supplier of grain imports.[6] The figures are indicative; in the period 1948-50, the United States supplied 56 per cent of western Europe's needs for cereals compared to less than 30 per cent before the war. In the period 1951-52, this figure rose to 66, only to decline again thereafter. In both these periods, cereal requirements accounted for about 40 per cent of western Europe's entire trade deficit with the dollar area.

Behind the overall picture of European trade developments one can observe widely differing trading experiences of individual European countries, often depending on the

Table 1. **Exports of ten European states by main commodity groups**

In million dollars at 1948 prices

Exporter		Importing area and products							
		Western Europe*				Other areas			
		I	II	III	Total	I	II	III	Total
Germany**	1938	696	643	1 342	2 681	161	356	1 211	1 728
	1948	393	69	153	615	12	32	42	86
	1950	565	191	1 267	2 023	50	76	720	846
	1951	664	321	1 623	2 608	89	164	1 171	1 424
UK	1938	816	440	362	1 618	600	1 570	1 396	3 566
	1948	456	413	1 001	1 870	461	1 638	2 408	4 507
	1950	446	540	1 037	2 023	565	1 438	2 934	4 937
	1951	456	647	1 247	2 350	695	1 960	3 305	5 960
France	1938	563	305	289	1 157	396	409	318	1 123
	1948	363	207	241	811	235	493	532	1 269
	1950	873	380	486	1 739	500	799	1 045	2 344
	1951	747	351	494	1 592	695	822	1 246	2 763
Belgium-Luxembourg	1938	408	294	500	1 202	89	258	307	654
	1948	219	213	607	1 039	73	167	405	645
	1950	329	419	603	1 351	76	199	486	761
	1951	298	456	783	1 537	66	216	639	921
Netherlands	1938	891	120	125	1 136	130	146	246	522
	1948	424	108	154	686	115	93	110	318
	1950	980	248	264	1 492	183	150	278	611
	1951	1 092	250	333	1 675	274	176	341	791
Denmark	1938	483	11	70	564	22	20	27	59
	1948	343	16	77	436	102	6	24	132
	1950	651	23	80	754	79	13	40	132
	1951	779	27	122	928	86	14	69	169
Switzerland	1938	54	189	1 746	417	17	134	106	257
	1948	54	128	236	418	20	198	160	378
	1950	54	178	374	477	17	199	158	374
	1951	78	220	270	568	19	289	207	515
Sweden	1938	517	80	243	840	203	60	140	403
	1948	363	77	233	673	216	70	142	428
	1950	698	115	268	1 081	281	91	203	575
	1951	581	160	301	1 042	191	125	286	602

I = Food and Raw Materials, II = Textiles and Misc. Manufactures, III = Engineering Products and Chemicals

* Is here: Belgium-Luxembourg, Denmark, France, Germany, Italy, Netherlands, Sweden, Switzerland, United Kingdom.

** Before the war, Germany; after the war, West Germany.

Source: UN, *Economic Survey of Europe since the war*, 102.

extent of destruction of productive capacities, available economic resources, economic openness (see Table 2) and economic policies. Britain, for instance, lost significant sources of invisible earnings but its productive apparatus was only slightly damaged. As a

Table 2. **Trade dependence among various OEEC countries, 1950 and 1960**

measured as percentage of GNP

	Exports of goods and services		Imports of goods and services	
	1950	1960	1950	1960
Austria	15.2	24.9	19.5	25.6
Belgium	29.4	34.9	29.0	34.7
Denmark	27.3	33.1	31.2	34.0
France	16.4	15.9	15.6	14.1
Federal Republic of Germany	12.2	25.0	13.4	22.2
Greece	6.8	12.2	24.3	25.7
Iceland	27.8	47.1	31.8	52.3
Ireland	35.7	36.8	46.1	38.9
Italy	11.1	17.1	11.8	16.8
Luxembourg	97.8	90.6	79.5	78.8
Netherlands	43.0	53.3	49.5	50.3
Norway	39.1	42.7	45.1	45.9
Sweden	25.7	27.3	25.1	28.2
Switzerland	32.1	33.9	27.7	31.4
United Kingdom	27.1	23.4	42.1	24.1
OEEC average	20.3	23.4	20.7	22.8

Source: OECD, *Statistics of national accounts, 1950-1961*, Paris, 1964.

result, the volume of British exports could expand rapidly, even beyond the 75 per cent increase targeted by the government in 1947.[7] In 1948, Britain's imports accounted for more than thirty per cent of total imports of the OEEC area. This share would gradually diminish as Germany regained its dominant position within the European trading pattern and as trading shares of other OEEC members increased at a faster rate. Belgium had similar experiences. A quick recovery and an early return to former productive capacity enabled the country to expand exports of essential goods such as coal, steel, textiles and heavy machinery to European countries. It also managed to earn large surpluses from services and capital transfers. France, by contrast, faced considerable difficulties in the early postwar period. While it had developed a substantial export surplus by 1947, the following years brought severe payments problems as a result of import surpluses with Europe and deficits with overseas areas, among which were the United Kingdom, the overseas sterling area and the United States.

Dependence on dollar imports also varied widely among member states. The United Kingdom was by far the largest importer of American products but its total expenditure had actually declined as a result of a conscious dollar-saving policy after 1945. Its spending on American foodstuffs, tobacco and raw materials had dropped to almost a third by 1948. By 1951, as a result of the Korean boom, it had risen again by about 60 per cent of the pre-war level. France, Italy, Belgium and the Netherlands had increased their imports from the United States in both absolute and relative terms in 1948. French and

German dollar expenditure for both categories of products peaked in that year, whereas Belgian imports of American products increased still further. France, Italy, Belgium, Switzerland, Denmark and the Netherlands were responsible for the marked growth in the volume of American manufactured imports such as heavy machinery, synthetic fibres and manufactures and pharmaceuticals.[8]

Given the disintegrated postwar trade and payments pattern, American plans for multilateralism and convertibility could not have been further away from reality. European states strengthened their quantitative trade restrictions imposed before and during the war whilst maintaining controls on prices, consumption and investment.[9] Most commercial transactions were conducted along bilateral lines, sometimes under discriminatory arrangements that were fixed annually. Initially, creditor countries such as Switzerland and Belgium fostered intra-European trade expansion by liberal import policies and by granting large export credits. However, as balance of payments problems lasted and as currency convertibility was postponed, these creditor countries proved no longer prepared to grant new credits and began insisting on the repayment of old ones. It meant that trade was pushed into other, still less efficient channels.

Early attempts since 1947 to underpin this trade growth with more flexible payments agreements had produced only marginal results. Trade had been eased through the automatic settlement of debts between OEEC countries, but this type of debt clearing accounted for only a fraction of the total debt among them, whereas it usually also remained directly tied to the existing bilateral trade agreements between pairs of countries.[10] By mid-1949, it emerged that the payments agreements that initially had eased trade recovery were now hampering a further expansion of intra-European trade. With Marshall Aid already nearing its third year, American officials concluded that only a drastic change of tack could save the twin goals of European economic viability and the eventual transition towards a worldwide trade and payments system. They thus began using the leverage of the mid-term report to Congress and the voting for Marshall funds to secure progress towards closer European co-operation in trade and payments. American pressure culminated in the renowned Hoffman speech of October 1949, when the head of the ECA used the OEEC's Council meeting to impress this policy change upon the European governments. What he demanded was ''nothing less than an integration of the western European economy'' through the formation of small, regional schemes for economic co-operation and the speedy elimination of monetary and quantitative impediments to European trade.[11] This set in motion the negotiations for the European Payments Union and, once that framework was established, the formulation of the OEEC's Code for Trade Liberalisation.

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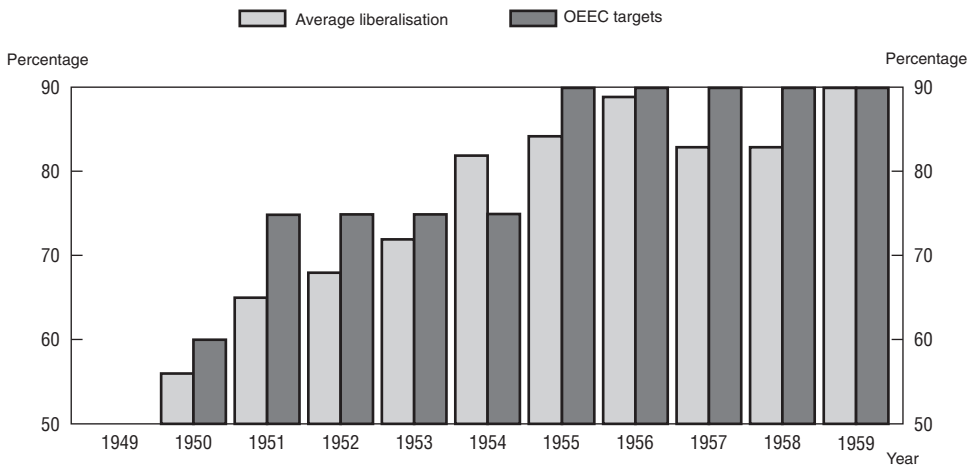
At the time of its creation, the OEEC had no solid and precisely formulated commitment to the removal of trade impediments. Its Convention spoke of increasing intra-European trade and promoting ''close and lasting co-operation between the participating countries by all methods'', including the creation of free trade areas and customs unions.[12] However, the failure of the Americans to turn the Organisation into an early

prototype of a western federal government, as well as the British refusal to accept majority voting by the Council, barred a prominent role for the OEEC in the creation of a customs union. Moreover, previous discussions within a European Customs Union Study Group for an OEEC-wide customs union had added to the belief that Europe's economic situation was too unstable for such drastic undertakings. These seemed to indicate that it made more economic sense to concentrate on eliminating exchange controls and quotas, which proved to be the main obstacles to freer trade and higher efficiency in Europe.[13] Faced with the American ultimatum, the European governments accelerated the implementation of Article 4 of the OEEC Convention, requesting members to abolish restrictions on trade and payments between them. The result was a scheme for the gradual removal of quantitative restrictions on intra-European trade known as the Code of Liberalisation.

Although the Economic Co-operation Administration (ECA) had originally envisaged the complete elimination of all quotas by 1951, not even the threat of losing Marshall funds could sway OEEC members to accept that pace. Their first target had been to remove quotas, by mid-December at the latest, on at least 50 per cent of each country's total imports in 1948 [on private account divided over three product groups, that of food and feeding stuffs, raw materials and manufactured goods (see Figure 9.1)].[14]

In November of the same year they formally laid down, in a Code for Liberalisation, a next step of 60 per cent for October 1950. The Code urged members to remove quotas

Figure 9.1. **OEEC trade liberalisation percentages**
1949-1959



Source: Author.

''as fully as their economic position would permit'', but in exchange for equivalent efforts by their trading partners. It also committed states to avoid discrimination in import policies, both with regard to their liberalised trade and their trade still under quota restrictions. However, this obligation was qualified by the principle that balance of payments deficits or other ''serious economic disturbances'' counted as legitimate motives for countries to partially or completely suspend liberalisation measures. Countries claiming to face these problems would have to reintroduce liberalisation measures within 18 months at the most, while the Organisation had the right to review their case. It could also recommend domestic measures to facilitate the removal of trade restrictions.[15]

The OEEC member states attained a fairly high percentage of their intra-European trade at an early stage. In June 1950, most countries were within close reach of the 60 per cent requirement, thus bringing the OEEC average to 56 per cent (see Figure 9.1). This promising result prompted the Council to set a new target for February 1951. By that date, members should have liberalised no less than 75 per cent of their total trade in 1948 and at least 60 per cent for each of the three product groups. A glance at the liberalisation of individual countries reached by June 1951 suggests that this new target had begun to put some pressure on domestic producers. While Portugal, Switzerland, the United Kingdom and Italy had surpassed the overall target of 75 per cent, Austria, Denmark, Germany, Greece, Iceland and Norway fell far short of this requirement. Furthermore, various countries still failed to meet the target of 60 per cent liberalisation within the three product groups. This revealed that most states had reached the 60 per cent target by removing quotas on ''essential'' imports such as raw materials, grain products and specific capital goods needed for their economic recovery. When such restrictions were lifted, however, they could not achieve the new target without damaging vested domestic producer interests or without interfering with austerity programmes aimed at limiting the consumption of luxury goods. It was then that the trade liberalisation process slowed down.

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Already by the end of 1950, the OEEC's programme experienced a severe setback. In November of that year, West Germany faced a growing balance of payments deficit caused by a strong surge in domestic demand and aggravated by a lag in the financing of German exports.[16] Three months later, it was forced to suspend liberalisation measures. By the end of the year, however, domestic measures contributed to a swift reversal of the deficit and Germany could again return to a liberalisation percentage of 60, followed in April 1952 by the 75 per cent required by the Liberalisation Code.

The German experience showed the importance of the OEEC members' commitment to uphold liberalisation measures even if a deficit country had to reintroduce quota restrictions and discriminate against imports from strong currency members. By avoiding widespread retaliation and by sharing the burden of balance of payments difficulties, Western Europe could escape a downward trend in mutual trade as well as a premature failure of trade liberalisation. This was certainly recognized as a major achievement by

the many contemporaries who had lived through the climate of trade wars and collective protectionism of the 1930s.

Shortly after having coped with the German problem, the Trade Liberalisation Programme faced another setback with the balance of payments problems of France and Britain. Fuelled by the outbreak of the Korean war and by domestic inflationary pressures, the balance of payments of both countries turned from surpluses into deficits. In November 1951, the British government decided to reduce its liberalisation percentage from 90 to 61. Four months later, a further reduction followed, 46 per cent, and it was only in March 1953 that the United Kingdom gradually began increasing its share of officially liberalised imports. Despite renewed pressures on its balance of payments, it managed to meet the Organisation's targets, reaching an overall liberalisation percentage of 80 by June 1954.

France, by contrast, seemed in no rush either to restore its liberalisation percentage or to meet the new OEEC requirements introduced in 1954. Faced with a growing balance of payments deficit, the French government reintroduced a licensing system for all imports and stubbornly refused to remove any of the quantitative restrictions that isolated the economy from foreign competition. It took until October 1953 before foreign pressure finally persuaded the French to remove some restrictions.[17] However, several member countries were so infuriated by its dismal concession of 8 per cent liberalisation that they refused to discuss a new liberalisation target before France had liberalised at least 75 per cent of its intra-European trade.[18]

Apart from general pressure within the Council, the OEEC had one specific instrument to break the deadlock in the Trade Liberalisation Programme, and that was to demand that members submit justifications of quantitative restrictions maintained on their intra-European imports. This is indeed what happened in 1954. A panel of trade experts scrutinized quotas remaining within member countries and produced several highly critical accounts of ''hard core'' protectionism. For instance, when examining Germany, they circulated a long list of quotas on industrial products, the removal of which was said to depend entirely on ''relevant action of the [German] authorities''.[19] Initially, the German delegation tried in vain to justify these trade barriers on the grounds of social and regional problems, war devastation, high production costs and unfair trading practices in competing countries. As soon as the OEEC rejected these arguments as unconvincing, the German government stepped up efforts to tackle its ''hard core'' problem, in spite of widespread domestic opposition.[20]

It seems rather ironic that despite such obvious results the experts could not examine France, by then largely the culprit for the OEEC's lack of progress. Although the French government had meanwhile extended trade liberalisation to 18 per cent, it had also refused to participate in the justification procedures to avoid an embarrassing international showdown for French protectionism.[21] Instead, the government appointed its own committee of leading industrialists and economic experts to explore the trade deficits. This group, known as the Nathan Commitee, concluded that the import restrictions greatly contributed to the weak competitive position of French producers and to large trade deficits.[22] It prompted the cabinet to reliberalise up to 65 per cent of its intra-European trade in November 1954, yet not before imposing a ''special compensatory

tax'' to cushion the impact of foreign imports on domestic producers.[23] Subsequent French governments also remained reluctant to fulfil the OEEC's targets and again had resort to quotas in 1957, after a sharp deterioration of the balance of payments. Hence, for more than half of the lifetime of the Liberalisation Programme, France had either suspended liberalisation measures or failed to meet the OEEC's targets.

The French case clearly illustrates the OEEC's inability to force member countries to adopt the anti-inflationary policies needed for the dismantling of trade barriers. Although the ''justification'' procedures certainly put pressure on governments to remove quotas and sometimes provided a useful stick with which to beat domestic lobbies opposing liberalisation, they seem to have had a larger impact on surplus countries such as Germany and Belgium than on debtors such as France or Denmark.[24] Eventually, therefore, other, more drastic measures, were needed to dismantle the remaining quotas.

The reversibility of trade liberalisation proved to be one of several drawbacks of the OEEC Programme. Another problem was caused by the OEEC's method of calculating the liberalisation percentages. As mentioned before, a common percentage was adopted for *total private trade in the reference year* (usually 1948, but for Germany 1949 and for Austria 1952) as well as a target percentage for the three product groups of raw materials, manufactures and food and feeding stuffs. This meant that in calculating the liberalisation percentages reached by member states, neither state trade nor trade in products that had not been imported in the reference year were taken into account. Thus, if certain goods were not imported in the base year, or only in small quantities, the target of removing quotas from imports worth, say, 60 per cent of the total would be relatively easy. Moreover, member states could transfer products imported under quotas from private to government account without formally ''deliberalising'' imports and hence without reducing their offical liberalisation percentage.

As the table overleaf shows, these loopholes in the calculations implied that the official percentages tended to overstate the amount of imports freed from quantitative restrictions. However, to what extent they did, is difficult to assess; it certainly differed from country to country. Some estimates for 1958 indicate that if account is taken of quotas applied under regimes of state trade, results are less impressive. For instance, the British percentage would drop from 94 in 1958 to 85, the Danish percentage from 86.2 to 77 and the Norwegian from 81.4 to a mere 65.

France's overall percentages provide an extreme example of overstated liberalisation achievements; by 1956, the country had formally surpassed the 75 per cent stage but this concealed that almost one quarter of its trade was still imported under a quota regime. Since this share was subject to state trade, it could be excluded from the OEEC's obligation to liberalise. At the other extreme was Greece which, by 1954, had taken *de facto* liberalisation measures for about 90 per cent of its private imports in 1948, while the official OEEC calculations still showed a zero liberalisation percentage. The reason for this was that the OEEC registered only those liberalisation measures that were communicated officially to the Organisation, and this the Greek government had deliberately refused to do, to retain the freedom to reimpose quotas for protective or bargaining purposes.[25]

Table 3. **State trade and private trade in imports of OEEC members, 1956**

	State Trade (%)	Private Trade (%)
Austria	1.4	96.8
Benelux	–	100.0
Denmark	0.4	99.6
France	22.0	78.0
Germany	6.9	93.1
Iceland	22.2	77.8
Ireland	1.6	98.4
Italy	4.3	95.7
Greece	21.6	78.4
Norway	7.5	92.5
Portugal	–	100.0
Sweden	4.2	95.8
Switzerland	5.3	94.7
Turkey	4.7	95.3
United Kingdom	1.9	98.1

Source: G. Curzon, *Multilateral Commercial Diplomacy* (London, 1965) 157-8.

The skewedness in the liberalisation operation was compounded by the fact that the initial obligation to remove quotas evenly over broad product categories, so as to guarantee a fair degree of reciprocity to all OEEC members, was often ignored once the overall targets were raised. True, in 1955 the OEEC extended the liberalisation requirement within each category from 60 to 75 per cent, but this percentage still offered ample room to protect specific sectors of the economy. An over-performance in raw materials, for example, often compensated for an under-achievement in agriculture (see Table 4).

In 1954, Belgium could boast of an overall liberalisation achievement of 87 per cent, but it had liberalised only 61 per cent of its agricultural imports.[26] Switzerland and Germany followed similar policies; they had liberalised only 62 and 79 per cent of agricultural trade respectively, while their performance in raw materials and manufactures went well beyond the OEEC's liberalisation targets. Add this to the dominance of state trading within agriculture and the fact that the reference year 1948 was an extremely bad year in Europe's agricultural trade, and one can understand why agricultural exporters such as Denmark and the Netherlands became increasingly dissatisfied with the OEEC's Programme.

Tariffs turned out to be another serious bone of contention. Although the creation of a single and united European market free from quotas *and tariffs* belonged to the OEEC's formal objectives, its members had agreed in 1948 to leave tariff negotiations to the competence of GATT. This *ad hoc* organisation would provide the framework where tariff cuts among the United States, the United Kingdom and the other major industrialised nations would spin off drastic, worldwide tariff reductions via the unconditional-most-favoured-nation clause. In practice, however, this rather artificial separation of competencies reduced the OEEC's effectiveness in liberalising European trade. It tempted

Table 4. **Liberalisation percentages of OEEC countries, 1951 and 54, overall and per product group**

	June 1951	April 1954	April 1954*		
	Overall		I	II	III
Austria	–	51	51	51	50
Benelux	75	87	61	100	93
Denmark	50	76	80	96	60
France	76	18	8	30	10
Germany	–	90	79	98	94
Greece	–	–	–	–	–
Iceland	41	29	57	41	15
Ireland	75	77	73	94	72
Italy	76	99	99	100	99
Netherlands	65	93	85	99	89
Norway	51	76	79	89	71
Portugal	83	93	74	99	92
Sweden	75	91	76	99	89
Switzerland	62	92	62	100	97
Turkey	63	–	–	–	–
United Kingdom	90	80	87	79	72
All countries	66	77	72	83	74

* I = Agricultural and food products, II = Raw materials, III = Manufactures.
Source: Boyer, Sallé, *''The liberalisation of intra-European trade'',* 195 and 202.

several large European countries – among which were France, Italy, West Germany and the United Kingdom – to re-activate previously suspended tariffs to compensate for the loss of quota protection. Their action provoked a series of anti-tariff campaigns from the governments of the trade-dependent, low-tariff countries of the Netherlands, Belgium, Luxembourg, Denmark and Sweden, who saw only two tactics open to them: maintaining (retaliatory) quotas and forcing other OEEC members to reduce their tariffs. Not suprisingly, this posed a serious threat to the progress of the Trade Liberalisation Programme.[27]

In January 1950, when the OEEC's Liberalisation Programme had just been launched, it was Denmark and the Netherlands which demanded OEEC competencies in the field of tariffs and state trade. The then current scheme, they argued, caused a sudden influx of imports without providing compensatory export opportunities. They therefore proposed a general amendment to the Liberalisation Code that would make the next, 75 per cent, stage in the removal of quotas for all countries dependent on a satisfactory solution to the tariff problem. The Council of Ministers rightly saw this as a direct threat to its entire programme and agreed instead to an escape clause for these two countries only. It also promised to investigate claims that high tariffs were limiting the effects of the removal of quotas. However, because this promise entailed no further commitments towards action, the low-tariff countries could not expect concrete solutions from this initiative.

By the end of 1954, after three years of general and non-binding resolutions, the tariff dispute seemed to reach a climax. Denmark threatened to veto the move towards 90 per cent quota liberalisation if no measures were taken against high tariffs and state trade.[28] The Danish government had not forgotten the painful experience of liberalising up to 75 per cent, a step that had been taken at large costs to domestic spending and employment. Further liberalisation would expose infant industries to (mostly German) competitors who would undercut domestic prices, take over parts of the Danish market, cause unemployment and damage industrialisation efforts.[29] It therefore wished to stall the new 90 per cent commitment and demanded guarantees for increased export opportunities. After intensive negotiations with the British, some safeguards were eventually given. In January 1955, the Council adopted the 90 per cent stage for a trial period of 18 months, during which tariffs and state trade found to be restrictive could no longer be excluded from the national quota lists. Any country suffering from a rise in tariff disparities could withdraw liberalisation measures beyond 75 per cent to compensate for the damage caused to its exports.[30] In addition, member states would have to prepare for a new round of tariff negotiations within GATT.[31]

During the ''trial'' period of 18 months, the low-tariff club made a final attempt to push the tariff issue within the OEEC. They launched an extensive study into the impact of high tariff levels on their export performance intended to convince the Council of the need to link quota liberalisation with tariff cuts. Again, however, the British delegates blocked this action in the Steering Board for Trade. Supported by the Germans, French and Italians, they denied the existence of an objective problem of tariff disparities and referred any disputes to the GATT. In a concluding report to the Council, the Steering Board observed,

> ''Without expressing any opinion on the economic validity of these arguments, [we consider] that the Organisation cannot be unaware that certain Member countries regard the problem of tariffs as an obstacle to any further liberalisation of trade, and even to its maintenance. Accordingly, the liberalisation policy of the OEEC may well encounter serious political and psychological opposition if the Organisation does not take sufficient account of this factor in its forthcoming work on liberalisation.''[32]

And with that gloomy but equivocal statement, the OEEC's tariff debate was stifled.

In June 1956, the Council consolidated the 90 per cent target in the Liberalisation Programme. This served to raise the overall liberalisation percentage by another 5 per cent to an average of 89. Once France eventually attained this target in December 1958, private trading within Europe had largely been purged of quantitative restrictions. State trading in agriculture remained, though, as did residual quota restrictions against the dollar area. It became one of the major tasks of the GATT to tackle these two ''hard core'' problems on a worldwide basis.

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When the Trade Liberalisation Programme ended in 1960, most OEEC countries had already attained non-resident currency convertibility and a greatly liberalised system of

internal trade. Despite severe setbacks between 1951 and 1953, trade liberalisation had regained momentum and had allowed for the removal of quotas covering more than 90 per cent of total trade between the members. Moreover, as was pointed out at the start of this chapter, the volume of their internal trade more than doubled between 1950 and 1960, contributing to a steady increase in the share of intra-OEEC trade in the total trade of the member states.

All of this has often tempted observers to assume a causal relationship between the Trade Liberalisation Programme and western Europe's spectacular trade and economic growth performance during the 1950s and 1960s. The fact that, unlike during the interwar period, trade grew more rapidly than national income and intra-European trade expanded still faster, certainly lends powerful support to the notion of liberalisation-induced gains from trade. It seemed to imply that the progressive removal of trade barriers fuelled trade and income growth, which in turn facilitated a further dismantling of trade barriers, additional trade expansion and income growth, thereby resulting in a ''virtuous circle'' of unprecedented prosperity levels. However, this link between trade and economic growth is not uncontested and may well be more complex. Why should this virtuous circle have started with trade rather than growth? Maybe it was the increase in income that resulted in the increase in trade, or maybe we should look for an entirely different causality. As supply side economists have suggested, growth can be influenced by a wide variety of factors (such as capital investments, labour supply, productivity and technical progress) which, moreover, are likely to have been far more important than the gains from trade. Whatever the exact nature of the causality, though, there is no reason to reject off hand the possibility that trade liberalisation played a part in promoting growth simply because other factors also played a role. And if that is the case, then there is every reason to give credit to the OEEC's trade liberalisation programme.

NOTES

1. Abbreviations used in the notes:
   ARA Algemeen Rijksarchief, The Hague
   BA Bundesarchiv, Koblenz
   BEB Buitenlandse Economische Betrekkingen (see MEZ)
   DE/CE Direction Économique, Service de Coopération Économique (see MAE)
   MAE Ministère des Affaires étrangères, Paris
   MEZ Ministerie van Economische Zaken (see ARA)
   PRO Public Records Office, Kew
   T Treasury (see PRO).
2. Lord Franks, ''Lessons of the Marshall Plan experience'' in: Organisation for European Co-operation and Development, *From Marshall Plan to Global Interdependence,* Paris, 1978.
3. M. Blacksell, *Postwar Europe. A political geography*, London, 1988 (2nd. revised ed.) 43.
4. UN, *Economic survey of Europe since the war. A reappraisal of problems and prospects*, Geneva, 1953, 13.
5. *Ibidem*, 104.
6. Western Europe is here defined as comprising Austria, Benelux, France, Italy, West Germany and Switzerland, together covering some 80 per cent of Europe's trade.
7. A.S. Milward, *The Reconstruction of Western Europe 1945-51*, Cambridge, 1987, 216.
8. United Nations, *Economic survey of Europe since the war*, 95.
9. The exceptions to this were Switzerland, Belgium, Italy and Portugal, who adopted deflationary policies to promote domestic stability and to normalise external economic relations.
10. D. Barbezat, R.T. Griffiths, *The European integration experience, 1945-1958. Report prepared for the Commission of the European Communities* (EUI, Florence, 1992) 15.
11. Quoted in: Milward, *Reconstruction*, 297.
12. O. Hieronymi, *Economic discrimination against the United States in Western Europe (1945-1958). Dollar shortage and the rise of regionalism,* Geneva, 1973, 88.
13. M. Ouin, ''A single market in Europe'', *European Yearbook*, 1 (1955) 72-73.
14. F. Boyer, J.P. Sallé, ''The liberalization of intra-European trade in the framework of the OEEC'' in: *International Monetary Fund Staff Papers,* 4 (1955) 183.
15. The time limit for a derogation of liberalisation requirements for balance of payments reasons was later shortened to 12 months. For an extensive treatment of the Code's provisions see the various volumes of the European Yearbook dealing with the OEEC, in which basic texts, resolutions and agreements are given: *European Yearbook* (Published under the auspices of the Council of Europe), various volumes.

16. Hieronymi, *Economic discrimination*, 106.
17. G. Marcy, ''Libération progressive des échanges et aide à l'exportation en France depuis 1949'', *Cahiers de l'Institut de la Science économique appliqué*, Série P, No.2 (1959) 2.
18. PRO, T 232/434, *Liberalisation: OEEC examination of remaining quantitative restrictions on imports*, 19 March 1954.
19. ARA, MEZ, BEB 1900, *Examination of negative lists. Products of category A*, TFD/td/620, 24 June 1954.
20. ARA, MEZ, BEB 1134, *Het Duitse justificatiememorandum*, 25 March 1954.
21. MAE, DE/CE 16, Minister of Foreign Affairs to the Secretary of State for Economic Affairs ''a.s. réponse à adresser à l'OECE concernant les tarifs douaniers européens'', 26 July 1954.
22. C. Bourdache, *Les années cinquante. La vie politique en France, l'économie, les relations internationales, l'Union française*, Paris, 1980, 437.
23. PRO, CAB 134/1022, *Cabinet mutual aid committee. Ministerial council of the OEEC. Liberalisation position of OEEC. Note by the secretaries,* 29 April 1954.
24. See for an eyewitness account of these examinations: Lord Franks, ''Lessons from the Marshall Plan experience'', 21-22.
25. Boyer, Sallé, ''The liberalisation of intra-European trade'', 195-196.
26. The Belgians tried to cover up their chronic problems in agriculture by insisting on a change in the reference year for calculating the percentages. This could help them in meeting the 75 per cent stage, but the remaining quotas would certainly stand out as ''hard cores'' of protectionism. The Dutch position was fairly comfortable in all three sectors, although a further increase in the percentage for end-products would eventually mean giving up protection for a few infant industries. Norway and Denmark had much larger sectors of ''weak'' and infant industries for which the removal of quotas would be problematic. In Norway, the larger part of this hard core protected employment is in shipbuilding, whereas in Denmark it is in sheltered sectors such as textiles, leatherware and chemicals.
27. These and other tariff issues are discussed in: R.T. Griffiths, ''The abortive Dutch assault on European tariffs 1950-1954'' in: M. Wintle (ed.), *Modern Dutch studies. Essays in honour of Professor P. King*, London, 1988 and W. Asbeek Brusse, *West European Tariff Plans, 1948-1957. From Study Group to Common Market*, Ph.D Florence 1991.
28. BA, B 102/55346 OEEC, *Ministerial examination group on convertibility. Minutes of the first session held at the Château de la Muette, Paris, on Tuesday, 15th June at 10.30 a.m. and 3.15 p.m. on Wednesday, 16th June at 10. a.m. and on Thursday, 17th June, 1954 at 10 a.m.*, GMC(54)1(1st revision), 30 June 1954.
29. MEZ, BEB, OEEC 715, *Tariefverlagingen in de OEEC*, 30 September 1953.
30. Council decision C(55)291 of 14 January 1955.
31. ARA, MEZ, BEB 1131, *Council. Decision of the council concerning the extension and liberalisation of trade (adopted by the council at its 207th meeting on 14th January)*, 1955, C(54)291 final, 20 January 1955.
32. BA, B 102/7537, *Council. Disparities between customs tariffs. Report by the Steering Board for Trade*, C(56)16, 19 January 1956.

Chapter X

FREE BUT PROTECTED? ITALY AND THE LIBERALISATION OF FOREIGN TRADE IN THE 1950s[1]

Francesca Fauri

After the Second World War the main barriers to trade in Europe were quotas, tariffs and the inconvertibility of currencies. OEEC policy concentrated on the progressive elimination of quotas and on the institution of the European Payments Union (EPU) in order to overcome the dead-end situation of bilateral payments agreements. The OEEC did not deal with tariffs, the reduction of which remained subject to GATT negotiations and to each country's economic policy. Italy, partly as a reaction to fascist autarchic policy,[2] fully embraced the OEEC trade liberalisation targets, though, as will be analysed below, having reached the highest liberalisation percentage among the OEEC countries, it reaffirmed its traditional use of tariffs as protective measures.

* * *

The early direction of Italy's economic policy in the sector of exchanges was laid down in the middle of 1946. Immediately after the war, in fact, the Italian authorities could exercise no control over foreign trade since this was reserved exclusively for the allied military authorities and the Control Commission. With the end of allied control over Italy's trade exchanges in February 1946, the government's first measures tended to establish a foreign currency basis coherent with the development of the domestic currency.[3] At the time, most European currencies were inconvertible and trade tended to revert to bilateral barter mitigated by the willingness of some countries to grant credits to others and by a limited use of gold and dollars to pay trading debts. Intra-European trade fell drastically. Payments agreements became a ''natural starting point'' to revive trade.[4] In the case of Italy, while the primary purpose of its bilateral agreements was to avoid surpluses of non-convertible currencies, it also used them to meet its postwar reconstruction needs. Substantial credit margins obtained from other nations served to assist enterprising Italian exporters.[5]

Throughout Europe, numerous trade agreements were concluded and set in motion on the basis of quotas with general compensation payments. However, the multitude of bilateral and then multilateral payments agreements negotiated at the end of the 1940s were only temporary palliatives to the difficult situation of intra-European trade. Finally, in December 1949, the United States proposed that the OEEC set up a multilateral European Payments Union (EPU).[6] In September 1950 (retroactive to 1 July 1950), the agreement for the establishment of the EPU was reached and linked specifically with the trade liberalisation scheme operated by the OEEC Council since 1 July 1950. With the formation of the EPU it was possible to shift from a bilateral system to a multilateral settlement system covering all participating countries and ensuring full convertibility of European currencies. Through the EPU, each member country was able to pay for its imports in its own currency or in soft currencies up to a level set by its drawing right, and beyond such level countries were to pay in gold or dollars.

In the case of Italy, during the first EPU year (1950), the country's net final position closed with a debit balance of $30.4 million due to currency and financial operations, including the implementation of the law on sterling utilisation which entailed the acquisition of machinery on the British market with state funds.[7] A different tendency was registered after the spring of 1951, when the accentuation of the credit position brought about the full utilisation of Italy's quota by the end of the year. The quota was surpassed through the granting of an additional credit amounting to 100 million of units account, of which 50 per cent was to be settled in gold and dollars. After October 1951, the adoption of special provisions by the Italian government to reduce its creditor position within the EPU by furthering imports, and the effects of British and French deliberalisation, exhausted the credit by the end of 1952.

The decision of the Italian government in favour of liberalisation and progressive tariff reductions had a major impact on the country's international financial position. Italy's terms of trade were further worsened by the French and British decision to suspend trade liberalisation when in 1952 they found themselves in a situation in which their foreign exchange earnings were insufficient to pay for imports. Italy's 1952 balance-of-trade crisis owed much to decreased exports, primarily of textiles (from 385 to 207 billion lire) and agricultural produce (from 205 to 197 billion lire), and to the lower prices of these two commodity groups.[8] British and French suspension of trade liberalisation was a major blow to Italy's exports, because trade with these two countries had previously accounted for as much as 84 per cent of the accumulated EPU currencies.[9] When Great Britain cut imports in 1952, it was Italian exports that were the hardest hit, in particular textile exports already suffering from a production crisis at home. Between January and September 1952, British imports of fruit and textiles from Italy dropped by 40 per cent and French imports by 25 per cent. On the other hand, Italian imports (of coal and machinery) from the United Kingdom and France remained stable.[10]

This situation caused Prime Minister Giuseppe Pella, in October 1953, to present a petition to the OEEC Council in favour of the issuing of restrictive measures that would make it more difficult to invoke the escape clause of balance of payments problems and suspend trade liberalisation. In Pella's words ''the Italian government, even though deeply convinced that the achievement of complete liberalisation is a useful necessity for all countries, feels that the lack of effective reciprocity could question its engagement''.[11]

However, despite not suspending or reducing the import quotas, the merchandise account deficit declined only slightly in the following years. From 1954, the EPU granted special credits and arranged for bilateral repayments and amortisation agreements with third parties to enable Italian authorities to cope with the growing EPU deficit. Such deficit in EPU currencies was covered, for the most part, by the use of foreign exchange reserves and by settlements with the EPU in gold and dollars. Thus, the EPU settlements absorbed some of the foreign reserves assets acquired through trade and by other means from other monetary areas. The financial burden, which continued to be unfavourable in all currencies, was eased significantly by positive balances in invisible trade. Italy's balance of payments equilibrium was thus maintained, thanks to the increasing contribution of tourism and emigrants' remittances throughout the 1950s.[12] The EPU mechanism enabled the lira to progress steadily towards convertibility and allowed Italy to embark on a swift liberalisation process of EPU and dollar imports.

* * *

Apart from the problem of inconvertible currencies, the other two major trade limitations in postwar Europe were quantitative restrictions and tariffs. Quotas, which arbitrarily prevented all imports beyond a certain point, accounted for most of the postwar increase in trade barriers. In the case of Italy, the government, following the OEEC liberalisation targets and taking autonomous liberalisation steps, progressively reduced its monopolisation of foreign trade to a few commodities.

By December 1950 Italy had liberalised 77 per cent of its raw materials imports, 50 per cent of food, but only 11 per cent of manufactured imports.[13] Yet, at the same time, the government had sent to the OEEC a list of manufactured goods, corresponding to 39 per cent of 1948 imports, which were to be liberalised with the coming into effect of the new customs tariff.[14] The acceptance of this liberalisation step made the Italian authorities send a memorandum to the OEEC in which, under industrialists' pressure, the government asked also for the free movement of labour and of invisible transactions. Secondly, the memorandum underlined the fact that the liberalisation of private trade could create wide discrepancies between countries relying on private trade and countries relying mainly on State trade, the latter being unaffected by the elimination of quotas.[15] Thirdly, the Italian authorities complained about the use of double pricing, that is, when countries producing raw materials set their prices lower than market prices for purchases by national industries.

The Minister of Industry, Tremelloni, had already made these requests in a speech to the OEEC Council.[16] On that occasion he had also asked the OEEC to extend liberalisation measures to customs policy, tourism and emigrants' remittances and to consider the problem of excess manpower. These same points were subsequently included in the ''Memorandum italiano per l'integrazione economica europea,'' submitted to the OEEC in time for the Council meeting of 7 July 1950 and known also as the Pella Plan.[17]

The Memorandum (along with a French plan also presented to the OEEC Council) was a response to the Stikker Plan or ''Plan of action for European economic integration'' presented to the OEEC on 15 June.[18] The Italian plan proposed the constitution of a

free trade zone in Europe to be achieved through the progressive elimination of quotas, the liberalisation of invisible transactions, automatic tariffs reductions and the free movement of labour to solve Italy's problem of excess manpower. Tariffs were a sensitive issue to Italy and the predicted automatic reductions were limited to cuts of 15 per cent in the third and sixth year of the union, to be increased eventually through parallel negotiations. The ambitious objective of the plan, according to Pella, was to achieve within ten years the constitution of a free trade area, with the abolition of internal restrictions and the maintenance of different external tariffs through a progressive and controllable process. In Pella's words: ''We thought it might thus be possible in a period of ten years to abolish customs duties almost completely...'' The decade was to serve as a period of protection during which ''vital enterprises will be able to establish themselves definitely, while non-vital enterprises will cease to be a burden to consumers or other categories of citizens''.[19] The European Integration Fund was intended to promote additional investments to temper the profound changes in the economic structure of the member countries, especially in areas suffering a permanent disadvantage in factor endowment (the south of Italy in the Italian case).

The OEEC Council referred all three plans to a special working party to see whether they could be unified into a single European integration plan. But none of the three proposals passed beyond the committee-discussion stage, and by the fall of 1951, they had all been dropped from active consideration. The Pella Plan has been criticised for its consideration of tariffs as compensatory devices (and thus to be reduced only gradually in the long term) and for the inclusion of proposals to the benefit of the Italian economy in the first place. However, this plan was the one that better outlined the method chosen some years later for the constitution of the Common Market. This shows that the Pella Plan recognised not only the importance of progressive automatic tariff reductions to avoid the instability of future decisions, but the need to take into account the different economic potentials and different proportions of population and resources of European countries.

In October 1951 Italy decided to carry out an independent liberalisation step by removing quantitative restrictions from 99.7 per cent of all its private imports coming from the OEEC area and by extending the abolition of import quotas to third countries that would accept payment in OEEC currencies.[20] Between 1950 and 1955, imports from the EPU area subject to quantitative restrictions decreased from 46.6 per cent to 1.6 per cent, while at the same time Italy also decided to reduce restrictions from 99.7 per cent to 42.4 per cent on imports under the licence regime coming from the dollar area.[21]

The remaining 0.3 per cent of private OEEC imports still under the quota system – ''diritto di licenza'' – concerned a ''hard core'' of goods from which Italy was reluctant to remove import restrictions. Such restrictions still applied to the following articles: imports of milk and cream, wines and must, cork, wheat, spelt and wheat meal, salt, citric acid, its salts and esters, penicillin, printing machines (not already liberalised) and, finally, cars and motorcycles (less than 190 HP). In order to import such goods, the Ministry for Foreign Trade was to grant import licences within the limits of quotas that had been set in trade agreements with some OEEC countries.[22]

If it appears that the percentage of OEEC trade affected by the quota system in Italy was relatively insignificant (0.3 per cent), this was also the result of very narrow quotas that eliminated foreign competition in those sectors (for example, cars and motorcycles) for which there was a growing national production and a rapidly developing internal market. After wheat, imports of cars and motorcycles came first in quantitative terms among the non-liberalised products and showed an increase, in relative terms, of the allowed import quota from 2 366 803 million lire in 1953 to 4 839 050 in 1957.[23] In the case of cars, it corresponded to an increase in the number of vehicles from 1 944 to 5 061 over the same period. The main suppliers were France and Germany with 1 182 and 2 164 vehicles respectively in 1957. The quota of car imports from Germany and France was regulated through bilateral trade agreements that annually set a quota of imports in lire or in a foreign currency.[24]

The number of cars allowed to enter the Italian market represented a yearly average of only 1.6 per cent of Italy's car production throughout the 1950s.[25] It is also interesting to note that already in 1926 Italy was importing more cars than in 1957: 5 804 against 5 125.[26] Finally, it must be emphasised that Italy's car production over the 1950s was mainly attributable to FIAT (1 716 763 cars produced between 1950-1958 against a national output of 1 855 315 over the same period).[27] Significantly, FIAT was the main single beneficiary of Italy's protective measures. As a famous economist of the time noted, FIAT was not completely happy with the high import duties granted to automobiles (about 40 per cent of current value) and thus contrived to have them completely excluded from the liberalisation process. As a result, ''competition was eliminated except for small import quotas often decided between FIAT and the other foreign companies.''[28]

* * *

Having attained the highest liberalisation percentage among the OEEC countries, Italy relied almost exclusively on tariffs as protective measures. The implementation of a new general tariff became a matter of utmost importance at the end of the war when it became clear that the old customs tariff (1921) still in force could no longer meet the economic requirements of the country. The tariff was based on specific customs rates made obsolete by inflation. By 1947 the depreciated lira and increased inflation had reduced its incidence on a broad average to about one per cent.[29]

Thus, with the active collaboration of the industrial sector (Confindustria) a new and extremely protective general tariff was devised at the end of the 1940s. However, the high level of the new Italian tariff rates had raised fierce opposition on the part of many domestic and international observers. The government therefore issued temporary rules for its use in July 1950, even before its scheduled application.

By 1953 the working tariff was the result of:

a) temporary autonomous tariff reductions, such as the automatic cuts of all duties higher than 11 per cent decided according to the Vanoni formula and the 10 per cent reduction (in force from November 1951) to help reduce Italy's creditor position within the EPU;[30]

b) reductions under international agreements, which included the overall GATT tariff reductions of 34.9 per cent and 25.8 per cent agreed upon at Annecy and Torquay respectively, the tariff agreement with Switzerland and the duty reductions included in the Franco-Italian trade agreement of 7 March 1950;[31]

c) unilateral reductions and exemptions accorded to a large number of goods of special importance for the Italian economy. On the whole, the general result of these exemptions, of the reductions agreed internationally, and of the ''temporary rules for alleviation'', which were maintained and extended throughout the 1950s, produced a working tariff at a relatively moderate level. Recent calculations show that the average incidence of the legal tariff was reduced from 24.4 per cent to 14.5 per cent by 1953.[32]

The 1950 general tariff was regarded by the government as a ceiling to be used in bargaining and to be applied only in the last resort. As a result, the use of its high 1950 bargaining tariff in international negotiations placed Italy among the most protected European countries. On the other hand, it was well known abroad that the working tariff in Italy was well below the legal tariff. At Torquay, Italy had to face strong pressures from the other participating countries who wanted it to use the more reasonable tariff in use as a basis for discussion. The Italian delegation claimed that the tariff in use had not been approved by Parliament and was only of an administrative and temporary character.[33]

The government, already the subject of continuous attacks from industrialists and economists[34] for a revision of its liberalisation policy, never thought feasible the idea of using its working tariff in international negotiations. Besides, with the liberalisation of import quotas and the presence of a worrisome development in the country's balance of payments situation, tariffs had become an issue of great political importance against which to test the political and economic strength of the government. Italy therefore continued to rely on its high bargaining tariff in international negotiations under the constant pressure of the industrial sector and the deterioration of its international position.

As a matter of fact, by 1953 the country had witnessed a heavy increase in imports and a disquieting growth in its balance of trade deficit which put pressure on its foreign exchange reserves. These factors were seen as proof by some authors that the lower level of protection of the working tariff had not protected industry in Italy from the effects of international competition and therefore had not provided an effective way of protecting the marginal and least efficient producers with the highest costs.[35]

* * *

The cumulative effects of Italy's liberalisation steps in the field of quantitative restrictions and tariff reductions rendered access to the Italian market relatively easy, and caused the rapid depletion of Italy's credit balance with the EPU. Although rising imports had worsened the balance of trade, this was not the only cause. Another reason for the worsening of the economic trend was the suspension of trade liberalisation on the part of Britain and France in 1952. As we have seen, this adversely affected some Italian export industries (in particular textiles), so that the country's overall position within the EPU

became largely a reflection of its claims and obligations in the pound sterling and French franc.

These developments caused La Malfa to declare that Italy was not going to grant any more autonomous tariff reductions. In fact, Italy opposed the French proposal of general and autonomous tariff cuts, that emerged as a counterproposal to the requests of the low tariff club.[36]

However, Italy's liberalisation policy had placed it ahead of all OEEC countries in terms of the percentage liberalised (99.7 per cent). Moreover, in contrast to the fluctuations experienced by some countries, the 99.7 per cent liberalisation figure remained stable throughout the 1950s. Among the 0.3 per cent of Italian import products still covered by quantitative restrictions, particular attention has been devoted to the case of car imports. It was no surprise to find that, as in the case of all car producing countries, the national car industry dominated the domestic market because of various protective devices. The high tariff rate and the narrowness of the import quota were, in the case of Italy, also the result of a political choice to conform to the desires of FIAT, which was already operating in a quasi-monopolistic situation that would be reinforced in the following years.[37]

As regards tariff protection, the Italian government believed this was necessary to counterbalance the structural weakness of the economic system that made domestic industry and agriculture vulnerable to external forces. As was often stated in international fora, tariffs were to compensate for inequalities in economic potential between countries. However, significant autonomous tariff cuts showed an increasing divergence between the level of the 1950 general tariff and the more moderate level of the tariff in use. The Italian government through subsequent legislation repeatedly renewed the working tariff, though maintaining its temporary character. Its temporary nature served to assure industrialists that in case of serious balance of payments problems, a return to the protection of the legal tariff was always possible. In the end, the validity of the tariff in use was extended until the Rome Treaty instituting the Common Market.

Finally, it is worth remembering that an important part of the explanation of Italy's ''economic miracle'' in the 1950s is now commonly ascribed to these two key economic policy decisions taken by the Italian authorities in 1950-1951: liberalisation of international trade according to, and in advance of, the OEEC targets, and revision of Italy's protectionist policy in favour of the removal of progressive tariffs.

NOTES

1. Abbreviations used in the notes:
   AMAE Archivio Storico del Ministero degli Affari Esteri, Rome
   CIR Comitato Interministeriale per la Ricostruzione
   DPR Decreto Presidenziale
   ISE Istituto per gli Studi di Economia
   ISTAT Istituto Statistico Italiano.
2. Protectionism was identified with fascism and political freedom with freedom of trade; see C. Daneo, *La politica economica della ricostruzione*, Torino, 1975, 107-110 and P. Barucci (ed.), *Ricostruzione e pianificazione*, Bari, 1969, 55-62, 234.
3. See: CIR, *The Development of Italy's Economic System Within the Framework of European Recovery and Co-operation*, Rome, 1952, 127.
4. Up to 1949 Italy signed 115 trade agreements, initially based on reciprocity and on private compensations (later a clearing system was adopted). See: U. Calderoni, *I cento anni della politica doganale italiana*, Padua 1961, 181.
5. See: C. Ruini, ''Aspetti e problemi del commercio estero italiano nel momento presente'' in *Rivista di Politica Economica*, 34/3, (1949) 373 and G. Carli ''L'evoluzione degli accordi internazionali di pagamenti dal 1945 al 1950'' in *Moneta e Credito*, 3/12, (1950) 445-446.
6. On EPU see: J.J. Kaplan and G. Schleiminger, *The European Payments Union. Financial Diplomacy in the 50s*, Oxford, 1989; R. Triffin, *Europe and the Money Muddle – From Bilateralism to Near Convertibility, 1947-1956*, Yale University Press, 1957; and A.S. Milward, *The Reconstruction of Western Europe, 1945-1951*, London, 1984, Chap. X.
7. These two factors (the movement of capital to pre-finance the acquisition of raw materials and the implementation of the law on sterling utilisation), accounted for an expenditure of $100 million. See: Istituto per gli studi di economia, *Annuario della congiuntura economica italiana*, 4 (1950-51) 303-304.
8. Banca d'Italia, *Relazione Annuale*, 1953, 165.
9. A. Cassuto, ''Anno di mutamenti radicali il 1952 per gli scambi italo-britannici'', *24 Ore* (Panorama Economico) Jan. 1952, 5. and M. Badi, ''Scambi italo-inglesi e sistema OECE-UEP'' in *Rivista italiana di scienze commerciali*, 18/11-12, (1952) 701-705.
10. *Italian Economic Survey*, May-June 1953, 31.
11. AMAE, OECE No. 1001, *Déclaration de M. Giuseppe Pella, Président du Conseil des ministres d'Italie au Conseil de l'OECE, le 29 octobre 1953*.
12. Banca d'Italia, *Relazione Annuale*, issues from 1951 to 1957.

13. This first liberalisation step was sanctioned by the Ministerial Decree of 21 December 1949, which listed the liberalised finished products; on Italy's commercial policy in the early 1950s see M.L. Cavalcanti, *La politica commerciale italiana 1945-1952*, Naples 1984.
14. This was done in order not to leave Italian producers unprotected by either tariff protection or quantitative restrictions; for the list of goods to be liberalised after the implementation of the new general tariff see: Camera di Commercio Industria e Artigianato, *Le merci liberalizzate dei paesi partecipanti all'OECE*, Rome, 1950, 214-229.
15. The commodities subject to state trading at the end of 1954 represented less than 1 per cent of Italy's imports from Western Europe but accounted for 34.4 per cent and 10.3 per cent respectively of French and German imports; see OEEC, *Sixth Report of the OEEC. From Recovery towards Economic Strength*, Vol. 1, Paris, 1955, 132-133.
16. ''Liberalizzazione progressiva'', *ERP*, 16-30 November 1949, No. 10, 188-189.
17. AMAE, Ambasciata Parigi b.478 f.UEP, *Rappresentanza italiana OECE Parigi*, 11 June 1950. The Pella Plan was finalised by the ''Comitato Interministeriale per la Ricostruzone Economica'' according to the suggestions of the Italian Delegation at the OEEC. The Pella Plan has been reprinted also in: Ducci-Olivi, *L'Europa incompiuta*, Padua, 1970, 173-181; the paragraphs reported are 18, 19, 20, 21 and 30.
18. On the proposed plans, for a detailed archivally based reconstruction of events see: R.T. Griffiths, ''The Abortive Dutch Assault on European Tariffs 1950-1952'' in M. Wintle (ed.) *Modern Dutch Studies. Essays in Honour of Peter King, Professor of Modern Dutch Studies at the University of Hull on the Occasion of his Retirement*, London, 1980. For the Italian perception of the three plans see: V.U. Ristagno, ''L'OECE in funzione dell'unita' economica europea'' in *Lezioni sul Commercio Estero*, Rome, 1953, 63-102.
19. G. Pella, ''European Economic Integration,'' *Review of Economic Conditions in Italy*, September 1951, 371-373.
20. ISE, *Annuario della congiuntura economica italiana, 1952-1953*, 576-577.
21. Italy's dollar liberalisation involved primary imports of coal, crude oil, metalliferous ores and scrap, paper, pulp and some machinery. See: Banca d'Italia, *Relazione Annuale*, 1954.
22. The administrative decree listing the goods still under quantitative restrictions and other related provisions is the Circular of the Minister for Foreign Trade, 31 October 1951, No. 225565, ''Regime provvisorio d'importazione dall'area dell'Unione Europea dei Pagamenti (Paesi dell'OECE e dell'area della sterlina)'' in Ministero del Commercio con l'Estero, *Bollettino di legislazione commerciale e doganale*, 1951, 892.
23. All following data has been derived from ISTAT, *Annuario di Statistica*, and *Statistica annuale del commercio con l'estero,* issues from 1953 to 1957.
24. Between June 1951 and April 1957 different bilateral agreements with Germany increased the quota from 187 to 1 400 million lire, while over the same period the quota for France was increased from 178 to 623 million lire; in Ministero degli Affari Esteri, *Bollettino di legislazione doganale e commerciale*, issues from 1950 to 1957.
25. Calculated from ISTAT, *Annuario di Statistica* 1950-1958.
26. ISTAT, *Annuario di statistica*, 1931.
27. ISTAT, *Annuario di Statistica*; for the data on FIAT, P. Bairati, *Valletta*, Torino 1983, 426.
28. Declaration by E. Rossi as reported in A. Costa, *Scritti e discorsi,* Vol. IV, Milano 1981, 61.
29. See: K. Holbik, *Italy in International Co-operation*, Padua, 1959, 86 ff.
30. DPR, 8 July 1950 No. 453 supplemented by GU, 13 July 1958 No. 158.

31. For the data on the GATT agreements see: F. Coppola d'Anna, ''Le trattative multilaterali di Annecy'' *Rivista di Politica Economica,* March 1949, and S. Parboni, ''I risultati della conferenza di Torquay'' in *Moneta e Credito*, 15 (1951) 221 ff. Law of 14 April 1952 No. 560 ratified the Italo-Swiss Agreements signed in Berne on 14 July 1950; the Franco-Italian Agreement was ratified by DPR of 16 November 1950 No. 919.
32. Own calculations in F. Fauri, Ph.D Thesis, European University Institute, to be defended.
33. Confederazione Generale dell'Industria Italiana (CGII), *Annuario*, 1952.
34. See the letter from Confindustria President A. Costa to the CIR President Vanoni in which he criticises Italy's foreign trade policy and its inadequate response to the French and British restrictions; in A. Costa, *Scritti e discorsi*, Milano 1980, 630 ff. and the article by G. Carli, ''Aspetti della crisi della bilancia italiana dei pagamenti e provvedimenti per attenuarla'' in *Moneta e Credito*, 4 (1953) 209, in which Carli shows some doubts on the appropriateness of continuing a liberal policy and suggests as a solution to Italy's balance of trade crisis the ''return to quantitative restrictions''.
35. C. Zacchia, ''Features of the Present Italian Customs Tariff'' in *Banca Nazionale del Lavoro Quarterly Review* 26 (1953), 168.
36. See La Malfa speech to the Confindustria annual assembly, CGII, *Annuario*, 1953, 296.
37. In 1957 82.21 per cent of motor vehicles circulating in Italy were produced by FIAT, while the importance of national competitive producers was confined to a very limited share of the market. In 1961 the incidence of Lancia production of the total, in constant decline from 1950, was 5.45 per cent; Alfa Romeo's was 6.28 per cent and finally OM's (producing mainly industrial motor vehicles) was 2.60 per cent. In the following years FIAT gained control of OM, Lancia (1969) and Alfa Romeo and Ferrari at the end of the 1980s. See: ISE, *L'economia degli anni '50 in Italia*, Vol. II, Milan 1964, 426.

Chapter XI

INTEGRATION AT CROSS-CURRENTS. THE OEEC AND THE EUROPEAN COAL AND STEEL COMMUNITY, 1952-56[1]

Johnny Laursen

The coming of the European Coal and Steel Community is usually seen as the great breakthrough in the history of European integration. The ''origins'' literature scarcely mentions the OEEC, even though this organisation before the coming of the Schuman plan was well established as the all-dominant framework for European co-operation in trade and payments. The OEEC had not only established a complex organisational framework for intergovernmental co-operation, but also a set of substantial trade obligations for the member states. A cornerstone in this system was the Code of Liberalisation which in 1950 established a set of trade rules to underpin the EPU. The most important of these was the obligation to observe non-discriminatory trade policies towards OEEC countries and the commitment to liberalise at least 75 per cent of all trade on private account.[2]

Now a group of six countries (Belgium, France, Italy, Luxembourg, the Netherlands and West Germany) set about creating a common market (and a customs union at that!) for a group of key products. The range of products embraced by the common market was far from insignificant to the West European economies. Coal alone accounted in 1953 for 66.8 per cent of the energy consumption of the nine countries to be members of the EEC in 1973.[3] During the boom of the Korean War, coal had become a scarce fuel which played a key role to the expansion of these economies. The two largest coal exporters in Western Europe, the United Kingdom and West Germany, furthermore, practised a system of double prices. Coal was thus sold at cheap prices on the home market, and at higher prices on export markets, thereby upsetting the terms of competition in favour of the industries of the exporting countries.[4] In 1949 the Six only produced 15.8 per cent of world coal production, but in Western Europe they and the United Kingdom were the all dominant suppliers. The alternatives were the limited Eastern European supplies or American coal, which were not only more expensive, but also had to be paid for with scarce dollars.[5] The Six were major exporters to Austria, Switzerland and the Scandinavian countries. Coke was even more important. Coke was a key component in the steel

industry and in other metal industries. In 1955 41.5 million tons of the oven coke produced by the Community was used in the iron and steel industry, 8.8 million tons in other industries and 11.9 in domestic heating.[6] That made coke a crucial cost component, particularly in the production of steel; a somewhat complicated matter, as two of the importers, Sweden and Austria, were important producers of special steel and competitors of Community industries.

Prompted by the scarcity of coal during the Korean War boom and by the slow recovery of European coal production, the OEEC had already in 1951 taken steps to distribute a share of coal supplies. The Organisation[7] presided over a pool of 6 per cent of the export of the member countries. In close collaboration with the parallel committees of the Economic Commission for Europe (ECE)[8] this tonnage was allocated to importers. The immediate and major concern of the non-Six and the OEEC Secretariat in relation to the Common Market for coal and steel was its repercussions on allocation and the export prices of coal.[9] The consumer countries wanted to salvage the OEEC distribution system; not least because it mainly benefited the OEEC importers with a weak bargaining position. The OEEC Secretariat and the High Authority of the European Coal and Steel Community (HA), therefore established temporary liaison late in 1952 in order to deal with the immediate problems. The HA sent a liaison officer to the OEEC Secretariat and delegated an observer to the Coal and Steel Committees of the OEEC.[10] In order to avoid conflict on this matter even before the establishment of the Common Market the HA prudently refrained from intervening in the allocation of coal in late 1952. Early in 1953 the Authority applied the recommendations of the OEEC for the first quarter of 1953 as a decision.[11]

The Six had dealt with the formal relationship to the OEEC in the Convention on Transitory Measures (Article 21), which said that the ECSC was a special customs regime in accordance with Article 8 of the Code of Liberalisation. This article opened for derogations from the non-discrimination clause to countries forming special customs unions or monetary arrangements.[12] The Community should, accordingly, simply notify the OEEC. Things were, however, more complicated. There was, in the Community, great concern about what kind of restrictions OEEC obligations would involve for the Community. The strategy of the Six and the HA was to consider the Community as a ''special territory''; that is to treat the Community's territory in the same way as that of a member state. That way the Community could act within the same limits as a member state, but would not have to negotiate the terms of a derogation.[13]

As soon as the question hit the agenda of the OEEC, however, it became clear that the question threatened to upset the fine balance of trade committments in the OEEC. When the Steering Board of Trade in December 1952 and January 1953 considered the ECSC question, third countries expressed great apprehension about the possible effects on the outsiders of the creation of a producers' club inside the OEEC. The core of opposition was formed by consumer countries such as Switzerland and Denmark. These countries were reluctant to give the ECSC a derogation from the OEEC obligations, which might later have a major impact on their economies and competitivity *vis-à-vis* the industries of the Six. They wanted guarantees in return for a derogation. The Six, on the other hand, were wary that the OEEC discussion should result in obligations bearing upon the ECSC. Compromise was sought in the concept that the obligations of the

Community were equal to those of a member state. This way the Community could get a derogation from the non-discrimination clause (Article 7 of the Code) and at the same time be able to undertake certain obligations (*e.g.* to maintain the level of liberalisation stipulated by the Code). This would in particular restrict the HA in certain of its regulatory powers.[14] Non-members also feared a more high-handed commercial policy of the Six on such matters as export prices. Some countries wanted the OEEC to establish a procedure of consultations on the practices of the member countries in the field of export prices.[15] The discussion thus revealed widespread concern that the creation of the Common Market would break up the framework of obligations and co-operation which had been built up in the OEEC.[16]

The OEEC Council on 4 and 7 February 1953 dealt with two questions of relevance to the ECSC; namely export controls and the derogation to the ECSC. The first question concerned the general problem of the relationship between customs unions and the OEEC. Countries such as Denmark, Sweden, Austria and Switzerland opposed too easy access to derogations for such arrangements to discriminate against other OEEC members in their export regulation. Fundamentally the discussion was strongly related to the ECSC. The Swiss representative made the connection clear:

> ''It was quite certain that there could be no lasting possibilities for freedom of imports if all did not have equal access to raw materials and key products, *i.e.* if there were not an export regime allowing countries with no raw materials and key products to purchase the quantities necessary for their economic activity. (...) this decision could not be effective unless an attempt were made in the very near future to work out a final plan of association between the European Coal and Steel Community and the OEEC (..).''[17]

The Council decided that the ECSC should notify the Organisation of export controls and that Article 8 of the Code (the escape clause allowing customs unions to deviate from the non-discrimination committment) should be studied in connection with exports from special customs unions to other OEEC countries. There was much concern from Austria, Switzerland and the Scandinavian countries that the association of the ECSC to the OEEC should not be one-sided and insufficient. Again, there was particular concern that the ECSC would hamper the existing OEEC coal distribution. The HA representative assured the Council of the will of the Authority to collaborate, but in reality he refused to engage in a final solution to the two core problems of coal and double prices. In the end the ''Group of Eight'' was instructed to consider a modus of association, and the Executive Committee was instructed to review the problems concerning double pricing and complaints procedures.[18]

The OEEC Council decision of 7 February thus largely reflected the complexities and circumspection in the OEEC. The fact that most of the obligations imposed on the ECSC were put into the preamble indicated the delicacy of the matter. The preamble said that the Six would take the interests of third countries as consumers and exporters into consideration, promote international trade, and respect ''equitable limits'' on their export prices. The Council noted the commitment by the HA to exercise its powers in commercial policy as if the Community constituted a member of the OEEC. It also noted the statement by the HA that it was willing to cooperate in the work of the OEEC. In

exchange for these safeguards the Community was derogated from the obligations under the Code of Liberalisation to respect non-discrimination.[19] This solution was a legal and political compromise that carried future problems with it. As one observer commented: ''From a legal point of view it offers the advantage of a convenient, but imprecise short cut''.[20] In March 1953 the OEEC Council finally adopted the proposals for a form of co-operation between the two bodies which left the HA in command of the communication lines in the liaison.[21]

The informal arrangement on the coal and coke allocation was a main reason why the other OEEC countries ultimately acquiesced in ceding a derogation to the Community. The future was uncertain though, and the coal question remained a matter of some contention throughout 1953. The HA decided ''under the ruling circumstances'' not to apply the system of allocation stipulated in Article 59 of the Treaty.[22] Nevertheless, there remained uneasiness among non-members that the Authority in times of scarcity might make use of its powers to allocate the available coal resources.[23] Early in 1954 a truce was finally agreed on this legal problem. The OEEC Coal Committee agreed that the ECSC would maintain its obligations towards the OEEC and third countries in case of shortage and allocation. In case of a shortage where the HA imposed export restrictions, the Authority would be under an obligation not to impose harder export restrictions than in the case of allocation.[24]

The relaxation of the question of coal supplies with regard to the Coal and Steel Community reflected a change in the economic problems facing the OEEC from the early 1950s to the middle of the decade. As supplies were becoming more adequate the focus in late 1953 shifted decisively towards commercial policies, double prices and export subsidies. The steep increase in intra-European industrial trade and the gradual removal of import restrictions naturally turned the attention of the small importing countries towards the conditions on which their industry had to compete with that of the Six. The consumer countries thus continued to insist on the studies in the Executive Committee on double prices and on complaints procedures with regard to export prices.[25]

This situation was compounded by the creation, in mid-1953, of a steel export cartel, the so-called Brussels entente. This cartel was, it seemed, outside the reach of the power of the HA that only applied to cartels affecting the common market.[26] The impact of the cartel was significant. The ECSC produced in 1954 19.6 per cent of the world's steel, and provided 56.2 per cent of the steel exports in the world.[27] The American Administration was very concerned about the cartel and made forceful representations to the member countries.[28] The cartel also caused much apprehension in other OEEC countries, because it might in effect institutionalise a system of double prices. Another problem with much the same effects was export rebates. Thus, in late November 1953, Denmark raised the question in the OEEC of certain deliberations on export rebates in the ECSC. The Danish concern found strong support among other OEEC members, but a discussion was opposed by West Germany and the HA.[29]

The reason why these seemingly technical commercial questions raised so much concern was that they touched upon the imbalances and weak points of OEEC co-operation in this period. A major problem facing the Organisation at this time was the disequilibrium in the EPU between debitor and creditor countries. Belgium, and above

all, West Germany, had persistently high surpluses on their balance of trade and payments. At the same time as the OEEC dedicated strong efforts to redress these imbalances, the commercial practices of double pricing and export rebates worked to compound the problems. West Germany and Belgium were the two major countries to benefit from the export cartel, from double price practices in coal and steel and from the export rebate schemes.[30]

It was no accident that it was the Danes who most severely criticised the practices of the ECSC and German commercial policy. Contrary to West Germany and Belgium, Denmark was a structural debtor in the EPU. Owing to the increasing problems meeting agricultural exports in the early 1950s, Denmark had invested great efforts in the development of an export industry able to take over the lead from agriculture in creating work and securing foreign currency. The strongest asset in this quest was the metal industry, which was heavily dependent on imports of steel and fuel. This was probably also the reason why Denmark opened a new attack on the distortions caused by the actions (and particularly inaction) of the ECSC in the second half of 1954.[31]

A year after the first discussions on the Brussels cartel and the export rebates, the questions remained wide open. In May 1954 the Council discussed artificial aid to exports on the basis of investigations of the Steering Board. The Board had failed to come to an agreement on the criteria for which practices were unacceptable. The discussion in the Council at Ministerial level revealed great apprehension about the export subsidies as well as difficulties in reaching a compromise.[32] In autumn 1954, Denmark raised the question at Council level about the trade distortions caused by the Brussels cartel and by the future export rebates discussed in the HA. It was agreed to request the HA to inform the OEEC about its intentions.[33] This opening was followed up by a full scale attack by Denmark in GATT and in the Council of Europe on the commercial policy of the Community in late 1954 and early 1955. This would probably not have bothered the Community too much, had it not been for the fact that Denmark managed to get support from a group of countries, among them the United Kingdom and the United States.[34] The Danes claimed that Denmark was overcharged about 20 per cent for steel exports from the ECSC.[35] The Danish complaint caused great concern that the complaint and the review thereof might carry consequences of principle and of international law for the Community.[36] That is, there was among the Six a great deal of apprehension that either GATT or the OEEC, as a consequence of the price complaints, would impose obligations on the Community precisely at the time when the Six were on the verge of relaunching European integration at the Messina Conference.

The Danish complaint reopened the discussion on the relationship between the Community and the OEEC. Supported by the United States and Swiss representatives, the Danish delegate in the Council called for an investigation of the pricing problem and a reconsideration of the liaison between the OEEC and the ECSC. The question was once again referred to the ''Group of Eight''.[37] The Danish problem was probably symptomatic of the entire relationship between the OEEC and the Community, as it had developed in the mid-1950s. The rivalry between the functions of the OEEC Secretariat and those of the HA, the apprehension of the Six of being restrained by international obligations and the complex balance in the Community between the powers of the HA, the Council and the member states, all contributed to complicate the cohabitation between

the two forms of co-operation. Indeed, as new questions of co-operation were opened in the framework of the OEEC, new complications arose in areas such as general economic policy and energy policy.

In the mid-1950s the OEEC Secretariat and certain member states had become increasingly concerned that the Organisation should facilitate an expansionary economic policy. When discussing the relations between the two organisations in mid-1955 the ''Group of Eight'' especially focussed on inadequate liaison with regard to general economic problems. The result of the examination by the Group was a set of proposals for a closer alignment of the HA to the work of the Economic Committee and the OEEC Secretariat, with the HA invited to participate in the work of the Economic Committee. The Secretary-General also wanted intensified consultations on the level of officials. He stressed in particular the importance of an official from the Secretariat, the Economic Committee or the Economic Directorate visiting the HA at the time when it was preparing its economic estimates.[38] This proposal was clearly not just an adjustment of the liaison. It is clear that the Secretariat actually intended that the HA should furnish information, and that the emissary from the OEEC would indeed influence the considerations in Luxembourg. A parallel tendency could be observed in the Steel Committee of the OEEC with which the Authority was already associated. Here there was marked dissatisfaction on the OEEC side with the way the liaison functioned. In March 1956 the Organisation took steps to redress the balance in the flow of information and influence.[39] In Luxembourg, however, the HA refused to reciprocate the liaison through such measures as inviting OEEC officials to participate in the working parties in Luxembourg. Moreover, the Organisation continued to ask for more working documents and information.[40] Also the ''Group of Eight'' proposals caused much circumspection in the Community. This was partly owing to the wish to guard the competences and powers of the HA *vis-à-vis* the OEEC, but also to the contention between some member states and the HA about who was responsible for liaison with the OEEC.[41] It was only in late March 1956 that the Assistant Secretary-General of the OEEC, G. Colonna, could inform the President of the HA that the Executive Committee had finally approved the strengthened liaison between the Authority and the Secretariat General in the field of general economic questions.[42]

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The dissonance between the overall framework of the OEEC and that of the smaller club of the Six in the years 1952-1955 was only the beginning of troubles to come. One major problem was that the supranational element in the Community represented to a large degree a political ambition to federate Europe. Any claims for the broader and looser co-operation of the OEEC would, therefore, inevitably present a threat to the independence and integrity of the political authority chosen to lead the process of integration. Another problem was that the process of trade liberalisation was a complex one, where sectoral developments and commercial policies were intricately linked to each other. The ambition to create a common market for the key products of coal and steel, therefore, touched upon the delicate balance in the OEEC. All this was but a warning of things to come, when the Six in 1955-56 moved on with their plans for a broad common market embracing both industrial and agricultural products. After the Messina

Conference, the Secretary-General was invited to take part in some of the proceedings of the Brussels Conference on a European common market. In the OEEC discussion on this matter it soon became clear that there were divergences between the ideas of the Six and those of other OEEC countries on how the OEEC should be reconciled with the ECSC. The Secretary-General together with the British and Scandinavian delegates wanted the OEEC to be represented in the policy-making Steering Committee of the Brussels negotiations, whereas the Six preferred the OEEC to provide economic expertise in the subcommittees.[43] When the relationship of the emerging Common Market to the OEEC was discussed at the OEEC Council at Ministerial level in July 1956 the Dutch Foreign Minister Jan-Willem Beyen cited the Chinese proverb: ''of the sixteen ways to escape, running away is by far the best''. But, he warned prophetically, there was no way to escape the problem of reconciling the EEC with the OEEC.[44]

NOTES

1. Abbreviations used in the notes:
   CEAB Communautées Européennes Archives Bruxelles (see HAEC)
   CM Conseil des Ministres (see HAEC)
   DE/CE Direction des Affaires économiques, Service de Coopération économique, ministère des Affaires étrangères (see HAEC)
   HAEC Historical Archives of the European Communities, Florence.
2. *Code of Liberalisation* (Decision of OEEC Council July 1951), OEEC 1951; W. Diebold Jr.: *Trade and Payments in Western Europe. A Study in Economic Co-operation 1947-51,* New York, 1952, 171-178.
3. EEC, *Twenty-Five Years of the Common Market in Coal 1953-1978*, Brussels 1977, 16, 143.
4. Diebold, *Trade and Payments*, 293-296; W. Diebold Jr.: *The Schuman Plan. A Study in Economic Co-operation*, New York, 1959, 241-242.
5. Diebold, *The Schuman Plan*, 116.
6. *Twenty-Five Years*, 153.
7. The Supply and Distribution Sub-Committee of the OEEC's Coal Committee.
8. The OEEC Supply and Distribution Sub-Committee had the same chairman as the corresponding ECE committee. The ECE was important in this respect, because it encompassed Eastern European coal exporters, which were not members of the OEEC, *e.g.* Poland.
9. HAEC, OEEC Archives 16/2(139): Executive Committee 231st session, 30 January 1953, CE/M(53)2(Final).
10. HAEC, CM1, 53/160, Spierenburg to Adenauer, 24 September 1952. HAEC, CEAB 5/222, *Rapports entre la Haute Autorité et l'OECE*, (no date).
11. HAEC, OEEC Archives 21/2(29): Council 192nd session, 19 September 1952; Colonna to Monnet, 21 August 1952. See also: *Amtsblatt der Europäischen Gemeinschaft für Kohle und Stahl*, 2/1, 10 February 1953, 3-4, Decision No. 5/52.
12. For the question of discrimination see: G. Patterson: *Discrimination in International Trade, the Policy Issues 1945-1965*, Princeton, 1966.
13. HAEC, CEAB 5/222, *Rapports entre la Haute Autorité et l'OECE*, (no date).
14. HAEC, CEAB 5/222, Report by Suetens, 31 December 1952, CM/CQPC (53)1; Balladore-Pallieri to Spierenburg, 7 January 1953, 9 January 1953; *Rapport au Conseil* (Comité de Direction des Échanges. CECA) 2 January 1953.
15. HAEC, CEAB 5/222, *Commentaires du Comité Mixte des Échanges et Paiements Intra-Européens* (Conseil. Communautée Européenne du Charbon et de l'Acier) 26 January 1953, C(53)22.

16. When the Chairman of the OEEC, Sir Hugh Ellis-Rees, met Dulles and Stassen February 1953 he pointed out that the Six were drawing on the benefits of the payments and trade arrangements of the OEEC, at the same time as they wanted to make exclusive arrangements. HAEC, OEEC Archives 21/4(37), Council 203rd session, 4/7 February 1953.
17. *Ibidem.*
18. *Ibidem.* The ''Group of Eight'' was an OEEC committee established in 1952 to review its relations with other international organisations.
19. HAEC, CEAB 5/222, *Décision du Conseil concernant des États membres de la Communautée européenne du Charbon et de l'Acier. (Adoptée par le Conseil à sa 203e séance, le 7 février 1953)*, C(53)9(Final).
20. P. Reuter, *La Communauté européenne du Charbon et du l'Acier*, Paris, 1953, 135-136.
21. HAEC, OEEC Archives 21/4(37), Council 208th session, 20 March 1953. The form of co-operation had been under review by the ''Group of Eight''.
22. ECSC, General Report 1953, 35.
23. HAEC, OEEC Archives 16/2(139), Executive Committee 239rd session, 4 June 1953. CM1, 1953/160, *Aufzeichnung betreffend die vorbereitende Sitzung mit Regierungsvertretern bei der OEEC und der Hohen Behörde in Paris am 26 November 1953*, 30 November 1953.
24. HAEC, OEEC Archives 22/2(45), Council 237th session, 11 November 1954.
25. HAEC, OEEC Archives 21/4(38), Council 213th session, 18 May 1953.
26. Diebold *The Schuman Plan*, 492-93; J. Gillingham: *Coal, Steel and the Rebirth of Europe, 1945-1955. The Germans and French from Ruhr Conflict to Economic Community*, Cambridge, 1991, 336-337.
27. G.D. Wood Jr., *The Impact of the European Coal- and Steel Community on the Level and Direction of Trade in Basic Steel Commodities*, Dissertation, University of Pennsylvania 1967, 41-47.
28. HAEC CM1, 1953/155, *Memorandum*, 15 October 1953.
29. HAEC, OEEC Archives 16/2(140), Executive Committee 253nd session, 24 November 1953.
30. *From Recovery towards Economic Strength. 6th Annual Report of the OEEC*, March 1955, 143-147.
31. J. Laursen: ''Mellem Faellesmarkedet of frihandelszonen. Dansk Markedspolitik, 1956-58'' in B. Nuchel Thomsen (ed.): *The Odd Man Out? Danmark og den europaeiske integration, 1948-1992*, Odense, 1991, 66-68.
32. HAEC, OEEC Archives 22/2(46), Council 251st session, 5/6 May 1954.
33. HAEC, OEEC Archives 22/3(47), Council 261st session, 16 September 1954.
34. For the steel price discussion see Patterson, *Discrimination in International Trade*, 130.
35. ''Coal, Steel Pool Criticized by GATT'', *New York Times*, 20 January 1955, 9. HAEC, CM1, 1955/315, *Prix à l'exportation de l'acier en provenance de la Communauté européenne du charbon et de l'acier*, 18 January 1955.
36. HAEC, CM1, 1955/16, *Projet de Compte-rendu de la 32e réunion de la Commission de Coordination du Conseil de Ministres tenue à Luxembourg le 3 mars 1955*. HAEC, CM1, 1955/315, *Aufzeichnung fuer die Mitglieder der Arbeitsgruppe fuer Auswaertigen Beziehungen*, (Spierenburg) 20 September 1954.
37. HAEC, OEEC 22/4(54), Council 285th session, 20 May 1955. See the renewal of the mandate, Council 279th session, 25-26 March 1955.

38. HAEC, CEAB 2/1234, *Extrait du procès-verbal de la réunion du Groupe de Travail de l'OECE chargé de suivre les relations avec les autres organisations internationales tenue à Paris, le 18 juillet 1955*, (Conseil) 12 December 1955.
39. HAEC, CEAB 2/1234, *Relations du Comité de la Sidérugie avec la Haute Autorité de la CECA*, (OECE. Comité de la Sidérugie) 13 March 1956.
40. HAEC, CEAB 2/1234, *Note pour Messieurs les membres du groupe du travail des Relations Extérieures*, (CECA, Division des Relations Extérieurs) 25 June 1956.
41. HAEC, CEAB 2/1234, *Note pour MM. les membres du Groupe de Travail des Relations Extérieures*, (Giretti) 11 January 1956.
42. HAEC, CEAB 2/1234, Colonna to Mayer, 29 March 1956.
43. HAEC, OEEC Archives 23/1(55), Council 293rd and 294th sessions, 1 July 1955, 15 July 1955.
44. HAEC, OEEC Archives 23/3(63), Council 334th session, 17/19 July1956.

Chapter XII

DENMARK AND THE OEEC

Vibeke Sørensen

A main objective of the OEEC was to achieve a consensus on how trade should be liberalised among West European states after 1948. It was no easy task to reconcile the commercial interests of the sixteen member states, each with very different economic structures, and Denmark is an example of a member state whose commercial interests never fitted well with those of other member states. In the 1950s, Denmark had particular problems in managing its commercial policy, because its economic structure was based on a complementary pattern of trade. This was a distinct contrast to most other member states, whose foreign trade was dominated by the exchange of manufactured exports. Ideally, Danish economic interests required a European trading arrangement which could open up foreign markets for the country's highly competitive agricultural exports and simultaneously allow a degree of protection from German competition for its manufacturing industry.

This, however, was a foreign policy agenda which found no support from other OEEC members. The focus on removal of quota restrictions in the OEEC trade liberalisation programme exposed Danish industry to competition from German industry, but did not provide easier access to foreign markets where high tariffs continued to prevail. More importantly, the exclusion of state trading from the OEEC programme meant that European agricultural markets remained closed to Danish exports and Danish governments were left to fight an unsuccessful battle in the OEEC for the linking of quotas dismantling to tariff reductions within GATT. Naturally these problems were a negative influence on the attitude of Danish governments and economic interest groups towards the OEEC. Theoretically, the OEEC provided an inter-governmental framework for European co-operation, which Denmark, for ideological reasons, found preferable to European integration. However the inability of the OEEC to advance Danish foreign economic policy objectives meant that during the 1950s Denmark was forced to consider a variety of alternative options, including European integration.

In 1948, Denmark's economy was predominantly agricultural but, as in other OEEC member states, protection and expansion of the industrial export base was an important national policy objective. Industrialisation and a shift in emphasis in the economy away from heavy dependence on agricultural exports was considered by the Social Democratic

Party to be absolutely crucial for the development of the postwar nation state. Full employment and social welfare required expansion of industrial exports. During the 1930s, Danish industry had expanded rapidly behind protectionist walls. In 1948 it was still considered unable to meet competition from European industry. One of the most burning postwar issues was, therefore, how to adapt Danish industry to international competiton without incurring heavy losses of employment. In the 1930s industrial protection had been facilitated through the use of currency controls and quota restrictions while tariffs had been left at their low pre-1914 level. After 1945 this pre-war consensus on commercial policy broke down. The farmers, supported by the Liberal party, began a campaign for the dismantling of import restrictions which they thought hindered the marketing of argricultural exports abroad. But for the new Social Democratic Government that came to power in 1947, protection of industry was a crucial component of Danish postwar commercial policy.

The party's postwar programme to achieve full employment and economic growth focused on the backwardness of Danish industry and the need for industrial ''catching-up'' in relation to the rest of Western Europe. Protected from foreign competition in the domestic market, industrial development was to be encouraged by a low interest policy and state support for industrial investment. Such a policy, however, found no favour with industrial interest groups, sceptical about state interference in the economy and fearful of change.[1] The Industrial Council, dominated by domestic-market industry, was hesitant about the development of industrial exports and believed that Danish industry would be unable to compete with large scale-mass production industries abroad. Instead, industry campaigned for tariff increases to secure a more permanent protection of the domestic market. Tariffs, however, were unacceptable instruments of commercial policy for the country's powerful agricultural organisations and were not a realistic alternative in the late 1940s.

But in 1947-48 a more pressing commercial problem was how to pay for imports needed for agricultural exports and industrial production. Denmark had, before the war, financed its feeding-stuff and capital good imports with sterling receipts from its agricultural exports and was therefore heavily dependent on the continued convertibility of sterling. While Danish postwar commercial policy divided political opinion, there was broad agreement that liberalisation of Danish imports required some form of sterling convertibility, multilateral or bilateral. Negotiations with Britain since 1945, however, had made it clear that access to sterling convertibility on the scale that Danish reconstruction policies required clashed with the British wish for a more balanced trade relationship between Britain and Denmark in the postwar period. Balanced bilateral trade would mean exposing domestic industry to British competition without acquiring the benefit of a convertible sterling surplus to pay for dollar imports. This policy only appealed to the farmers and small-holders, but even they were disappointed over the low prices Britain was willing to offer for Danish bacon, butter and eggs after 1945.

Denmark therefore pinned its hopes on the Marshall Plan. Dollar aid came as a timely relief from the balance of payments constraints, and allowed the government to continue with its reconstruction policy. The establishment of the OEEC to allocate Marshall aid meant the creation of a new European framework for inter-governmental consultation. Together with other Scandinavian countries, Denmark was originally

reluctant to be entangled in such a framework, but once it was established that the OEEC would have no real power (except of course for the American threat of withholding Marshall aid) Denmark quickly developed a more positive attitude. By the end of 1946 Denmark had experienced acute balance of payments problems and the deficit continued to grow during 1947 due to the government's reluctance to introduce more stringent economic measures. From April 1948 onwards, Marshall aid helped the Social Democratic government to deal with the structural balance of payments problem. Marshall aid helped to postpone this issue until after the 1949 devaluation, but could not prevent its resurgence over the summer of 1950.

The government believed that the Marshall Plan's emphasis on investment and productivity would provide international support for its industrialisation policy. The implementation of this policy, however, turned out to be more difficult than the government had first thought because of the strong domestic opposition to industrial change and state intervention. As a consequence, the formulation of the four-year long-term programme for the OEEC quickly ran into problems. The government's insistence on structural change away from heavy dependence on agricultural exports and the British market was soon blocked by both agricultural and industrial interests. The long term programme therefore stated that Denmark should maintain its position as agricultural producer in the European division of labour. But despite this initial disappointment the government still wanted to set aside the major part of the four years' investment for industrial development. During the war, industry had suffered a loss of capital goods imports, which had not been compensated due to low investment rates in 1947 and 1948. Therefore, in the first draft of the long-term programme the major part of investments was allotted to industrial development. A major difficulty proved to be lack of information on industrial investment plans. Danish industry only very reluctantly supplied data on investment and major investment plans seemed to be almost non-existent. The negative attitude of industry eventually led to a change in the distribution of investment between agriculture and industry in the final programme.

Another area where Marshall Plan policies provoked domestic strife was the question of how to use the so-called counterpart funds. In the Danish case, a total of 1.5 billion DKr. The funds touched upon two major areas of conflict between the government and the opposition – monetary policy and state intervention in the economy. The government's low interest policy to support and increase industrial investment had already been eroded during 1948 by the opposition's insistence on controlling inflation. Use of the counterpart funds for productive purposes would support the government's ''cheap money'' policy as well as provide a policy instrument for a selective industrial policy. In 1948, however, the opposition had demanded that all counterpart funds be used to retire debt. When the government in June 1949 presented a modest parliamentary bill calling for the use of 100 million DKr of the funds to create a Recovery Fund for productive investments, it provoked a long and protracted political conflict. The Economic Co-operation Administration (ECA), which had given the proposal its full support, tried in vain to persuade the Industrial Council to support the government's proposal. But the Council, fearful of change and government intervention, was not interested in investment support. Danish industry had since the 1920s relied heavily on self-finance for

investments and saw state funds as a threat to the established industrial structure in the domestic market.[2]

The outcome was a defeat for the government. The idea of an independent Recovery Fund to vet and allocate investments was rejected and the proposal was transformed into traditional state lending via the banks. This meant the end to the government's hope of acquiring a selective policy instrument to extend low-interest loans for specific large-scale investment projects. By March 1950 the government had to abandon its aim of encouraging structural change and economic growth along the lines of the long-term programme and accept the use of the counterpart funds for state loans as they had existed since 1928. This time 200 million DKr were allocated for productive purposes but the strong representation of conservative business interests on the state loan boards made it almost certain that loans would not be extended to the kind of new large-scale ventures the government wanted to encourage.[3]

Despite these set-backs for productivity politics, the Danish economy showed encouraging development during 1948 and the first half of 1949. Industrial production, which had already reached 1938 levels in 1946, continued to increase and agricultural exports, still below pre-war levels, grew rapidly after 1948. As long as Marshall aid sufficed to finance the deficit on the balance of payments, industrial development seemed to be relatively secure. Even so, it would require a longer period than the four Marshall years before industrial export earnings would be large enough to stabilise the balance of payments. At the same time the growing agricultural protection in British and continental markets indicated the possibility of a decline in agricultural foreign currency earnings. The question was what would happen after the end of Marshall aid in 1952, when the postwar boom was expected to be over and European countries would be left to fend for themselves. The Marshall Plan clearly stipulated that by 1952 the participating countries were expected to have eliminated their dollar deficits, but already in the long-term programme the government had established that Denmark would not be able to reach an equilibrium with the dollar area by 1952.[4] Denmark claimed a special position because it imported large amounts of agricultural feeding-stuff inputs from the dollar area and thus provided the participating countries with dollar-saving agricultural exports. This estimate, however, also assumed the introduction of sterling convertibility or some other form of payments arrangement which would allow Denmark to maintain its debtor position with the dollar area as well as with Continental Europe. Sterling convertibility was clearly out of the question and the government therefore counted on the OEEC and the United States to create some kind of European payment arrangement which on a longer term basis could provide international credit for Danish reconstruction. The short-term goal, as a prelude to a general system of free convertibility, was the development of an intra-European payments system in which Denmark's special position as a producer of dollar-saving agricultural power would be recognised. The very limited beginning made with the Intra-European Payments and Compensation Agreement in 1948 was seen to support the Danish belief that once a workable intra-European payments system had been developed liberalisation of trade would follow automatically.

The government therefore favoured an arrangement which gave as much credit as possible to debtors and even for a while hoped to be recognised as a structural debtor within a European payments system. In the OEEC the government maintained a rather

idealistic approach by arguing for a payments system firmly committed to maintaining full employment and high economic activity in the debtor countries. Not surprisingly, this policy did not find support among creditor countries. As a result the government was to a large extent excluded from any real influence on the discussions of credit margins and drawing rights in the OEEC. The government in principle welcomed the creation of the European Payments Union (EPU) in 1950, but continued to complain about credit margins and drawing rights, which it found were too strongly biased in favour of the creditor countries. Although the EPU provided an important safety net of international credit for Danish reconstruction, it was clearly less than the government had hoped for to support its domestic policy of industrialisation.

Even so, as long as American emphasis on reconstruction during the first Marshall year allowed the OEEC to focus on the liberalisation of payments rather than trade, the government's approach to European co-operation and the OEEC remained positive. The attitude towards the OEEC began to change during the summer of 1949 when American policy became increasingly concerned about the development of a soft-currency area in Europe, discriminating on a permanent basis against dollar imports. When Britain devalued in September 1949, Denmark followed suit in order to protect its agricultural export earnings, but the devaluation nevertheless meant a dramatic change in terms of trade. Danish farmers had, during 1948 and 1949, insisted on binding agricultural exports to Britain in a series of long term contracts at fixed prices which meant that Denmark had to bear the cost of higher prices on feeding-stuff imports from the dollar area after the devaluation.[5] The change in the terms of trade threatened to turn back the positive economic development experienced since the introduction of Marshall aid, and when the OEEC in November launched its first liberalisation target (50 per cent by December 1949) the government began to realise that the focus on quotas rather than tariffs in the OEEC programme could become a serious threat to the government's industrialisation policy.

By November 1949 Denmark had liberalised an average of 33 per cent of its trade. The prospect of having to extend that percentage to sixty by July 1950 when the European Payments Union would be in place was clearly a daunting prospect for a government concerned with industrial development. The greatest problem was of course that Denmark, like other small countries in Europe, had seriously underestimated the difficulties in setting general tariff reductions in motion in GATT. Anticipating a relatively quick reduction of excessive tariffs, Denmark had reduced and bound many of its very low tariffs during the Geneva and Annecy rounds. Therefore, in 1950, Denmark was excluded from using tariff increases as a bargaining weapon. Domestic resistance to tariff increases prevented Denmark from using transition to a new *ad valorum* tariff schedule as an excuse for a selective increase of industrial tariffs as had happened in France, Germany and Italy during 1948 and 1949. This confronted Denmark with the gloomy prospect of dismantling industrial protection without improving its access to foreign markets protected by high tariffs. Even worse, the rapid transition to state trading in agricultural products, which was excluded from the OEEC liberalisation programme, prevented Denmark from expanding sales of its highly competitive agricutural exports. Hence, the OEEC liberalisation not only threatened employment in industry, but also raised the daunting prospect of decline in agricultural income.

With no other available options, protests against the unfair effects of the liberalisation programme became a central element of Danish OEEC policy after 1949. Denmark demanded that liberalisation of trade in industrial products should be made to coincide with liberalisation of agricultural trade, and that dismantling of quotas restrictions should be tied to regular rounds of tariff reductions among OEEC members. However, faced with strong United States and British pressure to comply with OEEC rules, Denmark had no choice other than to begin a gradual dismantling of its import restrictions. By May 1950 liberalisation had been extended to 53 per cent (mainly by expanding raw material imports). For a while the government hoped that the EPU would provide some support and in 1950 presented its own proposal for a European payments system which strongly favoured debtor countries. The government argued that liberalisation of trade would be unattainable if creditor countries insisted on narrow credit margins in European payments. The EPU, the government proposed, should therefore operate without credit limits, allowing debtor countries to maintain expansionary policies to support domestic investment and employment. Given the almost completely opposite policy towards the EPU in the creditor countries and the United States, it is hardly surprising that the Danish proposal received little support and quickly disappeared from the OEEC agenda. As a last and perhaps more realistic attempt to improve its position, the government tried to get Denmark accepted as a structural debtor within the EPU. This was rejected by the ECA which believed that agricultural export earnings would turn Denmark into an EPU creditor as soon as liberalisation of trade began.

During spring and summer of 1950 the Danish balance of payments declined dramatically. By August, the government had a balance of payments crisis on its hands and after a prolonged political crisis, it finally chose to resign in September 1950. A new Liberal-Conservative minority government (1950-53) quickly introduced deflationary economic measures in order to comply with the OEEC liberalisation target of 60 per cent. The new government was much more in tune with the American emphasis on controlling inflation and liberalising trade, but soon came to realise, after pressure from domestic industry, that the OEEC targets were unobtainable unless they were combined with overall tariff reductions. By 1951 there was a general consensus in the Danish parliament that the OEEC trade liberalisation programme, if continued, would jeopardise employment and future economic growth.

The gradual slowing down of the OEEC liberalisation programme during 1951, as more and more countries reintroduced controls under the impact of rising raw material prices and growing defence expenditures, made it easier for Denmark to maintain its low liberalisation percentage but did nothing to help agricultural exports. One of the perpetual problems for Danish governments within the OEEC was the negative British attitude to any change in the OEEC liberalisation programme. Dependency on the British market and continued access to a limited convertibility of Danish sterling earnings meant that there were limits to how far Denmark could go in its critique of British policy within the OEEC. Britain kept close watch on Danish OEEC policies through meetings in the framework of the UNISCAN committee, which functioned as a clearing-house for British and Scandinavian West European policies.

However, in 1952, when Britain tried to break up the EPU by introducing its own convertibility scheme, Denmark and the other Scandinavian countries were openly

opposed. Denmark had no interest in a convertibility scheme which placed Britain in the powerful position of controlling the future conversion of European sterling earnings into dollars. Futhermore, the trade preferences which Britain claimed were necessary to make the scheme work were seen to legitimise the use of tariffs as commercial policy instruments or, at least, prevent a further liberalisation of the British market in the near future. Britain's tentative suggestion that the Scandinavian countries join the Sterling Area would clearly have deepened Danish economic dependency on Britain and was therefore also rejected. The secrecy surrounding the proposal for convertibility and Britain's unwillingness to inform its Scandinavian OEEC allies beforehand finally forced the Danish government to realise that Danish and British West European policy interests were no longer compatible and that Denmark would therefore have to look elsewhere for support within the OEEC.

This realisation explains the bout of Danish activity in the OEEC and GATT during the early 1950s. Complaints in the OEEC about excessive tariffs and state trading were stepped up and simultaneous complaints were launched in GATT over dual pricing by the European Coal and Steel Community (ECSC). Denmark was now willing to try out all alternatives to overcome the shortcomings of the OEEC liberalisation programme and even for a short while considered the option of European integration. At the insistence of the farmers' organisation, Denmark participated in the negotiations to create a common market in agriculture, the so called ''Green Pool negotiations'' which took place outside the framework of the OEEC, and for a short while conducted negotiations with the ECSC. However, the government quickly lost interest in integration as an alternative option when the proposed European Defence Community (EDC) developed into a plan for a political union.

Another initiative was the attempt to coordinate the efforts of small countries to push through a discussion of tariff disparities within the OEEC between 1952 and 1954. Denmark played a very active part in this initiative. By drawing up a list of commodities of importance to Western European trade, the so-called ''European Commodities List'', the low-tariff countries hoped to create a workable basis for tariff reductions among OEEC member states. Again the main stumbling block proved to be Britain, which strongly opposed the plan in the OEEC. The defeat of the low-tariff club initiative was a heavy blow for the Danish government. Trade liberalisation had gradually been brought up to 75 per cent but without improved access to European markets, the government would not be able to go any further unless affirmative action was taken simultaneously on tariffs and state trading within the OEEC. The new Social Democratic Government which came to power in October 1953 therefore began to consider the alternative option of a Nordic Customs Union. The defeat of the low tariff club in the OEEC seemed to demonstrate that a common market arrangement within this large mutilateral framework was unattainable, whereas a trading arrangement among a smaller group of states was thought to be easier to achieve. A customs union among the three Scandinavian countries – Denmark, Norway and Sweden – would constitute a first step towards a larger and more protected market for Danish industrial products which would also serve to strengthen the bargaining power of the three countries in relation to the larger member states of the OEEC.[6]

The Messina Conference in 1955, announcing a customs union among the six signatories of the ECSC, did nothing to change Denmark's new interest in a Nordic common market. It was only with the British proposal for the creation of a wider free trade area connecting the customs union of the Six to the rest of the OEEC countries that policy priorities changed in Denmark. The new British proposal seemed to be the perfect vehicle for the advancement of Danish policy objectives. Unfortunately, the British proposal did not include agriculture and the government therefore concentrated all its efforts on persuading Britain to change this policy. The importance of including agriculture in the free trade negotiations was further underlined when the Liberal party and the farmers' organisation in January 1957 demanded that Denmark leave the Nordic customs union negotiations behind and take part in the negotiations among the Six. Commercial policy had again divided domestic political opinion and the government was forced to modify its policy. Participation in the negotiations of the Six was never seriously considered, but the government had now distanced itself from its earlier commitment to the Nordic project. In March 1957, the government actually managed to extract a vague statement from the Six that the ''door'' for Danish EC membership would be kept open while Denmark investigated the possibilities inherent in the free trade area proposal. In retrospect, it seems unlikely that the Six would guarantee Europe's largest exporter membership without stringent conditions being placed on Danish exports, but the statement gave the government much-needed room for domestic manœuvre until it could form a majority coalition government with the Radical party after the spring elections of 1957. When Britain, in autumn 1957, finally agreed to include agriculture in the free trade negotiations, it looked for a short time as though it would be possible to reconcile the government's preference for a Nordic customs union with the farmers' demand for membership of the Six within the wider free trade area. Technically, the government claimed, the relationship of a Nordic customs union to the free trade area would be the same as that between the Six and the free trade area, while Danish membership of a Nordic customs union within the wider free trade area would have the advantage of providing a temporary protection for industry. More unrealistic was the government's belief that the market problems of Danish agriculture could be solved by the creation of an arrangement for agriculture in the free trade area based on the rules set out in the Treaty of Rome.

The government's hopes were pinned on the free trade area and it was therefore dependent on Britain's willingness to adapt to the policy of the Six or France's willingness to accept the rules of the free trade area. The break-down of negotiations in November 1958 therefore was a heavy blow for the government. Sweden was now in favour of a more aggressive policy towards the EC and quickly moved towards the establishment of a free trade area including Britain. Negotiations between Switzerland, Britain and the Scandinavian countries which had begun already before the break-down of the free trade negotiations were now stepped up and quickly resulted in a proposal for an ''outer'' free trade area, EFTA.

Although Sweden maintained that EFTA did not exclude a Nordic customs union, it was obvious that the non-Nordic members of EFTA would not welcome the creation of a Nordic common market within this framework. But the real problem for the Danish government was how to prevent a division of Western Europe into two competing trade

blocs, each including a large market for Danish exports. A series of bilateral arrangements were eventually negotiated which secured Danish agriculture continued access to its most important markets, Britain and Germany, but it was obvious that EFTA could not provide any long term relief for Danish agricultural export surpluses. But Denmark very quickly became isolated in its quest to bring Britain and the Six back to the negotiating table. For a while the Danish government tried to revive the negotiations for a wider free trade area; a proposal for a joint Scandinavian initiative in this direction was followed by an even more unrealistic attempt to gather support for a Scandinavian-Benelux initiative. But during May and June it was gradually realised that Denmark now was the only West European country willing to consider a revival of the free trade negotiations and in the end the government was left no choice other than membership of EFTA which, after all, corresponded more closely to Danish economic and political thinking than the customs union of the Six.

NOTES

1. In 1949 industry provided less than 10 per cent of total exports and, apart from a small number of machinery and engineering industries, was totally dependent on the domestic market.
2. For a discussion of the influence of Marshall aid and policies in Denmark, see V. Sørensen, ''The Politics of Closed Markets: Denmark, the Marshall Plan and European Integration, 1945-63'', *International History Review*, 15/1 (1993) 23-46.
3. The defeat of the Social Democratic Government's proposal marked a major turning point in the debate on the Danish counterpart funds. Once selective state intervention had been blocked, the ECA's strong insistence on the productive use of the funds ensured the continued allocation of funds for productive purposes. In the period 1948-54, 41 per cent of the funds were allotted for productive purposes, including defence. V. Sørensen, *Social Democratic Government in Denmark under the Marshall Plan, 1947-50,* Ph.D thesis, European University Institute, Florence 1987, 218.
4. The long-term programme predicted a payments equilibrium with Europe by 1952 and a continued dollar deficit. In reality, the opposite occurred. By late 1952 Denmark had more or less balanced its dollar deficits but maintained heavy deficits with Continental Europe all through the 1950s.
5. B. Nielson, ''Butter, Bacon and Coal: Anglo-Danish Commercial Relations 1947-51'', *Scandinavian Journal of History*, 13 (1988) 257-77.
6. For a discussion of the Nordic negotiations and the Danish attitude towards European integration between 1950 and 1961, see V. Sorensen, ''Between Interdependence and Integration: Denmark's Shifting Strategies'', in F. Lynch, A.S. Milward, R. Ranieri, V. Sorensen, *The Frontier of National Sovereignty: History and Theory 1945-1992,* London, 1993, 88-118.

Chapter XIII

FROM BRIDGE-BUILDING TO WEST EUROPEAN ECONOMIC INTEGRATION: SWEDEN IN THE OEEC

Michael af Malmborg

The Swedish Prime Minister, Tage Erlander, did not like the idea of a West European organisation for economic co-operation, nor did the Minister for Foreign Affairs, Östen Undén. Certainly, the ambition to organise the reconstruction efforts multilaterally was commendable and merited Swedish support, but the limitation of these efforts to Western Europe was not in accordance with the aims of Swedish foreign policy. When the Swedish government in early July 1947 received an invitation to participate in the Paris conference for the establishment of an organisation for European economic recovery, it therefore intended to accept the invitation, but with the qualification that the aid should be distributed through the United Nation's Economic Commission for Europe, ECE, and not through a new organisation. In the ECE, headed by the former Swedish Minister of Commerce, Professor of Economics Gunnar Myrdal, the Soviet Union and the other East European countries were also members, and to direct the aid through that organisation would thus be more in line with the Swedish policy of neutrality. An integral part of this policy, particularly during the first few years after the war, was to avoid tendencies to bloc building. Before dealing with Sweden's participation in the work of the OEEC, it might, therefore, be appropriate to briefly depict this bridge-building policy as a contrast to later events.

Sweden was in a rather favourable position after the war, having suffered less than almost any other European country apart from Switzerland. It had not been bombed or occupied by foreign troops, its industry was left intact, and for the Swedes (as opposed to the nationals of many other European countries), the war had been yet another confirmation of the soundness of sovereignty and neutrality.

Even before the war ended, Sweden started assisting war-struck countries in their reconstruction efforts by means of bilateral credits and gifts. 1 533 million SKr were granted in credits before the war was over. It was obviously in the interests of Swedish industry to contribute to the re-establishment of export markets in Europe. Most of these efforts were focused on the Nordic neighbour countries (Finland, Norway and Denmark),

but there was also a clear intention to assist other parts of Europe in their reconstruction work.

Of particular concern in this respect was the Soviet Union. The Soviet people had perhaps suffered more from the war than any other people, and for the Social Democratic government which succeeded the wartime coalition in July 1945, achieving good relations with the Soviet Union was one of the main foreign policy tasks. ''Sweden's all-overshadowing political interest is to achieve intimate and good relations with the Soviet Union'', wrote Myrdal in 1944.[1]

As an integral part of this policy the Swedish government planned for increased trade with the Soviet Union through, for example, extensive credit agreements.[2] The initiative came from the all-party coalition government in the summer of 1945, but it was only a year later that the agreement was finally settled: over a period of five years the Soviet Union would be given 1 billion SKr as credit for purchase of Swedish goods.[3] There were also expectations that such a credit would secure an increasing share of the Soviet market for Swedish exporters and, thus, make Swedish foreign trade less biased towards the West. Apart from aiming at good relations with the neighbouring superpower, the agreement was a part of the conjuncture policy, based on Myrdal's – as it turned out erroneous – assumption that the wartime boom would be followed by a strong depression. Furthermore, there was an ideological dimension to the agreement. Although the Social Democrats consistently fought against communist infiltration on the domestic scene, they still nurtured a great deal of fascination for the Soviet societal experiment.

Although the Parliament, the *Riksdag*, approved the credit agreement almost unanimously, it was soon subject to fierce criticism. The opposition was not slow to try to profit from the fact that public opinion, although strongly supportive of the neutrality policy, was clearly pro-western. Similarly, in Swedish industry there was a great reluctance to start exploring unknown markets such as that of the Russians and a strong preference for sticking to the old, well known, profitable ones in the West. The immediate postwar years were marked by a strong optimism in Sweden, shared by all the political parties and industry alike. The Labour movement talked about ''harvest time'', and the Social Democratic Government launched a comprehensive social reform programme and simultaneously, with the support of the opposition, reduced taxation by removing the sales tax that had been introduced during the war.

Instead of the expected phenomena of depression and unemployment, however, the end of the war marked the beginning of an extremely expansive phase. One reason for this was the improved export potential combined with dammed-up domestic demand, leading to a sharp rise in import and in production for domestic consumption. When the Swedish krona was revalued in 1946, the already massive amount of imports was further increased, exhausting Sweden's currency reserves; as elsewhere in Europe, it was above all a deficit of dollars. The optimism, therefore, soon faded away, and, faced with an acute balance of payments crisis, the Government was forced to reimpose extensive wartime regulations on imported goods in March 1947.

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Such was the situation when the Swedish Government in the summer of 1947 considered the invitation to participate in the Marshall Plan. Considering the bilateral reconstruction efforts that had been made during the early postwar years, it seemed a natural continuation of these efforts to take part in the more extensive, multilateral efforts. The government proposal that the aid should be organised by the ECE was, however, immediately and strongly criticised by some of the leading diplomats. Such an idea showed a lack of understanding of the intentions of the Americans, they argued, and they exercised all their powers to change the government's attitude and make the Swedish reply to the invitation unconditional. In these efforts, they also were supported by the leaders of both the Liberal and the Conservative parties. Thus, when the government in the Foreign Affairs Advisory Board on 8 July 1947 presented its intention to suggest that the aid programme should be located in the ECE, it encountered strong opposition.[4]

In the end Sweden gave an unreserved reply and was, therefore, among the sixteen countries that gathered in Paris on 12 July to discuss the Marshall Plan. When during the conference the disparity between ''federalists'' and ''functionalists'' came to dominate the discussions, Sweden clearly placed herself in the functionalist camp. Proposals by France and Italy for a customs union among the participating countries were not regarded as compatible with the policy of neutrality and Sweden, therefore, kept close to the British position of firm resistance. In the European Customs Union Study Group that was established in the autumn of 1947 Sweden together with Norway only accepted an observer status, while Denmark and Iceland participated as full members. Here again, the Swedes argued in favour of an extended use of the ECE. The Swedish government had nothing against further customs union integration as such, but thought that they should be carried out within the framework of the ECE rather than that of the Committee for European Economic Co-operation, CEEC. This would give the Soviet Union an opportunity to participate in the discussion, and would therefore avoid the division of Europe into two blocs.[5]

Simultaneously, Sweden entered into long but, as it turned out, fruitless discussions with its Scandinavian neighbours about a customs union of their own. However, once it became clear that the CEEC, would have a purely inter-governmental character, and that the granting of Marshall aid would not be accompanied by the creation of any European customs union, Sweden had no problems in continuing to participate in the work.

In the Swedish Parliament there was a vast majority in favour of participating in the European Recovery Programme. Only the small Communist Party and a few individual members of the Social Democratic parliamentary group voted against joining the OEEC. In the debate, Undén argued that the OEEC was only an organ for economic co-operation, and thus would not encroach upon political sovereignty. The Marshall Plan was regarded as ''a common endeavour around the task of recovery, not as political bloc building directed against any external states''.[6] Sweden, therefore, became a member and signed the Paris Convention of 16 April 1948.

In the decision to participate in the Marshall Plan, the government could count on widespread public support and interest from industry, in contrast to what had been the case with the Soviet credit, and the Prime Minister was not slow to try to benefit politically from this support. In most of his speeches in 1947 and 1948, there are a few

lines about Swedish participation in the programme.[7] Nevertheless, it was clear that Sweden's role in the new co-operation would be quite marginal. It is significant that the entire task of negotiating and participating in the work was left to a civil servant, albeit a prominent one, Dag Hammarskjöld. After all, the aid programme was a technical issue from a Swedish point of view, and lacked the kind of political overtones that accompanied it elsewhere.

During the first few postwar years, a fervent ideological debate took place in Swedish political life concerning governmental planning of the economy.[8] The Government encountered strong opposition from the bourgeois parties and in the press against its supposedly socialist policy. A reaction from the electorate came in the elections of autumn 1948, when the Liberal Party advanced from 13 to 23 per cent of the vote. It made even better gains in the succeeding election four years later, although, not enough to create a workable platform. While supporting the government's Keynesian, growth-oriented economic policy, the Liberals, as well as the Conservatives, strongly criticised its more far-reaching planning ambitions. The election result was a clear signal to the government to lower its ambitions.

This development is also of importance from a foreign policy viewpoint. With the election result and the adhesion to the OEEC in 1948, a consensus was established concerning Sweden's foreign *economic* policy, which, quite remarkably, lasted all through the 1950s. As a matter of fact, no significant dispute between the political parties in this field occurred until 1960-1961 when the United Kingdom, Denmark and Norway applied for membership of the EEC.

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Sweden's European policy during the initial years was virtually all the work of Dag Hammarskjöld. He was more or less solely responsible for Sweden's participation in the work of the OEEC from its inception until 1953. He served, for instance, as chairman of the Working Party set up by the Executive Committee to prepare the Long Term Programme. It was here in the OEEC that Hammarskjöld made his international debut, and gained the reputation that paved the way to his election as Secretary-General of the United Nations in 1953. Hammarskjöld personally was devoted to European co-operation to a much larger extent than his government, although he was by no means sympathetic to the federalist idea. When the Six launched their own plans he argued that ''it would be a great mistake to cut away support from the general approach that has been developed, and from what has been built up through the OEEC''.[9] He could accomplish his task with the threefold authority of having been chairman of the Bank of Sweden and permanent secretary in the Ministry of Finance and in the Foreign Office. From 1951 to 1953 he was a member of the Cabinet.

Marshall aid as such was of marginal importance for Sweden. The country received no direct aid, and only 107 million dollars in loans (1.8 per cent of the total sum). This was considerably less than her Scandinavian neighbours; Denmark got a total of 273.1 million and Norway 255.2 million dollars.[10] These loans were given to Sweden principally to broaden the range of industries producing for export.[11] Greater significance

was attached to the indirect benefits from the recovery programme. The revival of Sweden's major trading partners implied important economic advantage for Sweden as well. The drawing rights put at the disposal of the participating countries enabled them to cover deficits in their trade with Sweden. In this way, as much as 5.7 per cent of the conditional aid given to the OEEC countries eventually found its way to Sweden.[12]

The aims of the OEEC were, naturally, of different interest to the participating countries. Sweden can be said to be an example of a state whose commercial interests fitted rather well with the general aims of the organisation. With a foreign trade heavily concentrated on Western Europe and increasingly dominated by the exchange of manufactured goods, the country had no serious problems adapting to the liberalisation programme. When the first programme for the removal of quotas was set up in 1949, however, the Swedish government (like many others), due to continuing payments problems, decided to apply the removal of quotas only on imports from a limited number of countries. The 50 per cent removal of quotas in the Swedish case did not, therefore, include imports from Belgium, Germany, or Switzerland. However, a bilateral agreement removed barriers to many of Sweden's imports from Germany, and, in addition, the quota removals were extended to imports from the sterling area, Finland and Indonesia. Later, however, like other small developed industrial nations (the Benelux countries and Switzerland for example), Sweden was generally ahead of the liberalisation scheme, and had already reached 90 per cent liberalisation of private imports by 1953.[13] At the same time, the share of imports derived from state trading was relatively low. Seven per cent of the total Swedish imports were government purchases, which was slightly more than for comparable countries, but clearly below the OEEC average of over 9 per cent.[14]

The fact that state trade was excluded from the OEEC programme did not pose any noticeable problems for Sweden, which had little export interest in the sectors covered by state trade, in sharp contrast to, for instance, Denmark's agricultural export. On the contrary, Sweden's agricultural policy contained a certain trace of protectionism. There were two reasons for this. Firstly, a policy of neutrality requires a certain degree of self-sufficiency in agricultural products for security reasons, and secondly, the farming population had to be guaranteed the same standard of living as industrial workers. Likewise, the focus on quota restrictions in the liberalisation scheme was well in line with Swedish export interests, at least initially. However, as soon as most quotas on manufactured goods had been removed, tariffs became an increasing concern for Sweden. While Sweden itself kept low tariffs on its imports, several of its main trading partners preserved or even raised their tariffs as quotas were removed.

In order to cope with this problem Sweden together with Denmark, Norway, Benelux and Switzerland formed the so-called ''Low Tariff Club''. This initiative, having its origin in a proposal by a Swedish delegate to the Council of Europe, the economist and leader of the Liberal Party, Bertil Ohlin, was aimed at persuading the large countries to accept a moderate, step-by-step reduction of tariffs on goods that were mainly traded within Western Europe. By drawing up a list of commodities which were mainly subject to intra-OEEC trade, the scheme would give a maximum benefit to European trade, without violating the most-favoured-nation clause of GATT. This attempt, however, was without success since the United Kingdom strongly opposed the idea.[15]

While Sweden readily removed barriers to trade, it was less accommodating when it came to liberalisation of payments and invisible transactions. This was so particularly after 1953, when Hammarskjöld was no longer in charge of OEEC matters. The Bank of Sweden fought for its traditional independence and sovereignty and, according to the permanent Swedish delegate to the OEEC, Ingemar Hägglöf, Sweden took the lead in claiming exemptions.[16]

With participation in the OEEC came a considerable restructuring of Sweden's foreign trade. The material bases of the economy remained the same, but the focus was increasingly shifted towards manufacturing within the country instead of export of raw materials. In the Long Term Programme of 1948 this was identified as the main aim. Before the Second World War, the expansion of Swedish exports was to a large extent based on the staple commodities derived from the forests: timber, pulp etc. After the war, however, it soon became clear that an expansion of this backbone of Swedish exports was no longer possible, ultimately due to the fact that the country had reached the limit to which its natural resources could be exploited. As a matter of fact, a need to adjust production of these commodities to the annual growth of the forest called for some reduction of exports. In order to compensate for this reduction and open up further expansion of the economy, Sweden was forced to rely to an increasing extent on export of more highly processed articles, mainly from the engineering industry.[17] Such a restructuring of exports was also of crucial importance for the other main export sector: iron and steel. If the export of iron ore could be accompanied by an increasing export of finished iron and steel products, this would be a field for further expansion of Swedish industry.

Indeed, the distribution of commodities did undergo major changes compared with the interwar period.[18] Engineering products rose sharply, whilst forestry products share fell. Exports were therefore increasingly concentrated on metals and above all engineering products. The exports of the latter increased by no less than 300 per cent in the period 1938 to 1962, accounting for more than one third of the total export value. The share of fully manufactured goods in the total exports rose from 28 per cent at the beginning of the 1950s to 40 per cent less than ten years later. Simultaneously, the importance of raw materials in the export market decreased from 48 to 32 per cent of the total. Ready-made goods become more important than raw materials in Swedish exports to Western Europe, and at the end of the 1950s, raw materials for the first time no longer formed the largest group of export goods. The OEEC era in European economic history is, therefore, the time when Sweden finally abandoned its role as raw material base for the industrialised countries in the West.

The period from the end of the war until the end of the 1950s was for Sweden, as for many other West European countries, the most expansive phase in the history of foreign trade. It is noticeable, however, that in comparison to the interwar period, when Sweden had the fastest growing exports of any European country, the early postwar era displays a somewhat slower growth than the total world trade and considerably slower than many continental European countries like Germany, Italy and the Netherlands. As a matter of fact, among the European countries, only the United Kingdom showed a lower growth figure than Sweden.

This development rendered the Swedish economy much more dependent on foreign trade than before, since exports grew twice as fast as the national product. In contrast to the interwar period, when the volume of exports and the national product had increased at about the same rate, between 1947 and 1960 the former increased 100 per cent but the latter only 50 per cent. However, since export prices grew considerably more slowly than price levels in Sweden after the War, the relations between the value of exports and that of the gross national product remained on the whole unchanged: 19.8 per cent in 1950 compared with 21.0 per cent in 1960.

As far as the country distribution is concerned, the concentration on Europe remained conspicuous; around 75 per cent of total exports, as in the interwar period. Some noticeable changes did, however, take place. In the extra-European exports, the decreased importance of the USA is the most notable feature. Its share of the total exports were only half as big at the beginning of the 1960s (6.6 per cent) as it was at the end of the 1930s (12 per cent). In Europe, the exports to Germany and the Scandinavian countries showed the most rapid growth, whereas the relative regression of the UK was further accentuated.

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To sum up, the early OEEC years meant for Swedish foreign economic policy a drift from a bridge-building strategy to the promotion of trade within Western Europe. In spite of initial anxiety, Sweden soon identified itself with the inter-governmental and pragmatic working methods of the OEEC, which posed no threat to the policy of neutrality. Instead of striving towards European union, Sweden advocated an amalgamation of the OEEC and the Council of Europe (another organisation that Sweden had joined with lukewarm interest but then found its harmlessness rather suitable to the country's foreign policy). There would thus be one single West European organisation for co-operation between sovereign states with unanimous decision making.[19]

By the mid-1950s, the OEEC delegation in Paris was regarded in Stockholm as ''a show-window of the Foreign Ministry''.[20] It was, therefore, with some apprehension that the Swedish delegation in Paris in 1955 saw six of the member states go their own way, launching a plan for a common market, and Sweden soon turned out a defender of the OEEC system.

Promotion of trade with the Soviet Union and its allies was by then an abandoned strategy. The part of Swedish trade that went to the East never exceeded a few per cent and, as a matter of fact, it remained less significant than the Eastern trading component of its neighbouring countries, Denmark and Norway. Furthermore, it diminished during the first decade after the war.[21] An interesting comparison can be made with another neighbouring Nordic country, Finland. For political reasons Finland refrained from Marshall aid and did not join the OEEC, and, instead, developed significant trade with the Eastern bloc.

In the debate about Sweden's relations with Europe, the European Community has sometimes been regarded as the economic branch of NATO. The extent to which the OEEC implied economic bloc building and involvement in the cold war has been neglected. Although the efforts towards European unity left Sweden cold, it was, from the start, fully integrated in the West European bloc.

NOTES

1. In the book *Varning för fredsoptimism* (Warning for Peace Optimism), Stockholm 1944.
2. The credit to the Soviet Union and Sweden's trade with Eastern Europe has recently been dealt with thoroughly in B. Karlsson, *Handelspolitik eller politisk handling. Sveriges handel med öststaterna 1946-1952*, Göteborg, 1992.
3. In the end, only somewhat more than half of this sum was used (533.7 million SKr).
4. K. Molin, *Omstridd neutralitet. Exporternas kritik av svensk utrikespolitik 1948-1950*, Stockholm, 1991, 39-40, and S. Grafström, *Anteckningar*, 815 (6-7 July 1947).
5. A.S. Milward, *The Reconstruction of Western Europe 1945-1951*, London, 1984, 239-241, 250-252.
6. N. Andrén (ed.), *Säkerhetspolitik i Norden*, Uddevalla, 1984, 92.
7. T. Erlander, *1940-1949*, Stockholm, 1973, 369.
8. This debate has been penetrated in L. Lewin, *Planhushållningsdebatten,* Uppsala, 1967.
9. Interview with Hammarskjöld, 28 November 1952, quoted in H.B. Price, *The Marshall Plan and its meaning*, New York, 1955, 298.
10. B. Stråth, *Nordic Industry and Nordic Economic Co-operation. The Nordic Industrial Federations and the Nordic Customs Union negotiations 1947-1959*, Kungälv, 1978, 80.
11. Price, *The Marshall Plan*, 268.
12. J-P. Mousson-Lestang, *La Scandinavie et l'Europe de 1945 à nos jours*, Paris, 1990, 37-38, 52.
13. W. Diebold, *Trade and Payments in Western Europe*, New York 1952, 164, and table in *9th Report of the OEEC. A Decade of co-operation. Achievements and perspectives*, Paris 1958, 180.
14. Diebold, *Trade and Payments*, 182-183.
15. W. Asbeek Brusse, *West European Tariff Plans 1947-1957. From Study Group to Customs Union*, Ph.D, EUI Florence, 1991, 149-150, 183-229.
16. I. Hägglöf, *Drömmen om Europa*, Stockholm 1987, 59.
17. OEEC, *Interim Report on the European Recovery Programme*, Vol. 1, December 1948, Paris, 169.
18. For the development of Swedish trade, see G. Fridlizius, ''Sweden's Exports 1850-1960'', *Economy and History*, 4 (1963) 70-88.
19. M. af Malmborg, *Den ståndaktiga nationalstaten. Sverige och den europeiska integrationen 1945-1959*, Ph.D, forthcoming.
20. Hägglöf, *Drömmen om Europa*, 96-99.
21. Karlsson, *Handelspolitik*, tables 75, 197, 222, 229.



The newly signed EPU agreement, September 1950. From left to right: Milton Katz (US Special Representative), Herbert Prack (President of Council and Head of the Austrian Delegation) and Robert Marjolin (Secretary-General of the OEEC).



Richard N. Bissel jr., being sworn-in in Washington as Deputy Administrator of ECA, October 1950.



Paul G. Hoffman (left) and Dirk U. Stikker at the OEEC Council meeting in October 1950 when Paul G. Hoffman said his farewell.



Robert Marjolin (Secretary-General of the OEEC) records a message in the Paris Studios of the Voice of America, to be broadcast from the New York Studio on the first anniversary of the Marshall Plan, April 1949.



OEEC Meeting with officials in Washington, April 1953. From left to right: Harold Stassen (Director for Mutual Security), Sir Hugh Ellis-Rees (Chairman of the OEEC Council), Hans Karl von Mangoldt (Chairman of the EPU Managing Board), Attilio Cattani (Chairman of the OEEC Executive Committee), Baron Snoy (Chairman of the Steering Board of Trade), Robert Marjolin (Secretary-General of the OEEC).



Sir Henry Lintott leaves the OEEC, October 1956. From left to right: René Sergent, Sir Hugh Ellis-Rees, Sir Henry Lintott, J.F. Cahan, Attilio Cattani.



From left to right: Harold MacMillan, René Sergent, Philippe Huet and René Lefebvre (Minister of Agriculture of Belgium), at the OEEC Ministerial Council Meeting, July 1957.

Chapter XIV

"IT IS ONLY THE PROVISIONAL THAT LASTS": THE EUROPEAN PAYMENTS UNION[1]

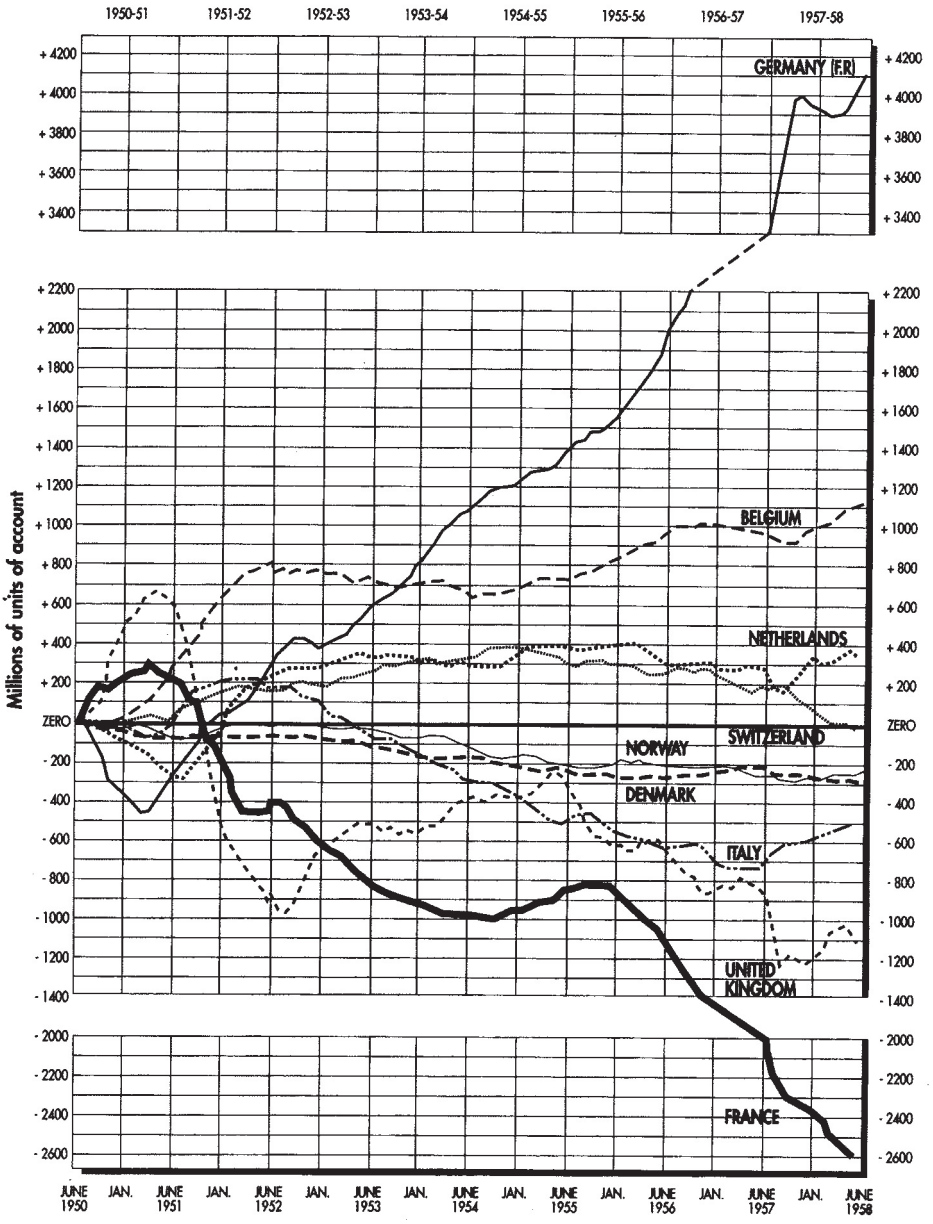
Monika Dickhaus

The European Payments Union (EPU) was a discriminatory soft currency bloc which was established in 1950 and dissolved in 1958. For many years the history of the EPU was a rather neglected subject, generally relegated to technical histories of the international monetary system. Recently, however, interest has revived and it has even been argued that the EPU was a brilliant solution to the pressing economic problems of postwar Western Europe and later became a fundamental ingredient of the economic miracles of the 1950s.[2] According to these more recent views this payments system enabled the reconstruction of intra-European trade, thus making it possible to overcome the dollar gap which seriously endangered Western European recovery. Such new interpretations of the EPU have perhaps facilitated the acceptance of the view that payments unions might ease analogous problems.[3]

Before adopting such a position one should remember that the history of the EPU – without any doubt a major success – was not purely a success story. On the contrary; not only was it a cumbersome and laborious task to establish the EPU, the venture was constantly in danger of being aborted. Even once the initial difficulties had been overcome it remained anything but easy to keep the EPU workable. A quick glance at a graphic representation of the functioning of the EPU (Figure on following page) shows clearly that even at its inception it had to cope with extreme positions which would then be reversed in 1951-52. In the following years, even more extreme positions developed. These positions – the result of both developments in the trade sphere and speculation – persisted until the EPU was dissolved in 1958, as there was apparently no way to remedy them. It is obvious that these extreme imbalances created considerable strains on the EPU. Notwithstanding the persistence of these problems, the EPU was replaced by the European Monetary Agreement (EMA) and a regime of convertibility only in 1958, and only then following a British initiative.

If adequate lessons are to be drawn from the EPU experience, an attempt should be made to take account of diverse aspects of its history. Not only its successes but its shortcomings should be acknowledged. As a contribution to the historical analysis of the

Cumulative Net Surplus or Deficit of some EPU member countries



EPU, in this short survey I will outline the problems which the EPU was designed to address and briefly describe its functioning and contribution to Western Europe's postwar recovery. I will then discuss three of the more difficult episodes in the EPU's lifetime: the negotiations leading to the Union's establishment, the problems faced during the first two years, and the drawn-out discussions on the maintenance of a soft currency bloc versus a general return to convertibility.

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From the very beginning of the OEEC's existence payments were at the top of its agenda, since European reconstruction necessitated a solution to the existing payments problems. The postwar European payments problem consisted of two interrelated aspects. First, a general dollar scarcity prevailed, with demand for dollar goods being high and dollar reserves run down. Moreover, it was difficult to earn dollars by exporting because competitiveness in extra-European markets was very low. Second, the general shortage of dollars was exacerbated by the abysmal state of intra-European trade which by 1947 was largely bilateral, circumscribed by manifold payments agreements and quantitative restrictions. The rationale for this system was to control and minimise the employment of monetary reserves, above all of scarce dollars. However, this rigid bilateralism blocked trade growth. Moreover, by 1947 this bilateral system had come close to collapse since the initial swing credits had almost been exhausted. Such a collapse threatened to further reduce supply from European sources, in turn augmenting demand for dollar goods and further aggravating the dollar gap.

From 1947 onwards, endeavours were made to remedy these payments problems by creating a regional payments system which would release intra-European trade growth. However, the results – the Intra-European Payments Agreements of 1947, 1948 and 1949 – were problematic. They compensated only minor balances, depended completely on Marshall Plan aid, provided questionable economic incentives and created political tensions. Furthermore, the agreements remained primarily bilateral and every effort to multilateralise them encountered fierce opposition.[4] Thus by autumn 1949 it was clear that a new attack on the European payments problem was needed – all the more so since the United States Economic Co-operation Administration (ECA) was pressing for liberalisation of intra-OEEC trade, and any progress on this front would require a working payments system. As a result, after difficult and lengthy negotiations, the EPU was established in the summer of 1950. The establishment of the Union, seen by historians as a ''breakthrough'' or even as ''a giant leap'',[5] represented a substantial part of the solution to the European payments problem. By the middle of the decade, intra-European trade had grown considerably, European monetary reserves had increased substantially and the dollar gap had almost disappeared. Europe had finally achieved ''viability''.[6] Even though its aims had been mostly fulfilled by 1955, the EPU remained in existence for several more years, and escorted Europe from ''recovery to strength''.[7]

The EPU made two major contributions to the growth of intra-European trade. First, by establishing transferability among all Western European currencies and providing financing on a rather generous scale,[8] the EPU agreement made it possible for the OEEC

Council to adopt the Code of Liberalisation. Furthermore, a target for removing quantitative restrictions from 60 per cent of private trade was envisaged. In subsequent years, this percentage was raised to 75 per cent (1951) and 90 per cent (1955). This liberalisation policy had some serious ''defects'', such as the exclusion of state trade, and it occasionally suffered major setbacks (for example in 1951 the Federal Republic of Germany (FRG) suspended liberalisation while in 1952 the United Kingdom and France invoked the escape clauses), but on the whole there was considerable progress. Indeed, by 1959, an average of 89 per cent of intra-European trade had been liberalised.[9]

Secondly, the EPU contributed to the growth of intra-European trade by allowing the reconstruction of German imports and exports and by integrating the German economy firmly into European markets. As an EPU member, the FRG could now receive additional means to finance imports and could therefore open up its market to other Western European countries while continuing to enjoy protection from the Dollar Area. In 1950 this was of crucial importance to Austria, Denmark, the Netherlands, Norway and Sweden which found markets for between 10 and 20 per cent of their exports in Germany.[10] Furthermore, these German imports enabled the reconstruction of the German export capacity and ''normal'' trade relations between Germany and its European partners resumed. In addition, German production could increasingly replace imports of American capital goods and this permitted Western European countries to save considerable amounts of dollars.

The usefulness of the EPU quickly became evident and, as a result, member countries made considerable efforts to preserve it in the face of the German debtor and Belgian creditor crises of winter 1950-51 and spring 1952 respectively. Despite these achievements, however, the EPU's problems soon became apparent. When its operations first began, it was assumed that the balances could be largely offset, in part multilaterally, in part over time. In addition, an incentive structure was built into the EPU and it was expected that this would induce the member countries to adjust their policies to their balance of payments.[11] However, hopes that the EPU would stay in rough equilibrium were to be disappointed. Although in the period from 1950 to 1958 balances of approximately $20 billion (out of $47 billion in total) were offset multilaterally while $12 billion had been offset over time,[12] by 1953 it was obvious that the EPU needed to tackle extreme and persistent debtor and creditor positions and that it would be difficult to keep the EPU workable.

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In December 1949 the Economic Co-operation Administration (ECA), responsible for administering Marshall Plan aid, tabled a proposal for a European payments union.[13] It suggested establishing a clearing union within which all West European currencies would be freely transferable. In addition, the proposed union would grant credit from a fund partly financed by the Marshall Plan funds and partly by European contributions on the basis of country quotas. These quotas would determine credit obligations and dollar receipts for creditors as well as overdraft possibilities and dollar payment obligations for debtors. The resulting credit system was envisaged as partly automatic and partly

administered by a powerful ''supervisory board''. According to the ECA, the automatic credit provisions should involve some incentives to encourage national policies which would aim at correcting balance of payments disequilibria.

Before becoming a reality, the ECA plan had to overcome several hindrances and different problems had to be resolved, and this of course resulted in modification of the original proposal. The ECA proposal first had to gain the consent of other United States agencies, not all of which appreciated the desirability, let alone the necessity, of a payments mechanism equivalent to the institutionalisation of discrimination against American exports. While the ECA, supported by the Department of State, backed the plan, the United States Treasury and the American Executive Director to the International Monetary Fund (IMF) expressed their fears that this regional institution might become permanent and thereby prevent participating countries from restoring convertibility. They also argued that a European payments union would result in a serious infringement of the authority of the IMF and thus conflict with the multilateral aims hitherto pursued by the United States. In the end, the opposition to the ECA plan failed. In a meeting of the National Advisory Council on International Monetary and Financial Problems (NAC) the representative of the Department of State, William Thorp, reportedly conceded that ''he had not thought of the union as necessarily being a permanent institution''.[14] Moreover, the ECA representatives insisted that the choice was not between convertibility and payments union but between payments union and European bilateralism.[15] As a result, the NAC decided a week later not to block the negotiations, which were already under way; indeed it was stipulated *expressis verbis* that financial assistance might be given to such a payments union provided that certain conditions, such as automatic settlements, would be accepted.[16] The ECA subsequently committed itself to allot 600 million dollars to the proposed union.[17]

After this first hurdle, the next problem was to find a solution for the pound sterling. Because of its role as an international reserve currency, considerable sterling balances existed. It was obvious that some arrangement had to be made in order to protect the EPU. Therefore it was aimed ''to ensure that the rate of use of such existing accumulated balances should be very carefully controlled''.[18] The British representative, however, rejected this, stating that Britain ''could not accept any interventions between itself and the holder of the balances in regard to the way in which they would be utilised''.[19] This would, it was argued, undermine the role of sterling as an international currency.

The British tabled a counter-proposal which envisaged maintaining Britain's bilateral relationships.[20] The ECA administrator, Paul Hoffman, considered this British proposal to be ''part of a long-run policy of nationalism'' and consequently rejected it.[21] As a result, the negotiations came close to a deadlock which would be overcome only with the utmost pressure. Hoffman reportedly threatened the British Chancellor, Sir Stafford Cripps, that in the event of failure the restoration of a cordial relationship between Britain and the United States would be difficult to achieve.[22] Furthermore, the US Secretary of State, Dean Acheson, wrote to his British counterpart, Ernest Bevin, informing him that full offsetting of all bilateral surpluses and deficits was a *conditio sine qua non* for a European payments union, and proposed several safeguards for the pound sterling.[23] On the understanding that the pound sterling could be kept to a certain extent as

a reserve currency and that existing sterling balances could be used in European settlements, Britain agreed in May 1950 to participate fully in the EPU.[24]

A further point of disagreement was the extent of credits to be provided by the EPU. While the potential creditors were extremely reluctant to grant large and automatic credits, the debtors of course strove for them. At times Belgium, a major European creditor, completely rejected any article which would involve it being coerced into giving automatic credit.[25] In the summer when the amount of credit was discussed in more detail, Belgium expressed reservations on the credits question as well as on the question of whether or not it would be able to participate in the EPU,[26] but these tactics did not affect the level of credits to be provided by the EPU. The Americans took a firm stand, and even though the Europeans were ''much more reasonable than the Americans'', they did not support Belgium which thus remained completely isolated.[27] Belgium was therefore limited to having its quota – and thus its credit obligations – lowered, although it also received some direct Marshall Plan aid as compensation.[28] These provisions secured the Belgian acceptance to participate in the EPU as a probable creditor.

The last crucial question was one of management of the payments system. The United States pushed for a strong Managing Board with ''growing authority'' which would be a symbol of European integration and would be a prototype for a future European monetary authority.[29] However, most European countries – and above all Britain – were interested in automatic settlement rules which would limit the powers of the future Managing Board. The Governor of the Bank of England, Cameron Cobbold, stated very clearly that he would never agree ''that a number of young boys in Paris should be given the right to interfere in British affairs – criticise and ask for changes.''[30] The solution to this issue came about primarily by American compromise. By May 1950 a powerful Managing Board was no longer an element of a ''satisfactory EPU'' as the phrase was understood by the United States.[31] The eventual outcome was a Managing Board consisting of seven members, empowered to give recommendations by majority vote but whose influence would be circumscribed by automatic credit rules. A further limit was that the Board's functions would be exercised in accordance with the decisions of the OEEC Council where the principle of unanimity reigned.

After overcoming these difficulties and several other minor disagreements, final reservations were withdrawn and the negotiations were successfully concluded in July 1950. Although several historians have recently described the negotiations which led to the establishment of the EPU in some detail, the explanations for the positive outcome are not fully satisfactory. This is understandable, given that research into national policy-making has barely begun.[32] While for the time being one can agree with Kaplan and Schleiminger that ''the persistent search for compromise''[33] made a major contribution to this success, such an interpretation begs the question of the inspiration. What seems more crucial is that strong American pressure on certain points, willingness to modify ''less important'' points, combined with generous financial support considerably stimulated this ''search''. Marshall Plan dollars were not only allotted to the union, but were available for financial compensation in special cases, whether to back sterling balances, or to compensate for expected Belgian credits. Furthermore, it has to be said that political developments were crucial to reaching the agreement. The Cold War climate was of some importance and the outbreak of the Korean War surely accelerated the last stages of the

negotiations. Having said this, however, it should be remembered that major compromises had already been reached in the negotiations well before 25 June 1950.

* * *

The first two years of the EPU proved rather difficult. In addition to disequilibria in intra-European trade, the EPU had to cope with the repercussions of the Korean War, such as sharp price changes and the impact of rearmament. Furthermore, every member wanted to test how far it could use the EPU to pursue its own aims. Thus, in the winter of 1950-51 and again in 1951-52 the EPU found itself on the brink of collapse, first as the result of German debts, then in response to the exhaustion of the Belgian credit quota. Nonetheless, the EPU passed these tests. The member countries, who apparently felt that the EPU was too useful to be allowed to fall apart, were willing to make the necessary compromises.

After the outbreak of the Korean War a major thrust of West German policy was to secure imports.[34] Importing heavily, the FRG had developed a huge deficit by autumn 1950. Since its EPU credit quota would be soon exhausted, there was a threat that it would have to reverse trade liberalisation which would have put both the infant EPU and the OEEC's liberalisation scheme in peril. Moreover, such a policy would have disastrous effects for the FRG as well as for other European countries which depended on exporting to the German market.

As additional help from the United States was not forthcoming, the solution to this problem was largely a task for the EPU.[35] The German problem was discussed during the Managing Board's first session where, however, no agreement on the action to be taken was reached. While several members blamed German policy for being thoughtless, even reckless, others wanted to give special assistance. Finally, the Board agreed to send an expert mission to the FRG. On their return, the experts recommended a special EPU credit on the condition that credit restrictions be applied while both OEEC liberalisation and the exchange rate be maintained.[36] Initially these recommendations encountered serious reservations. Several countries, such as Denmark, Norway and the Netherlands, had doubts regarding the recommendation to maintain OEEC liberalisation which would probably make it necessary to cut back on non-liberalised imports such as agricultural goods, which were of particular importance to them.

The criticism directed towards the recommended application of credit restrictions was also a matter of principle. The Danish representative, for example, argued in the Council that ''by accepting the principle that Germany should not go back in its liberalisation measures the Council was endorsing a dangerous concept, namely that the reduction of imports could be brought about by credit restrictions'', and stressed that ''credit restrictions might well lead to unemployment''.[37] Yet, in the end these doubts were overcome and in December 1950 it was decided to extend a credit of 120 million dollars to the FRG – a demonstration of the importance of keeping the German market open and of preserving the FRG's membership in the EPU.[38] The positive effects of such a policy soon became apparent. When the FRG was finally forced to deliberalise in February 1951, exports of several European countries declined immediately and considerably.

However, since German exports rose continuously, its imports could soon be increased again and the decline of intra-European trade could be checked.[39]

The EPU's second crisis was sparked off by Belgian surpluses, yet should be viewed in the wider context of the future and nature of the EPU. In August 1951, the Belgian-Luxembourg Economic Union (BLEU) had exceeded its creditor quota of 331 million dollars, which raised the question of how to settle further Belgian surpluses. More generally, it raised the issue of what policy to apply toward European extreme creditors who continued to have a dollar deficit and were thus interested in earning gold via the EPU. This was a problem which had not been dealt with in depth during the setting up of the EPU and for which the agreement therefore made no provision.

According to the BLEU, all surpluses beyond quotas should be settled 100 per cent in gold or dollars. This demand encountered fierce opposition from other EPU participants, and here especially from the debtors who favoured a settlement of 50 per cent credit to 50 per cent gold. The debtors – especially the UK, the Scandinavian countries and the Netherlands (France and Italy at times supporting the BLEU)[40] – argued that fulfilling Belgian demands would be both impossible and undesirable. They pointed firstly to the EPU's reserves which were running dangerously low[41] and argued that a higher gold ratio for surpluses beyond quota would put the EPU, which had proved so useful and which should be preserved, in peril. This opinion was also shared by the Managing Board, which concluded in a special investigation that the EPU would not even be able to firmly commit itself to pay 50 per cent gold for all surpluses beyond quota.[42] While no permanent dollar inflow was secured – and here another major American contribution was hoped for[43] – every firm commitment had to be avoided and only *ad hoc* solutions could be provided. Secondly, the settlement of surpluses beyond quota was a matter of principle to the debtors. They argued that a higher gold ratio would change the character of the EPU by allowing the creditors to earn dollars by exporting to Europe, thereby reducing incentive to reach equilibrium inside the EPU. They concluded that apart from being impossible, it was simply ''not admissible to finance in a permanent way their (the European creditors') dollar deficits through surpluses in Europe''.[44] It was therefore decided to settle only parts of the Belgian surpluses beyond quota at a gold/credit ratio of 50 to 50. Furthermore, the Managing Board recommended that the BLEU expand internal demand and thus encourage imports from other European countries.

Since this ruling did not satisfy the Belgians, in March 1952 they threatened to withdraw and stated ''in the most formal terms'' that they would refuse to renew their financial commitments of summer 1950 unless the EPU's statute was amended.[45] Further negotiations were conducted. These were very difficult and at points a general atmosphere of profound resignation prevailed. Inside the OEEC Trade and Finance Directorate, for example, it was doubted whether a solution would be possible at all. Some argued that a Belgian withdrawal would occur anyway, if not in 1952, then a year later.[46] In the end, however, this was avoided by means of a ''variety of Byzantine provisions''[47] and Belgium withdrew its reservation at the very last moment, allowing the EPU to be renewed for another year.

Belgium's willingness to compromise is still, as Milward has pointed out, an ''unexplained problem''. It is obvious that Belgium's room for manœuvre was quite limited

since its major trade partners were EPU members and more than 60 per cent of its exports went to this area.[48] Consequently, Milward has suggested that ''the threat to withdraw was, probably, no more than a bargaining position designed to ensure the repayment in hard currency of part of the accumulated surpluses with the Union''.[49] This sounds convincing, but before being able to clarify this point completely, further research into the Belgian decision-making process has to be conducted. However, it may be noted here that other EPU creditors often issued ultimatums for harder settlement terms, but, faced with the possibility that the EPU might break up, they too eventually compromised.[50]

* * *

Although it was explicitly stipulated in the EPU agreement that it would only be a transitory institution intended to lead European currencies towards convertibility, during its first two years it was almost impossible to deal with this question. A solution of the dollar problem was understood as being out of reach; according to J. Flint Cahan of the OEEC Trade and Finance Directorate, convertibility was an ''ideal'', which remained ''unlikely... in the near future''.[51] This was an opinion shared by the Managing Board. In contrast to the opinion of an advisory group of economists appointed by the OEEC Council, the Board maintained that it did ''not regard the restoration of convertibility (...) as a measure which [would] immediately and magically cure all the ills from which their economies [were then]suffering''. However, at the same time the Managing Board hoped ''that it [had] not erred on the side of making it appear that the attainment of convertibility must for many countries remain for a long time an unattainable objective''.[52]

The Managing Board later refined this preliminary and ambiguous position, because Britain pushed the subject of convertibility onto the agenda. At first in secret, but later more openly, British policy-makers considered a plan according to which Britain would declare convertibility of sterling into dollars, adopt flexible exchange rates and leave the EPU.[53] Secondly, as the economic situation improved, the European payments situation eased: the period 1952-55 saw production and productivity increasing, European trade expanding and, above all, the dollar gap shrinking as European reserves grew. This made it possible for thoughts to turn to convertibility. Finally, the EPU's creditors pushed more and more for convertibility – or more precisely for higher gold payments for their surpluses. In Germany, for example, as early as spring 1952, Ludwig Erhard, the neo-liberal German Minister for Economic Affairs, started a vigorous campaign in favour of convertibility. With the German credit quota near exhaustion, backed by ever growing surpluses and disappointed by the OEEC's liberalisation policy which only seemed to work as a kind of pendulum, he argued against foreign exchange controls in general and particularly against retaining the EPU.[54] Although Erhard's line was not fully supported within Germany – indeed it was at times fiercely rejected[55] – in September 1952 his Ministry directed the German delegation to press the issue of convertibility.[56]

In the subsequent discussions, two opposing approaches to the problem of convertibility developed inside the EPU. First, the so-called ''Collective Approach'', advanced and advocated by Britain which pushed for a declaration that the pound sterling be convertible for non-residents, after which declaration Britain would leave the Union.

Since the loss of the Sterling Area would make the EPU's clearing mechanism much less attractive, other EPU members objected. Instead, the Continental members of the EPU – above all the creditors – developed and favoured an ''Institutional Approach'', according to which the EPU would be gradually hardened by augmenting the gold/credit ratio or by repaying debts. However, this alternative was neither acceptable to Britain nor to other debtors. The British, even more than the Scandinavian representatives, opposed hardening, primarily on two grounds. First, they argued that hardening would probably lead to setbacks in liberalisation, a point which could to a certain extent be rebutted by reference to the growing European reserves. The second argument was more difficult to tackle: as in the Belgian case, the debtors argued that a hardening would cause a fundamental change in the character of the EPU. Reduced pressure to reach equilibrium inside the EPU would mean, they feared, that persistent and extreme surpluses would never be reduced.[57] In 1953 this was an increasingly important problem as other countries besides Belgium (Germany, Switzerland and the Netherlands) had exceeded their quotas.

The quarrels over this issue lasted for more than a year without reaching a conclusion: while the creditors did not abate their pressure, Britain maintained that it would not accept any scheme which was likely to cost it money. With no solution at hand, Cahan feared a collapse of the EPU realising that ''Members of the Board [were] talking much more glibly than they [had] ever done in the past about the liquidation of the Union''.[58]

In spring of 1954 the deadlock was broken: Britain offered its European creditors a debt consolidation scheme. After lengthy and complicated negotiations, several bilateral agreements on debt repayments were concluded in summer of 1954. Furthermore, the EPU itself transferred 130 million dollars out of its ever growing assets to the creditors. Finally, the gold/credit ratio (initially 40 per cent gold to 60 per cent credit) was slightly augmented to 50:50, the EPU's incentive system was abolished, the quotas were raised and the EPU was renewed for another year. After this slight but virtually meaningless hardening (understood by some as a softening)[59] discussions on convertibility were resumed. However, since it was now taken for granted that a move towards convertibility would take place at the latest in 1955, hardening was no longer seen as **the** way to convertibility. Instead, stress was now placed on the period after the restoration of convertibility. A Ministerial Examination Group was set up to study trade arrangements as well as a European assistance fund. These negotiations concluded in summer 1955 with the signature of the European Monetary Agreement (EMA) which provided for a European Fund and a compensation mechanism after the EPU's dissolution. However, convertibility was not declared nor the EPU dissolved. The British, the main initiator, had postponed a move towards convertibility in September 1954, while other EPU members preferred retaining it. Thus, parallel to the negotiations for the EMA, the EPU was renewed and on this occasion the gold/credit ratio was hardened to 75:25 and the quotas were raised adequately.

Often this hardening has been ascribed to the flexibility and ability to compromise of the EPU, its continuity of membership and strong sense of collegiality.[60] Although such an interpretation may be partially true it remains unconvincing and tends to obscure other explanations. In the first place, it has to be stressed that Europe's economic performance was satisfactory in the mid-1950s. One important symbol of this was the ever growing monetary reserves,[61] which considerably improved the chances for compromise.

Several reasons combined to allow this growth. First, sufficient dollars were made available by the United States. American military aid and foreign assistance to Europe was diminishing but was still given in various forms and amounts.[62] Furthermore, American military aid went to areas outside Europe, making it possible for European countries to earn dollars from trade with them.[63] In this sense it can be stated that the EPU's functioning and in particular the possibilities for compromises over settlement terms depended on American foreign economic policy.

A second cause for the growth of the reserves was the European pattern of trade. Together with the state of the Union these two aspects indicate the *necessity* of compromise. With the creation of the EPU, intra-European trade had been facilitated and this had made it possible to save dollars. In addition, production, capacity, productivity and competitiveness had increased within Europe, further decreasing the demand for dollar goods. Instead of the dollar, other currencies, especially the deutschmark, were in demand. However, by the beginning of 1954 the credits inside the EPU had been almost exhausted and, according to the British representative, the Union was ''grinding to a standstill''.[64] Again and again the Danish example was cited: the 196 million dollars of credits theoretically available to the debtors seriously overestimated the amount which might be used; Denmark could not afford to lose the amount of gold which it would have to pay to the Union in order to receive the credit which it had the formal right to draw.[65] If the EPU were to survive, and if serious setbacks in European trade liberalisation were to be avoided, some solution had to be found to provide additional credit.

In spring 1954, at the peak of the struggle on hardening, the FRG pressed for harder conditions. Otmar Emminger, the German central banker responsible for international monetary affairs, acknowledged in a conversation with Cahan that the FRG could not yet survive without the EPU, but he threatened that the FRG ''will start actively to seek another solution which might entail their withdrawal''.[66] This option had not yet been put to the German Cabinet, where it probably would have encountered considerable difficulties for both political and economic reasons.[67] However, it must be noted that support for the tactic of threatening to go convertible if hardening was not achieved had grown considerably,[68] and this tactic was applied with apparent success. Concerns of a German declaration of convertibility and a withdrawal from the EPU grew. British Treasury officials warned in spring 1954: ''We should, I think, now take serious notice of the publicity activities of Dr. Erhard in connection with convertibility''.[69]

Given this situation it was abundantly clear by 1954 that something had to be offered to the creditors and above all to the Germans. With the aim of obtaining both a German good creditor policy and additional EPU credits, Britain offered a debt consolidation scheme.[70] Other countries, being themselves heavy debtors and interested in new credit, followed suit.[71] After difficult negotiations – and above all after overcoming the fears that Britain had offered consolidation only to free itself from a burden, preparing a declaration of convertibility without any regard for the European partners[72] – several bilateral repayment agreements were concluded. In summer 1954 it was agreed that debts of 858 million dollars would be amortised over the following years and that the EPU would be renewed while the creditors accepted new credit obligations of almost one billion dollars.

When the renewal of the EPU was again on the agenda from autumn 1954 onwards the situation was similar to that when the EPU's first hardening was negotiated. As the post-convertibility period negotiations were conducted, strong pressure to harden the EPU to a gold/credit ratio of at least 75 per cent to 25 per cent – or even 100 per cent gold – built up. This proposal, however, encountered some opposition. Cahan maintained that ''the countries which would be most affected adversely by this proposal are those which should be allowed to increase their own gold holdings if possible.'' Above all, he could not see ''why, at this stage on the road to convertibility, we should help to increase the gold reserves of a few permanent creditors, who are already in a very comfortable position, at the expense of certain weaker countries whose ability to adopt convertibility during the next two years must, in any case, be doubtful''.[73]

However, this was not the only position which existed inside the OEEC. Another school of thought maintained that the EPU was at this point already near death. Harry Lintott, Deputy Secretary General of the OEEC, pointed out in October 1954:

> I quite agree with your feeling that the attainment of convertibility is less certain than we thought a few months ago. But if it does not come about within the next couple of years, it will not, I think, be as the result of any decision not to have convertibility but it will take the form of further postponements on one pretext or another. Our problem will be to renew the EPU from year to year, and while I am sure that there are some modifications that could well be made (...), I do not think that the situation will be one in which any profound improvements of the system would be practical politics. If we do not have convertibility we shall be living in a provisional world for some years to come. *Il n'y a que le provisoire qui dure.* (It is only the provisional that lasts).[74]

Apparently, the Managing Board largely shared Lintott's analysis. This would suggest that his opposition to hardening was rather weak. All the Members of the Board, except the Scandinavian representative, favoured hardening – even debtors such as Italy reportedly supported this policy.[75] This Italian attitude seems peculiar especially if one remembers that only some months before, in summer 1954, the Italian Government had strongly opposed convertibility and had urged the retention of the EPU. A likely explanation for this change of heart is that for the Italians the main motive for trying to maintain the EPU had been that a better substitute for the EPU simply did not exist.[76]

By the end of 1954, however, the situation had changed and a European Fund was in reach, provided that something would be offered to the creditors. Since Germany and the other creditors displayed little sympathy for the new credit provisions, it was surely not bad advice to show some willingness to compromise on hardening the EPU, if such a hardening – as was indeed usually requested – was ''accompanied by a fairly generous policy of granting non-automatic credits''[77] – above all if the EPU was understood to be nearly dead anyway. Moreover, since Britain did not object to a hardening to 75 per cent (it had decided in February 1955 to support transferable sterling in the markets and this made it possible to draw sterling via the EPU and convert it at a small discount into dollars in the transferable sterling market) this modification of the EPU did not encounter major difficulties. In this way the European soft currency bloc could be adapted yet again

to the wishes and needs of its creditors and thereby be preserved for some years to come. As we have seen, this implied merely a limited endorsement of the EPU.

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This short overview of the EPU and its history demonstrates that a soft currency bloc contributed greatly to Western Europe's postwar reconstruction. By allowing the growth of regional trade, it contributed to the closing of the dollar gap. However, during its history the EPU also experienced formidable problems. It was not at all easy to establish the EPU and the project's main sponsor, the United States Government, overcame major objections only by employing considerable pressure, and by providing additional backing and incentives. Moreover, the EPU went through several difficult periods. What helped to overcome these was the fact that the EPU proved to be very useful to its members as it not only provided credits for importing but in this way also allowed its members to export.

Still, although the EPU had amply proved its usefulness, from 1952 onwards its continued existence was in question: the EPU's creditors were discontented with its soft terms and wanted to harden it; Britain, on the other hand, pushed for convertibility for the sterling and wanted to leave the EPU. These two diverging positions would be reconciled only after thorough discussions and fierce struggles. The reasons for this successful reconciliation lay in the fact that some room for compromise existed: the payments situation had eased and European reserves had grown. In addition, European credits were more important than ever while the EPU was close to a ''standstill''. Since this situation had to be avoided, an agreement was reached by summer 1954: the EPU was renewed and slightly hardened while considerable parts of the debts were to be amortised against the provision of new credits. In addition, a declaration of convertibility was expected to occur in the not too distant future.

Since such a declaration did not in fact occur, the EPU was again renewed and re-hardened in summer 1955. The reasons for this were at once similar to and very different from the negotiations preceding the first hardening. It was similar in that the creditors' willingness to provide further credit was an important issue also on this occasion; it was different in that it was not the EPU but the EMA which was the more important aspect. Since it was taken for granted that there would be a move towards convertibility, if not in 1955 then in subsequent years, the design of a system to manage convertible currencies was of paramount importance.

NOTES

1. Abbreviations used in the notes:
   B 102 Bundeswirtschaftsministerium (see BA)
   BA Bundesarchiv, Koblenz
   BBK Historisches Archiv der Deutschen Bundesbank, Frankfurt
   BoE Archives of the Bank of England, London
   FO Foreign Office (see PRO)
   HAEC Historical Archives of the European Communities, Florence
   LSE Archives of the London Schools of Economic and Political Sciences
   NARA National Archives and Records Administration, Washington
   OV Overseas Division (see BoE)
   PRO Public Record Office, Kew
   T Treasury (see PRO).
2. Despite their differing interpretations of the EPU experience, both J.J. Kaplan and G. Schleiminger and A.S. Milward stress the importance and positive balance of the EPU. Also H. Travers reached this conclusion when he worked on a history of the EPU. See J.J. Kaplan and G. Schleiminger, *The European Payments Union*, Oxford, 1989, and A.S. Milward, *The Reconstruction of Western Europe*, London, 1987 and *The European Rescue of the Nation-State*, London, 1992. Since the work of H. Travers was never published only some drafts are available in HAEC, OEEC Archives, 27/2.
3. For an example, see the Commerzbank advertisement in *The Economist,* 20 February 1993, 60.
4. For details see Milward, *Reconstruction of Western Europe*, 256 ff.
5. Milward, *European Rescue of the Nation-State*, 348 and Kaplan and Schleiminger, *European Payments Union*, 24.
6. In June 1955 monetary reserves of OEEC members came to $13.4 billion compared to $7.83 billion at the lowest point in June 1952. Intra-European trade had risen from $9 755 million in 1950 to $17 073 million in 1955. See OEEC, *Economic Expansion and its Problems*, Seventh Annual Report, Paris, 1956.
7. This expression is borrowed from the title of the OEEC's Sixth Annual Report, see OEEC, *From Recovery to Strength*, Paris, 1955.
8. The EPU foresaw that 60 per cent of the country quotas would be available as automatic credit. The sum of all quotas was $3 950 million. That meant that the normal, automatic credit available to European debtors via the EPU was $2 370 million. This led Milward to stress that EPU was a payments system extremely favourable to debtors; see A.S. Milward, ''The Pound Sterling, the Franc and the Deutschmark 1950-55'', Paper presented to the Conference *Du Franc Poincaré à l'ECU*, Paris, 3-4 December 1992.
9. For more details on trade questions see the overview by Wendy Asbeek-Brusse in this volume.

10. Milward, *European Rescue of the Nation-State*, 139.
11. The EPU's incentive system worked mainly in the way that the higher the cumulative deficit was, the higher was the percentage of gold to be paid. The quota was divided into 5 tranches. In the first tranche the debtor received 100 per cent credit. In the second tranche 80 per cent of the deficit was covered by a EPU credit and the remaining 20 per cent had to be paid in gold. In the third tranche the ratio was 40 gold to 60 credit. In the fourth tranche the ratio was 60 gold to 40 credit. The overall ratio was thus 40 to 60. On the creditor's side this incentive system was less strong. In the first tranche the creditor was obliged to settle its surplus 100 per cent in credit. In the second to fifth tranche the ratio was 50 to 50, thus establishing an overall ratio of 40 gold and 60 credit.
12. EPU, *Final Report*, Paris, 1959, 38.
13. HAEC, OEEC Archives, 33/26, ECA, *Trade and Payments Arrangements*, TFD/DL/1950-1, 10 December 1949.
14. *Foreign Relations of the United States* (FRUS), 1950, Vol. I, NAC, Minutes of Meeting No. 146, 19 January 1950.
15. Kaplan and Schleiminger, *European Payments Union*, 43.
16. *FRUS*, 1950, Vol. I, NAC, Minutes of Meeting No. 147, 23 January 1950.
17. HAEC, OEEC Archives, 34/29, ECA Washington to Office of the Special Representative (OSR) Paris, TOREP 3702, 4 May 1950.
18. HAEC, OEEC Archives, 33/26, Council, *Progress Report on Payments Arrangements*, C(50)1, 4 January 1950.
19. HAEC, OEEC Archives, 33/26, 83rd Council meeting, 12 January 1950.
20. HAEC, OEEC Archives, 34/30, *Amended UK Proposal*, 20 March 1950.
21. HAEC, OEEC Archives, 34/29, Hoffman to American Embassy Paris, 4 April 1950.
22. HAEC, OEEC Archives, 34/29, Travers, Notes on March 1950 Hoffman-Cripps Correspondence.
23. *FRUS*, 1950 Vol. 3, Secretary of State to British Secretary of State for Foreign Affairs, 11 May 1950.
24. HAEC, OEEC Archives, 34/30, *Intra-European Payments Committee, Minutes of 108th Meeting on 23 May 1950*, PC/M(50)9, 26 May 1950.
25. *FRUS*, 1950 Vol. 3, Hoffman to Embassy in Belgium, 1 May 1950. For more details see the article by Erik Bloemen in this volume and S.S. Peters-Godts, *La politique européenne du gouvernement belge, septembre 1944-mai 1950*. Ph.D, European University Institute, Florence, 1987.
26. HAEC, OEEC Archives, 34/31, *Intra-European Payments Committee, Minutes of 113th Meeting on 14 June 1950*, PC/M(50)14, 20 June 1950.
27. HAEC, OEEC Archives, 35/33, Ansiaux to Frère, 13 June 1950.
28. For more details see Kaplan and Schleiminger, *European Payments Union,* 79 ff.
29. HAEC, OEEC Archives, 34/29, Hoffman to American Embassy Paris, 4 April 1950 and see also ECA Washington, *Proposal for the Establishment of a European Monetary Authority*, 5 December 1949.
30. LSE, Diary of Per Jacobsson, Vol. X, Diary 81, Note on a Conversation with Cameron Cobbold, 22 March 1950.

31. *FRUS*, 1950, Vol. 3, Secretary of State to the British Secretary of State for Foreign Affairs, 11 May 1950.

32. For the UK see J. Fforde, *The Bank of England and Public Policy*, Cambridge, 1992 and S. Dore, ''Britain and the European Payments Union'', in J. Gillingham and F. Heller, eds., *The United States and the Integration of Europe*. Forthcoming. For Benelux see also E.S.A. Bloemen, ''Harde Franken, Zachte Guldens en de Oprichting van de Europese Betalingsunie (1950)'', in E.S.A. Bloemen (ed.), *Het Benelux-Effect*, Amsterdam, 1992.

33. Kaplan and Schleiminger, *European Payments Union*, 87.

34. See: Ludwig-Erhard-Stiftung (ed.), *Die Korea-Krise als ordnungspolitische Herausforderung der deutschen Wirtschaftspolitik*, Texte und Dokumente, Stuttgart, 1986, Erhard to Vocke, 2 August 1950; BBK, 2015, Blücher to Vocke, 2.2.1951; *Kabinettsprotokolle der Bundesregierung*, Vol. 3 (1950), Boppard, 1986, Kabinettssitzung, 5 September 1950.

35. NARA, ECA: Office of the Deputy Director for Operations: Office of European Operations, German Division: Subject Files 1948-53, Box 10: ECA to Embassy Paris, 1 November 1950. However, it was accepted that ''boldness of thinking'' had to be stimulated by the United States. I would like to thank S. Dore for providing me with this document.

36. HAEC, OEEC Archives, 36/41, EPU, *The Position of Germany*, MBC(50)14 (1st Revision), 5 November 1950.

37. HAEC OEEC 35/37: 113th Council meeting, 14 November 1950.

38. Political developments also should be taken into consideration, such as the Schuman proposal for a European Community for Coal and Steel (ECSC) in which the Germans were to take part.

39. Dutch and Danish exports to the FRG declined from $41.56 million in the fourth quarter of 1950 to $32.54 million and $19.38 million in the first and second quarter of 1951 respectively. In the third quarter they rose again to $33.89 million. All according to OEEC, *Statistical Bulletins of Foreign Trade*, quoted in Milward, *Reconstruction of Western Europe*, 433.

40. HAEC, OEEC Archives, 39/54, Figgures, *An Extreme Creditor*, TFD/DI-263, 10 September 1951.

41. In October 1951 the EPU's reserves had reached the level of $180 million.

42. See HAEC, OEEC Archives, 39/54, *Draft Summary of the Tentative Conclusions of the Managing Board and Draft Proposal for an Interim Solution of the Belgian Problem*, TFD/DI-310, 4 October 1951 and EPU, *Gold payments to creditor countries which have exceeded their quota,* MBC(51)86, 17 September 1951.

43. Several solutions were offered, including enlarging the EPU to include the United States and Canada. See HAEC, OEEC Archives, 38/50, *Note* (Cahan) TFD/DI-292, 25 September 1951.

44. HAEC, OEEC Archives, 38/50, Carli to Cahan, January 1952.

45. HAEC, OEEC Archives, 39/34, *Belgian Government, Statement*, 26 March 1952.

46. HAEC, OEEC Archives, 39/54, Cahan to Marjolin, TFD/239/JFC/vr, 19 May 1952.

47. Kaplan and Schleiminger, *European Payments Union*, 144.

48. United Nations, *Yearbook of Trade Statistics*, 1951, 41.

49. A.S. Milward, ''Belgium and Western European Interdependence in the 1950s: some unexplained problems'', in M. Dumoulin, ed., *La Belgique et les débuts de la construction Européenne*, Louvain-la-Neuve, 1987, 148.

50. Another example is the FRG. For more details see M. Dickhaus, ''German attitudes towards the Postwar Payments System'', in Gillingham/Heller, (eds.) *United States and the Integration of Europe*.
51. HAEC, OEEC Archives, 42/64, Cahan to Marjolin, *Convertibility and How to Get it*, TFD-232, 17 May 1952.
52. HAEC, OEEC Archives 42/64, *Management Board, Preliminary Report to the Council on Convertibility (Draft prepared by the Secretariat)*, TFD/DL-439, 25 August 1952 and *Managing Board of EPU, Draft Report to the Council on Problems connected with the Re-establishment of the General Convertibility of European Currencies*, MBC(52)65 (1st Revision), 30 October 1952.
53. At the beginning of 1952 British policy-makers discussed a secret plan for convertibility code-named ROBOT. After its rejection by cabinet, a new plan, the so-called Collective Approach, surfaced. This was discussed already in autumn 1952 and presented to the OEEC in March 1953. For more details see A. Cairncross, *Years of Recovery, British Economic Policy 1945-51*, London, 1985; Fforde, *Bank of England*, 426 ff.; S. Newton, *Operation ROBOT and the Political Economy of Sterling Convertibility 1951-52*, EUI Working Paper, Florence, 1986.
54. For some vigorous quotations see for example his speech from February 1953, published in L. Erhard, ''Die wirtschaftlichen Aspekte'', in *Integration des europäischen Westens*, Zürich, 1954.
55. See as one example BBK 3322, von Mangoldt to Bernard, 24 July 1952. For further documentation see Dickhaus, ''German attitudes''.
56. BA, B 102/6428, Albrecht to German delegation to the OEEC, 1 September 1952.
57. As one example see HAEC, OEEC Archives, 42/64, Meeting of Council, 23 June 1953.
58. HAEC, OEEC Archives, 43/68, Cahan to Colonna, 19 January 1954.
59. The proposal of debt consolidation was initially opposed in the FRG by part of the Ministry for Economic Co-operation and by Erhard because according to them new credit obligations would mean a softening. See, for example, BA B 102/56905, *Vermerk zur Reform der EPU*, 12 February 1954.
60. Kaplan and Schleiminger, *European Payments Union*, 203, 226, 331.
61. For the state of reserves see note 6.
62. Military grants to Europe (not including Turkey and Greece) were still $2 028 million in 1954 and $1 362 million in 1955. See *Survey of Current Business*, 4/1955, 10 and 4/1956, 12. Furthermore, dollar receipts from American troops played an important role, mainly for the FRG but also for other countries like Iceland. See S. Duke, *United States Military Forces and Installations in Europe*, Oxford, 1989. Also off-shore procurements were important; see L. Sebesta, *L'Europa indifesa*, Florence, 1991, 172 ff. For a general overview see F.L. Block, *The Origins of International Economic Disorder*, Berkeley, 1977, 109 ff.
63. For a short overview showing the way in which European countries earned their dollars in the mid-1950s, see C. Buchheim, *Die Wiedereingliederung Westdeutschlands in die Weltwirtschaft 1945-58*, München, 1990, 144 ff.
64. HAEC, OEEC Archives 43/68, *British Delegate, Statement to the Council*, CES/296, 2 April 1954.
65. HAEC, OEEC Archives, 43/68, Cahan to Marjolin, 9 March 1954.
66. HAEC, OEEC Archives, 43/68, *Conversation with Dr. Emminger*, Cahan, 11 February 1954.

67. It has to be considered that at the same time in France the ratification process for the European Defence Community (EDC) had reached a precarious stage and that a German withdrawal from the EPU would surely not have promoted a French ratification. Furthermore, the German Ministry for Agriculture did not particularly favour convertibility.
68. Even the German Central Bank – usually a stern advocate of EPU – now took this position. See BBK, 1313, Vocke to Blücher, 12 March 1954.
69. PRO, T 232/3821, Note to Playfair, 19 May 1954. In autumn 1953 British Treasury officials discounted the rumours about an Erhard plan to declare convertibility. See PRO, T 236/3519, Note to Brittain, 13 October 1953.
70. PRO, T 232/362, *Note*, Rowan, 27 March 1954.
71. In January 1954, Italy, for example, had even preceded Britain in offering a debt consolidation scheme to the FRG and Switzerland.
72. According to the British delegation and to Cobbold this was the explanation for the German reluctance. See PRO, FO 371/111199, *Record of a Discussion with the German Delegation*, 21 April 1954 and BoE, OV 47/17, Cobbold, *EPU Repayment, Basle Conversations*, 27 April 1954.
73. HAEC, OEEC Archives, 45/76, Cahan to von Minden, 5 February 1955.
74. HAEC, OEEC Archives, 45/78, Lintott to Cahan, 19 October 1954.
75. HAEC, OEEC Archives, 45/65, Cahan to Lintott, TFD/95, 16 February 1955.
76. Research into Italian decision-making on the EPU is not very advanced and their motivations remain unclear. However, since the contents of the Italian Memorandum to the OEEC of summer 1954 are known, an analysis of this document would reveal both why they advocated continuing the EPU and why this line was abandoned shortly afterwards. The memorandum makes the point that retaining the EPU was necessary since ''a better substitute for the EPU simply does not exist''. A translation of the Memorandum can be found in BBK, 3380, *Italienische Regierung, Memorandum*, undated (June/July 1954).
77. HAEC, OEEC Archives, 45/65, Cahan to Lintott, 16 February 1955. See also 45/75, EPU, *Summary of the Discussion on the Continuation of the Union, the Establishment of a European Fund and the Transition from the Union to the Fund on 21-26 March 1955*, TFD/PC/100, 13 April 1955.

Chapter XV

A CREDITOR'S DREAMS AND NIGHTMARES: BENELUX AND THE FOUNDATION OF THE EUROPEAN PAYMENTS UNION[1]

Erik Bloemen

The most celebrated moment in the history of Benelux took place in 1947. At the Conference for European Economic Co-operation in Paris, the Belgian, Dutch and Luxemburg governments were represented by a joint delegation. Claiming that, as such, it represented one of the major powers, the delegation managed to strongly influence the outcomes of the conference. Almost from the start, the negotiations could be characterised as a ''conférence à trois'', with the Dutch leader of the delegation H.M. (Max) Hirschfeld successfully opposing a French/British *duumvirate*.

This is at least the picture that emerges from the older Dutch historiography.[2] In recent archivally based studies on the Marshall Plan (for example Michael Hogan's book)[3] the role attributed to Benelux is a much more modest one, but it is still substantial enough to refrain from an attempt to debunk the old myth. Besides, it is true that the Dutch, playing the Benelux card as a proof of their willingness to liberalise and integrate, received an impressive share of the Marshall aid. Instead, it is more useful to point out that this small episode is generally considered to be the pinnacle of Benelux co-operation. The following years would prove that the establishment of completely free trade between the three countries was much more difficult than the founding fathers of Benelux, the governments in exile in London during the war, had realised. The general economic reasons behind this will be explained in the next paragraph. On the other hand, however, one should not forget that the three countries also had many interests in common and it is this combination of conflicting and common interests which makes the Paris conference and its aftermath so interesting. The main demand of the Benelux delegation in Paris had been that liberalisation of trade would be coupled with a liberalisation of payments. This is exactly what happened in 1950 with the foundation of the European Payments Union – without implying that the first contention led necessarily to the second one. In the meantime, the negotiations from which stemmed the EPU required skill in rope-dancing from the Benelux partners, who were trying to keep their own interests in balance with

their other obligations, a task which proved almost too great for their strength. That will be the main theme of this article.

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When the three governments in exile in London concluded the Benelux treaties, they were pessimistic about many issues (such as the prospects for small states in a postwar world), but not about the feasibility of an economic union between their respective countries. The generally accepted idea was that the economies of the Netherlands and of the Belgian-Luxemburg economic union – the latter two countries had already founded an economic union between themselves in 1921 – were complementary to a high extent. While the Northern part of the Low Countries was a main exporter of agricultural products and also earned its money in invisible trade, the Southern part was very dependent on the export of industrial products. This had indeed been the case before the war but, as often happens, the prophets were predicting the past. After the liberation, the Dutch embarked on an industrialisation scheme and the Belgian farmers successfully demanded protection for their non-competitive agricultural products. The assumed complementarity of the two economies, which had indeed existed before the war (although to a lesser extent than the governments thought) now dwindled rapidly.[4]

Another problem which arose while the governments tried to constitute an economic union was one which clearly had its roots in the past but became more acute with postwar developments. Traditionally, the Netherlands had had a large trade deficit with Belgium. Before the war this had not been a problem because the Dutch were able to compensate this deficit with a surplus elsewhere, Germany being the most important source of foreign currency. After 1945 this mechanism ceased to function. The German market had disappeared and other countries could not compensate the loss, because the export products the Dutch had on offer, mainly luxury agricultural products such as fresh salad and tomatoes, did not rank high on the priority lists. The uprisings in and later the loss of the Dutch East Indies, another moneymaker, worsened the situation.

On the other hand, imports from Belgium were bound to rise. Germany had not only been the most important export market but also a major supplier of investment goods. Imports from the United States had to be curtailed because of the dollar shortage. Belgium was the only alternative for two reasons. Firstly, Belgium was able to deliver. Its industry was less damaged during the war than that in most other countries (such as Denmark), and the country was liberated six months earlier than the main part of the Netherlands. Secondly, Belgium had been willing to concede huge credits to the Dutch, a friendly gesture not only to its neighbours but also to its own producers. Generous as these credits were, they were not intended as gifts and given the insatiable Dutch hunger for investment goods, the limits of the Belgian generosity were soon reached. The only way out seemed to be a restoration of the old mechanism in which the Dutch earned their currencies elsewhere to pay off their debts in Belgium. It is therefore easy to understand that the main demands the joint Benelux delegation put forward in the OEEC meeting in Paris were the liberalisation of payments and the return of Germany to the international market. What cannot be comprehended from this general survey is an incident which took

place in the middle of the final negotiations on the founding of the EPU, in mid-June 1950. The Belgian delegation was so angry with its Dutch counterpart and showed its fury so openly that the Dutch minister of foreign affairs, Dirk Stikker, who chaired the meeting, felt himself compelled to warn his Belgian colleague, Paul van Zeeland, that he was ''killing'' Benelux. Van Zeeland riposted that right at this moment he expected some help from his friends, taking into account all that had happened in the past, and that if he did not get it, he would draw his conclusions. Benelux itself seemed to be at stake at the very moment that one of its most cherished wishes, a liberalisation of payments, was about to be fullfilled.[5]

After George Marshall's Harvard lecture, financial experts from the Benelux countries came together to draft a memorandum. Their proposal was to tie together the existing bilateral arrangements in order to reach a multilateralisation of payments in Western Europe, and to ask the United States to support this with a dollar fund. This would stimulate trade and it would allow the creditors (*i.e.* Belgium) to earn dollars in intra-European trade. The timing of this proposal was, however, rather unfortunate. Great Britain was just recovering from its unhappy experience with dollar convertibility and nobody could blame the British for opposing other experiments. The only result from this first initiative was a monetary agreement between the Benelux countries, France and Italy which only made provision for a limited amount of automatic clearing.

During the next few years, things slowly but steadily moved Belgium's way. In 1948 Marshall dollars were infused into the (still mostly) bilateral European payments system, but the Belgians were dissatisfied with the fact that the Americans would not allow them to earn more dollars than the amount of their trade deficit with the United States, while their trade surplus in Europe was about twice as much. The other half they had to finance themselves but, still, it was an improvement and the arrangement of 1949 would be even better. Then Belgium *was* allowed, at least to a certain extent, to earn more dollars than its trade deficit with the United States, and yet again it was not satisfied.

At first sight, this may seem to be very unthankful but one has to realise that there were sound monetary motives behind Belgian objections. Even after the treaty of 1949 the accumulation of credits would continue because the Americans had set a limit on the amount of conditional aid. This meant a further expansion of the quantity of Belgian francs which was not counterbalanced by growing production, and the Belgian economy was already vulnerable to inflation since the government had raised wages and improved social security in 1945 out of fear of social unrest. In order to keep inflation down, the Belgian government and the President of the National Bank of Belgium, Maurice Frère, had to raise interest rates and restrict credits in their own country, with the unhappy result that the modernisation of Belgian industry stagnated at a moment when all the other governments were concentrating on improving the productivity of their own industry.[6]

Luckily for the Belgians, the Americans were even less satisfied with the results, and from the end of 1949 they started to put strong pressure on the Europeans to liberalise further. The small committee of experts which in January 1950 drafted a proposal for what from then on was called a European Payments Union was chaired by Hubert Ansiaux, second man in the Bank of Belgium, and this showed in its report. The memorandum was much harsher on debtors than the Americans had suggested. Some

room for credits was left, however, much to the annoyance of Ansiaux's superior, Frère. The British, who preferred a much ''softer'' system, commented: ''The main people who are stirring up the trouble are, as usual, the Belgians. They seem to think that they will be allowed to take our place as exporters to, for example, India and earn dollars in the process''.[7]

We can let the British fear speak for itself and let the Dutch enter the story at this point, because the reaction of M.W. (Max) Holtrop, President of the National Bank of the Netherlands, noted on his memorandum for the Dutch government, may be considered typical of the Dutch stance during these negotiations.[8] Holtrop carefully examined the pros and cons for the Dutch balance of payments. The crucial question for him was whether Holland was more likely to become a creditor or a debtor in a European pool. Although the last months of 1949 had shown a surplus (the result of a liberalisation of imports by West Germany from Holland, imposed by the Americans out of the blue in November), he expected a deficit in the short term and a ''turn around'' later. The analysis in this paper may be impeccable from an economist's point of view, but the conclusions that followed this estimate have a flavour of opportunism. Holtrop suggested that the government ask the ECA for a grant to bridge the first stage, and to develop a system which would ensure the Netherlands of payments in gold by its debtors in the next stage. In general his judgment was very positive because of the foreseen multilateralisation of payments, a judgment which greatly differed from that of his Belgian colleague. Frère's anxieties were further heightened by American suggestions to loosen his credit policy in order to allow more investments which would help to diminish Belgium's surplus in intra-European trade. For the moment, however, he could relax because the British rejected the proposals and they were allowed time until after the elections in March to put forward their own ideas.

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One of the first people who received the completed British plan was Stikker. The document was given to him in his capacity as ''Political Conciliator'' of the OEEC, an office created at the request of the Americans to lend more political weight to the organisation. Stikker, who was in general pro-British (he later became ambassador in London), promised to mediate. The British hesitated to hand over the memorandum to Ansiaux and decided to wait until after a meeting of the governors of the central banks at which Ansiaux would be present, ''as he would be unlikely to refrain from expressing jaundiced views in an unsuitable form''.[9] The British fears were probably justified because, during this meeting, Ansiaux presented a new plan of his own which was harsher than the proposals of the committee of experts in January and which was rejected on the spot by Frère who thought it was still too soft.

When Ansiaux finally received the British proposals, he promised to study them seriously. The result of his studies pointed, however, in a completely different direction. His new idea was to involve the International Monetary Fund in the mechanism and in such a way that Belgium would be safeguarded from supplying any new credits. The weakness of this idea was that the IMF flatly refused to participate, and Ansiaux dropped

it immediately, but there seemed to be no limits to his creativity. In the same meeting at which his expert colleagues vetoed his IMF plan, he suggested not to found a permanent organisation but to consume the dollars in one or two years' time. The thinking behind this new idea was still the same: to safeguard Belgium from supplying new credits.[10]

Ansiaux's creativity increased the already considerable confusion on the Dutch side. The reactions of the Dutch negotiators to the British proposals for a soft system had been rather mild because they realised they would benefit if the Dutch balance of payments deteriorated. On the other hand, they would also benefit if Ansiaux's ideas came true in the event that the balance of payments improved. The consequence, however, of exhausting the dollar fund in a couple of years was that their long term goal of liberalisation of payments in Western Europe had to be sacrificed. Everything depended on the amount of dollars the Americans were willing to provide, and this was an unknown. This dilemma was put into words in an instruction which beautifully combines principles and opportunism: ''if the United States are prepared to grant enough dollars besides the starting capital for the European Payments Union, we should be guided, regarding the structure of the EPU, by the general interest. If this is not the case we should be guided by our own interests, at the cost of the long term solution''.[11]

The Dutch were saved from having to choose in this dilemma by the Americans who were, quite understandably, not interested in short term deals. But while all it meant for the Dutch was one less option, for the Belgians it meant increased pressure and an awakening from what the Americans were now starting to call their ''creditor's dream''.[12]

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The problem from the Belgian point of view was that, in May, Britain was gradually giving up its resistance to the American demands, but from the opposite angle. Whereas the British had first opted to stay out of the whole credit mechanism, now they were asking for huge credits, up to twenty per cent of the value of the mutual trade, and they found a willing ear in the ECA. This was one of the worst imaginable scenarios, and it soon left Belgium completely isolated.

When a new round of negotiations resulted in a compromise of fifteen per cent, which all countries except Belgium (which stipulated a five per cent maximum) were willing to accept, the Belgians decided to play it tough. Van Zeeland told the press that under these conditions they would not participate and that this would turn the EPU into a club of debtor countries without a chance of survival.[13] According to Van Zeeland, it was also unfair to base the quotas on foreign trade because a small country like Belgium had a small home market. Still, he was prepared to compromise: an exception should be made for Belgium by means of a credit quota of ten per cent of its foreign trade and extra financial help from the United States.

These propositions were not to the liking of the Americans. According to Stikker, they were so angry that they spoke of a declaration of economic war by Belgium.[14] A British source claimed that Averell Harriman and Milton Katz had such a fight with Ansiaux that Harriman later expressed his astonishment to Katz that he had not hit him. Katz was quoted as responding: ''We still have time to be nasty''.[15] The real problems

were, firstly, that there was not much time left (the 1949 monetary treaty was to expire on 30 June), and secondly, that it was difficult to call the Belgian demands unreasonable, given their economic problems, and the credits they had already granted in the past few years, as well as the fact that they would continue to give more credits, even under their own new proposals, despite the opposition of Frère.

It is therefore no surprise that, in the end, after more nerve-racking negotiations, the ECA decided to give in to the Belgian Cabinet. Without Belgian participation, they had little to show to Congress. The Belgian credit quotas were lowered to 10 per cent, and direct and conditional dollar aid reduced the credit margin further to a level acceptable to the government.

Stikker played a very active role as mediator during those decisive negotiations. He supported the Belgian claims to extra dollar aid, but he also launched another idea, presumably with the dual purpose of pacifying the Americans and aiding the Dutch economy. Stikker suggested that the Belgians should, firstly, draw up an investment programme to modernise their industry and infrastructure in order to indicate how the dollars would be spent and, secondly, substitute as many imports as possible from the dollar area with imports from the OEEC, at the same time stopping luxury imports from the United States.

This suggestion by Stikker made Van Zeeland furious, but he found an easy way out. He asked Harriman to put into writing that he, on behalf of the American government, asked the Belgian government to restrict its imports from the United States (thus discriminating against the United States), a request which Harriman could not fulfil. Eventually, Stikker's proposal was reduced to a strong recommendation to the Belgian government to increase its imports from other participating countries in relation to the imports from non-participating countries. Besides, there was an expression of hope that this would lead to a further liberalisation of trade and the creation of a single market! No concrete measures were mentioned.[16]

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Stikker's failure to change the Belgian economic policy did not stir any emotions at home. It was not even mentioned in Cabinet. Two other questions were considered to be much more important. Firstly, would the Netherlands get initial aid and, if so, how much? The second question concerned the settlement of the German debts which had accumulated since the trade liberalisation measures of November 1949. The Council of the OEEC had decided that arrangements for the settlement of all debts had to be made before the EPU could go ahead. This was to be done, if possible, by bilateral agreements; otherwise the debtors had to pay off their debts within two years. The problem was that the Germans thought this timespan was too short and the Dutch too long.

As far as the initial aid was concerned, the Dutch could do little else than wait and hope for the best. They could not impress the Americans any longer with the trump card of Benelux and, although they tried, it was impossible to hide the improvement in their balance of payments. They had hoped for 90 million dollars initial aid but when they were awarded not more than 30 million, they accepted gratefully.[17]

The German debts were a completely different story. The Dutch thought they were legally entitled to a full reimbursement within two years, and counted on American support after all Stikker's efforts to reach a compromise with the Belgians. However, the ECA feared the economic consequences if all the creditors of West Germany demanded their money back at the same time and they were most annoyed with the Dutch stubbornness at a moment when they thought they could finally score their first great success in the field of European integration.

Some members of the Dutch Cabinet were made nervous by the American reprimands, but not so the Minister of Finance, Piet Lieftinck. He was not even moved by the Belgian offer to spread the redemption of the Dutch debts over five years on the condition that he (Lieftink) would offer the Germans the same deal. He argued that the Dutch should pay off their debts immediately, because in the future they could not count on American aid. The sooner the people were confronted with their actual poverty and the sooner Cabinet was aware of the necessity to bring its balance of payments in order, the better.[18] It sounded very dramatic and moralistic. In reality, however, Lieftinck was trying to conclude a profitable operation. A quick redemption of the debts meant that a claim on an economically weak country could be used to pay off the debts with an economically strong country.

Lieftinck got his way but, unfortunately, West Germany soon became entangled in a balance of payments crisis and all the harsh negotiations and hard feelings had been for nothing. With the benefit of hindsight, one can also question the wisdom of qualifying the German economy as weak and the Belgian as strong, but in 1950 the perspective was rather different. When the European Payments Union finally got off the ground on 19 September, the Dutch had lost much of their sympathy with the Americans.

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In spite of all the antagonism of the Benelux countries, against others and between themselves, there can be no doubt that the foundation of the EPU was a major achievement. It brought them almost everything they had fought for since 1947. When the Belgians, at the end of the first phase of the EPU in 1952, started a new argument over their obligation to supply credits, this was barely taken seriously by the financial experts. The stakes were too high.

While the Netherlands and Belgium, with Luxemburg as an acquiescent partner, turned into model members of the EPU, Benelux itself did not develop into a grandiose adventure of integration. Some of the economic reasons for this have been mentioned in the first paragraph of this article. The story of the negotiations on the EPU also shows that the will was lacking. Each country kept a keen eye on its own interests and when it was not clear, as in the case of the Dutch, what those interests were, they were very hesitant and evasive. Yet we should also not overestimate their differences. Better a good neighbour than a distant friend.

NOTES

1. Abbreviations used in the notes:
   BBV Buitenlands Betalingsverkeer (See MF)
   DGEM Directoraat-Generaal voor Economische en Militaire samenwerking (see MBZ)
   EBU Europese Betalingsunie (see MF)
   FO Foreign Office (See PRO)
   MBZ Ministerie van Buitenlandse Zaken, The Hague
   MF Ministerie van Financien, The Hague
   PRO Public Record Office, Kew.
2. A.E. Kersten, *Maken drie kleinen één grote? De politieke invloed van de Benelux 1945-1955,* Bussum, 1982, 6.
3. M.J. Hogan, *The Marshall Plan. America, Britain and the reconstruction of Western Europe, 1947-1952*, Cambridge, 1987.
4. J.L. van Zanden, ''De economische ontwikkeling van Nederland en België en het 'succes' van de Benelux, 1945-1958'' in E.S.A. Bloemen (ed.) *Het Benelux-effect. België, Nederland en Luxemburg en de Europese integratie,* Amsterdam, 1992, 13-32.
5. MF, BBV, Stikker to the minister-president and all ministers, 16 June 1950.
6. J.E. Meade, H.H. Liesner and S.J. Wells, *Case studies in European economic union. The mechanics of integration*, London/New York/Toronto, 1962, 143.
7. PRO, FO 371/87100, Berthould to Makins, 2 January 1950.
8. MF, EBU 20, Holtrop, *Enige beschouwingen*, 23 January 1950.
9. PRO, FO 371/87104, Berthould to Ellis-Rees, 4 March 1950.
10. MBZ, DGEM 262, Keesing to Spierenburg, 13 April 1950.
11. MBZ, DGEM 262, Report Posthuma, 4 May 1950.
12. PRO, FO 371/87111, OEEC Delegation to FO, 26 April 1950, statement made by Milton Katz. The Dutch negotiator, S. Posthuma, agreed with Katz, MBZ, DGEM 262, Report Posthuma, 4 May 1950.
13. PRO, FO 371/87115, OEEC Delegation to FO, 14 June 1950.
14. See note 5.
15. PRO, FO 371/87115, Hall Patch to Makins, 16 June 1950.
16. E.S.A. Bloemen, ''Harde franken, zachte guldens en de oprichting van de Europese Betalingsunie'' in Bloemen (ed.) *Het Benelux Effect* 55-70, 66.
17. Bloemen, ''Harde Franken'', 67.
18. MBZ, DGEM 586, Lieftinck to the Economic Committee of Cabinet, 26 June 1950.

Chapter XVI

THE UNITED STATES, CONVERTIBILITY, AND THE REFORM OF THE EUROPEAN PAYMENTS UNION IN 1954: A VIEW ON THE DEBATE IN THE EISENHOWER ADMINISTRATION[1]

Corso Paolo Boccia

As the authors of a history of the European Payments Union (EPU) noted a few years ago, the renewal of the Union in 1954 concurrently with its partial reform was the outcome of negotiations as intense as those that had preceded its birth in 1950.[2] The compromise agreement reached in Europe on the future of the EPU ended one and a half years of heated discussions spurred on by the controversial British projects to restore sterling convertibility. It also opened the way to the negotiation of a new European system to replace the EPU when the currency of any of its member countries was made convertible, as would finally happen at the end of 1958.

In contrast to what had happened in 1949-50, however, the United States (which had been the main propelling force for the creation of a regional scheme for multilateral payments) did not take an active part in the new European discussions. This lack of open commitment reflected the fact that, under the international economic conditions prevailing in the middle of the decade, the United States was not willing to finance a new regional payments scheme of a discriminatory nature, as it had done when Western Europe was still heavily dependent on American aid to recover from the effects of over a decade of depression and war.[3]

American cautiousness was also the product of an ongoing debate in Washington between two different conceptions of United States foreign economic policy. One emphasised the necessity of proceeding towards the implementation of the multilateral system of trade and payments envisioned in the Bretton Woods agreements, and had its strongest advocate in the Department of the Treasury. The other assigned a central place to the development of an integrated economic area in Western Europe and was supported primarily by the Department of State and by the agencies that had been administering American foreign aid since the beginning of the European Recovery Programme.[4]

This debate was not clear-cut. Positions shifted as the forces within the executive adjusted to the many political and economic changes taking place on the international scene and in the United States. Conflicts developed and compromises were reached, both between advocates of a regional or global dimension of American foreign economic policy and between supporters of different, and at times conflicting, conceptions of European economic integration.

The discussions in Washington on the extension or disbandment of the EPU in connection with the introduction of currency convertibility, and on the broader issue of the future of the regional economic area built around the Organisation for European Economic Co-operation (OEEC), form part of that story.

At the beginning of 1954, in view of the meetings scheduled to take place in Paris during May to discuss the future of the EPU, the Foreign Operations Administration (FOA) – the agency that administered American foreign assistance programmes – launched the idea to create an ''Atlantic Clearing Committee''.[5] The proposal (known as the ''Stassen plan'' from the name of FOA's Director) was based on two pillars. The first was the revision of the EPU, the consolidation of outstanding debts and the arrangement for their repayment over a period of three to five years. The second was the introduction of limited convertibility within the OEEC area and between it and the dollar area, in the framework of a new tripartite organisation (the Atlantic Clearing Committee) formed by the United States and Canada, Britain and the Commonwealth, and continental Western Europe.

The EPU would be extended for three years with a new line of intra-European credit, conditional on a review of exchange rates and the financial and trade policies of its members. If necessary, the United States could also extend through the Atlantic Clearing Committee a line of credit to the EPU (amounting to about $150 million), to be financed through a policy of Federal Reserve Bank discount purchase of EPU credits. The EPU managing board would be empowered to recommend those measures necessary to help the balancing of the net positions of creditors or debtors. EPU members would have the right to discriminate against those among them who refused to introduce the recommended measures. The establishment of limited convertibility would take advantage of the credit positions of some EPU members, as each of them would subscribe anew its quota to the Union. No explanation was given on why EPU creditors should accept the burden implicit in the plan. Presumably the FOA believed that this would be balanced by the extension of new United States credits.

The link between the Atlantic Clearing Committee and the reformed EPU, in the FOA's scheme, was essential to harmonise (and liberalise) Western Europe's trade and payments policies towards the dollar area, as the United States and Canada could exert powerful pressure through the new organisation. Finally, in the FOA's view, the plan avoided the divisive effects of a separate move to convertibility by individual European currencies and provided for a phase of controlled transition towards general convertibility: exchange rates in Europe would be subjected to a degree of joint control, capital movements would be eased, investment attractiveness in Europe would soar, and cartelised industries would have time to adjust to international competition.

The idea to create an Atlantic payments scheme was not new. Several plans of a similar nature had been discussed by the FOA's predecessor, the Mutual Security Agency (MSA) and the Stassen plan adopted some of their features.[6] The FOA proposal, however, differed considerably from the ideas of the other agencies involved in drawing a common policy line on the renewal of the EPU and convertibility, the first among them the Departments of State and the Treasury.

When the British had approached the US during March 1953 in an unsuccessful attempt to convince Washington to support their ''collective approach to convertibility'', the MSA and the Department of State had been united in rejecting it on the general grounds that the introduction of convertibility required the prior solution of the wide imbalances existing in the international system of trade and payments, particularly that of the persistent shortage of dollars in the hands of Western Europe.[7] Political considerations, then, also played an essential part in shaping the American position. One main reason behind the American rejection of the British plan had been the concern that the early introduction of sterling convertibility would have had serious consequences on the progress of European integration and on the European Coal and Steel Community (ECSC) and European Defense Community (EDC) in particular. Apart from the possible adverse consequences that could result at the economic level, the issue was one of a general political nature. As the United States Special Representative in Europe had written to the top echelon of the administration in Washington on the eve of the meetings with the British delegation in March 1953, if the centre of discussion on the international economic policies of Europe shifted from the OEEC to the IMF and the General Agreement on Tariffs and Trade (GATT), the effect on the movement towards ''European unification'' would have been extremely negative.[8]

One year later, however, the situation had changed markedly. American foreign economic policy had been the subject of a general re-examination through the work of a special bipartisan commission. Its president, Clarence Randall, was an industrialist and an ardent free-trader, and had in the past opposed American support for the ECSC, deeming that the community was nothing more than an international cartel in contradiction to American interest in multilateralism and trade liberalisation.[9] When the Randall Commission, fully backed by President Eisenhower, presented its report to Congress in January 1954, two of its major proposals were support for the expansion of world trade through the revision of the GATT, and the introduction of convertibility of key international currencies, starting with the pound sterling. This was promptly translated into policy when the United States Treasury expressed American support to the British for the extension of an IMF standby credit to the UK amounting to $1.3 billion, its full IMF quota, to back up a possible move to sterling convertibility.[10]

In this new situation, while the Department of State was still a staunch advocate of the EDC, such a commitment did not imply a general support for European economic schemes discriminating against American trade, whether or not these furthered supranational integration. Indeed, American diplomats were playing their part in sidetracking the Dutch proposals for the establishment of a common market of the six ECSC countries within the projected European Political Community (EPC), lest they endanger French ratification of the EDC.[11] Thus, the Department of State objected to the FOA proposal as contrary to the new American attitude towards the British plans for sterling convertibility.

Repeated discussions between high officials of the FOA, the Treasury, and the Federal Reserve Board only brought out general opposition to the Stassen plan, which was partially redrafted in a direction more favourable to the British.[12]

In its new version the plan still rested on the three-year renewal of the EPU concurrent with the opening of a new line of intra-European credit and the broadening of powers of its managing board. Standing indebtedness, however, was to be consolidated in the long term, through the subscription of ten year obligations to be repaid in convertible currencies. The new tripartite body, now called the Atlantic Trade and Payments Committee, would be set up within the OEEC and charged with negotiating the progressive introduction of convertibility, and would be entitled to grant to EPU creditors a waiver from subscribing credits to the organisation. In substance, it would have the power to extend loans in dollars to creditor countries. The fund to be assigned to the new organisation for this purpose amounted to $300 million, half of which was provided by new Congressional appropriation (as the Federal Reserve Board had declined to accept to purchase EPU credit obligations at a discount rate, as originally proposed by the FOA), and the rest by the residual convertible assets of the EPU.

The revised plan was clearer on the working of the new Atlantic structure. It also included a substantial concession to those sectors of the administration, led by the Treasury, concerned not to put obstacles on the path to sterling convertibility. The new terms of debt repayment would have been much more favourable to Britain than the three-year repayment required in case of the disbandment of the EPU (Britain itself had proposed repayment over a seven-year term). However, the FOA proposal still rested squarely on a markedly regional dimension of American foreign economic policy. In this respect, as some officials at the FOA also commented, it was difficult to imagine that the new draft would prove more acceptable in Washington than the previous one, while its very liberality to Britain would have surely met firm opposition by the EPU creditors.

As it happened, further meetings between FOA officials and those from the Federal Reserve Board and the Departments of State, Treasury and Commerce, revealed two areas of dissent. First, the objection was raised that if the United States presented a plan of its own at the OEEC meetings, this would have been interpreted as a rejection of the British plan on convertibility, despite the proposed schedule for debts repayment. Secondly, all agencies – the Treasury in particular – were opposed to the formation of the Atlantic Trade and Payments Committee proposed by the FOA, as this would have vested in an organisation of a regional scale control over the use of the financial resources of the United States and the IMF. The Department of State also noted that if it were felt necessary to build closer links between the United States and Europe, it would have been preferable to assume full membership in the OEEC.[13]

The different positions in the administration were finally discussed during April 1954 at the National Advisory Council on International Monetary and Financial Matters (NAC). This was a high-level body whose competence had been broadened by the Eisenhower administration to cover broad issues of national foreign economic policy. While some officials at the FOA hoped that the Stassen plan would be accepted conditional on the FOA's commitment to promote it in a way that would not interfere with the British plans for convertibility, the meeting turned into a protracted discussion on the

policy paper prepared by the Department of the Treasury. This emphasised that the position of the United States delegation at the European discussions had to be based on the Randall Commission report, which embodied the official policy of the administration. The Treasury therefore proposed that the United States should not advance any plans of its own, should support the extension of the EPU for one year, and should encourage possible compromise solutions reached by the Europeans only if these did not contrast with the main objective of the short-term introduction of general convertibility, beginning with the sterling as a key international currency. No proposal to proceed towards convertibility based on the EPU mechanism rather than the key role of sterling could be accepted, nor could the problems connected to the interim extension of the EPU distract from this primary objective. This was a sharp rebuttal of the FOA's plan and, more significantly, of the proposals advanced by the continental partners of Britain in the EPU in furthering their so-called ''institutional approach'' to convertibility.[14]

The Treasury proposals were supported by the representative of the Federal Reserve Board, but raised immediate objections from that of the FOA, who rejected the Treasury's contention that the introduction of convertibility would have resulted in a further liberalisation of European trade towards the dollar area. Quite to the contrary, it was argued, sterling convertibility would have resulted in a slowing of liberalisation as governments adjusted to the new international conditions. The FOA therefore stressed the necessity that the American delegates take a strong and open commitment in defense of the OEEC, as the Organisation afforded the best opportunities to proceed with dollar liberalisation.

The position of the Department of State, shared in substance by that of Commerce, was the result of a compromise between the supporters of European integration and the officials charged with responsibility for economic affairs. As explained by Under Secretary of State for Economic Affairs, Samuel Waugh, his Department was more sympathetic than the Treasury to the problems faced by the Europeans in connection with the renewal of the EPU. However, it subscribed in full to the presidential programme for foreign economic policy, specifically to include encouragement for a possible early move to convertibility. While economic co-operation among Western European countries was still a major objective of American foreign policy, it was obvious that European economic integration had ''reached a plateau'', both because of difficulties in the OEEC and, Waugh indirectly admitted on the verge of the collapse of the EDC, for those on the side of Six-based initiatives. In such a situation, in the long run the introduction of convertibility might prove to contribute to European integration more than the mere patching up of a floundering EPU. Yet the Union had to be kept functioning till a better system was devised, nor did American interest in the general objective of sterling convertibility imply uncommitted support to any plan advanced by London irrespective of its possible consequences on European trade liberalisation. Therefore, the Department of State proposed that, if the Europeans proved unable to find any agreement, the US should support the extension of the EPU for one year (subject to an escape clause similar to that adopted in 1953 on British request, to the effect that EPU members reserved the right to re-examine their position in connection with the introduction of convertibility), and encourage some arrangement on the repayment of outstanding debts and a moderate hardening on the settling of new imbalances in the organisation, but without ''undue drain'' on its convertible assets. The programme for intra-European trade liberalisation had to be maintained,

and dollar liberalisation stepped up, without necessarily adopting any definite scheme to this end. These proposals offered the NAC the basis for a compromise solution, partially meeting the objections raised by the FOA. Treasury officials were instructed to draft a new version of their paper devoting specific attention to the necessity to safeguard and enhance trade liberalisation in Europe and towards the dollar area and embodying the specific proposals on the position to take at the OEEC meetings advanced by the Department of State. The Stassen proposal for the creation of an Atlantic Trade and Payments Committee, however, was dead.[15]

The new Treasury draft was approved by the Department of State with some reservations from the officials responsible for integration matters. While taking into account the objections raised at the NAC, the Treasury had not changed its basic position emphasising that the administration had ''a clear directive from the President to negotiate revisions of trade rules and organisational arrangements on a *global* basis''. Therefore the executive was not in a position ''to agree to, much less propose, new and major regional rules or organisations, as such arrangements may well prejudice decisions which the United States may favor in connection with the review of GATT''. Thus, Washington was unwilling to support specific arrangements either subjecting debt repayment to a formal and continuous scheme (as requested by the EPU creditors) or to bilateral agreements case by case (as proposed by Britain). Besides, the United States delegates had to refrain from taking an explicit position on the hardening of the Union, unless this proved absolutely essential to overcome an impasse in the European negotiations.[16]

Further discussions between the Departments of State, the Treasury, and the FOA finally produced a joint position based on the new Treasury draft but phrased in a language more supportive of European co-operation and integration and the OEEC in particular, as wanted by the FOA. The administration recognised that the present phase was one of transition towards the introduction of convertibility and the attainment of a system of multilateral trade, a transition during which it was essential to preserve what the OEEC had already achieved in intra-European liberalisation and integration. As the Treasury had originally proposed, the American delegates were instructed to refrain from taking an active leadership in the discussions, quietly promoting a compromise along the lines originally envisaged by Waugh at the NAC (with the qualification that the United States opposed the ''hardening'' of the EPU unless that was absolutely necessary to reach a compromise agreement on its extension for one year). In addition, the United States extended its support for definite agreements guaranteeing trade liberalisation in the OEEC area and the adoption of early steps for the expansion of its trade with the dollar area. These were to be determined through further study by the Trade and Payments Committee of the OEEC, with the possible help of IMF and GATT representatives. This last point, by assigning a specific role to the OEEC, coincided with a proposal advanced by the FOA.[17]

The agreement reached in Paris during May 1954 substantially met the American expectations. The new EPU debt repayment scheme was somewhere between the proposals of the creditors and those of Britain, and covered a large part of all outstanding imbalances. While it involved a drain of $130 million out of the EPU assets, this still left the Union in control of considerably more than the original $300 million of the initial United States contribution. Presumably, this could well be considered as no ''undue

drain'' on the convertible reserves of the EPU. Finally, while it was decided to settle all new imbalances within assigned quotas on a 50:50 ratio of gold and credit, this in practice did not imply any significant ''hardening'' of the Union, as most debtors were already disbursing higher percentages of gold in compliance with existing EPU rules.[18]

As noted by one former American official involved in the Paris negotiations, now turned historian, the United States remained ''supportive but passive'' throughout the debate, as it ''could welcome the final compromises without playing a partisan role. Thereafter, it concentrated on seeking further liberalisation of dollar imports''.[19] This again brought out some conflict within the administration as the FOA, because of its ''interest in maximising European integration'', was inclined to accept increased discrimination against the dollar to ease intra-OEEC liberalisation.[20] The introduction of sterling convertibility, however, proved to be a more distant objective than had been envisaged during the first part of 1954. When this became clear, the United States was able to overcome the objections of the Europeans and an agreement was reached at the end of the year, confirming that liberalisation of trade with the dollar area had to proceed country by country based on individual balance-of-payments conditions.[21] This, and the successful negotiation of a new European Monetary Agreement to cushion, on terms agreeable to Washington, the future introduction of convertibility, put a temporary end to the long phase of debate in Europe and the United States. However, when the United States faced recession and a deteriorated balance of payments at the end of the decade, the development of new European plans for regional economic discrimination would again bring to the fore in Washington the conflict between contrasting visions of American foreign economic policy.

NOTES

1. Abbreviations used in the notes:
   DIR Subject Files of the Director, 1948-55 (see RG469)
   FO Foreign Office (see PRO)
   NARA National Archives and Records Administration, Washington
   PRO Public Record Office, Kew
   RG59 Record Group 59, State Department (See NARA)
   RG469 Record Group 469, US Foreign Assistance Agencies (See NARA)
   ROS Subject Files of the Regional Organisations Staff, 1948-57 (see RG469).
2. J.J. Kaplan and G. Schleiminger, *The European Payments Union. Financial Diplomacy in the 1950s*, Oxford, 1989, 201.
3. Kaplan and Schleiminger, *European Payments Union*, 183.
4. C.P. Boccia, *L'amministrazione Eisenhower e l'integrazione economica dell'Europa occidentale, 1953-1961,* Ph.D University of Genoa, 1992.
5. NARA, RG 59/840.00, The Director of the FOA, to the Secretary of State, of the Treasury, of Defense, to the Director of the Bureau of the Budget, and to the Chairman of the Board of Governors of the Federal Reserve System, 12 January 1954; RG 469 (DIR), Fitzgerald to Ringer and Buck, 15 February 1954.
6. See in particular the MSA proposal for the creation of an ''Atlantic Reserve System'' in 1952. This should not be confused with the proposal for an ''Atlantic Payments Union'' discussed during the same months within the British government. On these and other plans see NARA, RG 69 (ROS), *Problems of the Atlantic Reserve System*, 28 July 1952; Triffin, *Secret Draft Outline of Major Proposals for EPU and IMF Revision*, 8 August 1952, Triffin, *EPU Objectives in 1953-54*, 16 April 1953; Bissel, *The Evolution of European Monetary and Trade Arrangements*, 24 April 1953. See also M. Beloff, *The United States and the Unity of Europe*, Washington, 1963, 69-70.
7. Kaplan and Schleiminger, *European Payments Union*, 171-178. For the position of the State Department see NARA, RG 59/840.00, Moore to Perkins, 6 January 1953.
8. NARA, RG 59/840.00, Breithut to Merchant, 4 March 1953.
9. PRO, FO371, F.O. Minute, Berthoud, 28 August 1952. See also Beloff, *The United States and the Unity of Europe*, 60.
10. NARA, RG 469 (DIR), Stassen to FOA Officials, 13 March 1954. On the IMF credit to the UK see Kaplan and Schleiminger, *European Payments Union,* 206. On the Randall Commission in general see B.I. Kaufman, *Trade and Aid: Eisenhower's Foreign Economic Policy 1953-1961*, Baltimore, 1982, 17-26.
11. Boccia, *L'amministrazione Eisenhower*, 65-113.

12. NARA, RG 59/840.00, Bonbright to the Acting Secretary, 26 January 1954; Foster to Moore, 3 February 1954; Lewis to Moore, 4. February 1954; Department of State, *Memorandum of Conversation. Meeting re: EPU and Convertibility*, 13 February 1954.
13. NARA, RG 469 (DIR), Toner to Stassen, 16 March 1954; Fitzgerald to Stassen, 25 March 1954; Fitzgerald to Stassen, 2 April 1954.
14. NARA, RG 469 (DIR), The Secretary of the Council to the National Advisory Council, 14 April 1953. On the ''institutional approach'' to convertibility see Kaplan and Schleiminger, *European Payments Union*, 185-195.
15. NARA, RG 469 (ROS), Notes on Meeting of the National Advisory Council, Washington, 15 April 1954.
16. NARA, RG 59/840.00, Boochever to Moore, 16 April 1954, with attached Rosenson to Moore, 16 April 1954, transmitting the new Treasury draft (quote from this document, emphasis in original).
17. NARA, RG 469 (DIR), Boochever to Moore, 16 April 1954; Stassen to Burgess, 27 April 1954; Confidential Joint State, Treasury, FOA Message, 26 April 1954; Paris to Washington and all FOA Missions, 7 May 1954; RG 59/740.00, FOA to Paris, 27 April 1954.
18. Kaplan and Schleiminger, *European Payments Union*, 201-4.
19. *Ibid.,* 204.
20. NARA, RG 469 (DIR), *US Position for OEEC Ministerial Meeeting on Problem of Convertibility*, 7 July 1954.
21. NARA, RG 469 (DIR), Todd to Stassen, 7 July 1954; Kaplan to Fitzgerald, 21 September 1954; *Brief for Governor Stassen's Meeting with EPU Managing Board*, 22 September 1954; Fitzgerald to the Director, 20 May 1955; RG 59/840.00, Evans to Waugh, 13 July 1954.

Chapter XVII

THE FRENCH CRISIS AND THE DISSOLUTION OF THE EUROPEAN PAYMENTS UNION, 1956-1958[1]

Paul M. Pitman

France's economic crisis of 1956 to 1958 represented the most difficult challenge to intra-European monetary co-operation during the last years of the Organisation for European Economic Co-operation (OEEC). Acting through the European Payments Union (EPU), the OEEC helped cover France's deficits and experimented with supervising a major industrial economy. The OEEC's contribution to France's stabilisation and liberalisation showed the EPU at its best,[2] at a time when some observers thought that it might soon be pronounced dead. Yet this demonstration of the advantages of economic co-operation failed to assure the survival of either the EPU or the OEEC. Indeed, by an ironic twist, the French crisis probably contributed to their demise. In order to describe, if not completely explain, this paradox one needs to explore the complex and still poorly known links between the French political economy and European diplomacy in the years following the Suez Crisis.

By the mid-1950s the EPU had fulfilled much of its original mission. Western Europe as a whole had moved into balance with the dollar zone, achieving the ''viability'' sought by the designers of the Marshall Plan. Indeed, by the summer of 1955 the OEEC states had negotiated the European Monetary Agreement which set the ground rules for the post-EPU monetary order. Many felt it was only a matter of time before the European powers would restore full convertibility, thereby ending discrimination against dollar trade. In the interim, the EPU continued to handle intra-European payments imbalances, of which French deficits were the most striking manifestation. The EPU enjoyed considerable success, but the often laborious negotiations needed to persuade French authorities to implement unpopular measures undermined the solidarity of the OEEC countries.

The crisis proved all the more troubling because of Paris's diplomatic position. Although sometimes referred to as ''the sick man of Europe'', the Fourth Republic was hardly comparable to the Ottoman Empire because of France's key role in all plausible European, or Atlantic, constructions. For the OEEC in particular, French policies would prove crucial. Throughout the 1950s, the vagaries of French commercial policy

threatened to derail the OEEC's liberalisation programme. And from 1957 on, the prospects for the European Economic Community (EEC), as well as the negotiations regarding the proposed OEEC-wide Free Trade Area, would reflect French experiences with regional economic co-operation. Indeed, in late 1958, Paris virtually sealed the OEEC's fate, first by rejecting the FTA, then by agreeing to the dissolution of the EPU.

A thorough analysis of the links between France's financial difficulties and the restructuring of the European and Atlantic orders would require a study of relevant material in various national archives, much of which remains inaccessible for historians. However, available sources, namely the recently opened OEEC papers,[3] make it possible to outline the EPU's role in managing French deficits as well as some of their broader implications. This chapter introduces these problems, taking up in turn the origins of France's economic difficulties; the EPU's management of the resulting deficits; and the links between the French crisis and the dissolution of the EPU.

* * *

France's post-Suez financial difficulties can be traced back at least to the policies applied during the 1953-55 stabilisation period.[4] The French had participated in the OEEC's trade liberalisation program, but the effects of the Korean War boom made it necessary to reimpose quantitative import restrictions in 1952. After an initial period of deflationary policies, Finance Minister Edgar Faure attempted to assure growth in stability, in large part by means of a system of taxes on imports and subsidies for exports. By 1955 the external balance had been restored, but only as a result of transitory conditions, including low domestic demand and massive military assistance from the United States, and the recovery therefore proved short-lived. In response to OEEC pressure, the French began to reliberalise imports and reduce import levies. As economic growth recovered, exports of agricultural products and raw materials dropped off. Following the end of the war in Indochina, military aid from the United States dried up, while the revolt in Algeria began to drain off men and money. By late 1955 the potential for payments difficulties became clear, and in January 1956 the electoral victory of a centre-left coalition, as so often in French history, stimulated speculation against the franc.[5]

Although it had inherited severe financial difficulties, the Republican Front government, headed by Socialist Guy Mollet, rejected devaluation and tried to avoid deflation by running down French reserves, apparently in the hopes that the extra expenditures required in Algeria would be short-lived. Mollet's ''dash for growth'' soon ran into trouble, however, as domestic inflation and military expenditures accelerated, enlarging the trade deficit. By mid-summer officials expected that in 1956 France would show a loss of about $500 million in gold and dollars,[6] but the government still refused to change course. Accidental factors added to the economy's woes. The failure of the wheat harvest made it necessary to import about $200 million worth of wheat in 1956 to cover domestic needs and export obligations. Over the winter of 1956-57 the Suez Crisis caused higher dollar spending on oil and shipping, consuming up to $300 million in French reserves.[7] As a result, during 1956 France used up some $850 million in reserves and credits, and observers predicted even greater losses in 1957.[8]

In response to persistent intra-European payments imbalances, OEEC authorities attempted to encourage greater monetary co-operation. Persistent West German surpluses could be blamed, but the most difficult problem was the combination of Teutonic surpluses and Gallic deficits – a sometimes neglected aspect of Franco-German economic rapprochement. Although alternative solutions were discussed, including revaluation of the deutschmark and OEEC-wide macroeconomic policy coordination,[9] the EPU's Managing Board tended to focus on the main debtor country, offering to extend credits in exchange for measures to reduce domestic demand.

The outlook eased in late October 1956 (just days before the joint Franco-British attempt to retake the Suez Canal) when the International Monetary Fund (IMF) granted France a stand-by credit equal to one-half of the country's quota, or $262.5 million.[10] Of course, after the failed Suez operation Paris could have used further help to counter pressure on the franc. In December the Managing Board denied an informal request for aid pending measures to address the causes of French deficits.[11] That same month the United States, intent on shoring up sterling, assembled an aid package totalling almost $1.8 billion for the United Kingdom, including the country's IMF entire quota.[12] Washington declined to make a similar effort for the franc, but in January 1957 the French did manage to arrange a $100 million line of credit from private banks in New York to help finance dollar imports of petroleum and raw materials.[13] The OEEC still refused immediate aid, but in February, as part of the agreement on renewing the EPU for the 1957-58 fiscal year, Paris received a *rallonge* which would raise the country's quota by $200 million in July 1957.[14] From this point on until December 1958 the Managing Board kept a spotlight on the Hexagon's troubles, pushing French authorities to reduce internal demand and liberalise imports.

Over the winter the government stuck to its guns, not only putting off austerity and devaluation, but also rejecting another suspension of import liberalisation, apparently preferring to continue using up reserves while determining independently what policies to follow. In March 1957 the Managing Board criticised French policy in a special report to the OEEC Council. Although the report noted that European payments disequilibria resulted largely from the failure of other OEEC countries – notably the Federal Republic of Germany – to act as good creditors, it once again placed most of the burden of adjustment on Paris.[15] At any rate, by this point the Mollet government was no doubt too shaky to impose a new course, and France's allies, perhaps hoping that the next government would prove more open to persuasion, refused further help. Thus in early June former OEEC Secretary General Robert Marjolin, advisor to Foreign Minister Christian Pineau, returned from Washington to report that the United States officials would be inclined to extend aid only if the French put their domestic affairs in order.[16] Just before Mollet's government fell over tax increases needed to pay for the Algerian emergency, the OEEC Secretariat tried to arrange an EPU bail-out, based on a $100 million German credit, but the plan fell through, apparently because Bonn did not wish to be singled out as the only contributor.[17]

In mid-June the new centre-right government, invoking its balance-of-payments difficulties, decided to reimpose quotas on all imports, which not only upset its European trading partners but also made France's commercial policy subject to review by the OEEC's Steering Board for Trade.[18] Despite the economic situation, in July the

government managed to win parliamentary approval for the EEC Treaty, to almost audible sighs of relief in other capitals. The next month, after introducing a number of minor deflationary measures, Finance Minister Félix Gaillard junked much of Faure's system of import taxes and export subsidies, introducing a dual exchange rate applied to most imports and exports (the main exception was imports of raw materials), a move equivalent to a disguised 20 per cent devaluation. The Managing Board welcomed the new arrangements, which eliminated one layer of product-specific protection, but it still deemed France's policies insufficient to restore equilibrium.[19]

By late 1957 Paris's diplomatic and financial status had shifted fundamentally. France had once again consumed its extended EPU quota (indeed, except for the Banque de France's gold, the country was virtually bankrupt) which ought to have given the other OEEC countries more leverage. Yet France's participation was indispensable to the two European trading systems then under consideration, a situation which strengthened the country's diplomatic position. Thus the EEC countries were willing to extend financial help to encourage the French to apply the Treaty of Rome, while those who favoured a Free Trade Area hesitated to pull the plug on the French economy. In short, just when France needed aid the most, her allies could least afford to turn it down.

After Gaillard became Prime Minister in November, his government drew up an austerity plan which cut the projected 1958 budget deficit to some 700 billion francs. Unsatisfied, at its December session the Managing Board again refused to extend credits despite a German offer to provide $100 million to the EPU.[20] Following consultations with IMF Executive Director Per Jacobssen, the Gaillard government drafted a memorandum promising, *inter alia*, to reduce the 1958 deficit to 600 billion francs, to avoid further borrowing from the Banque de France, and to restrict sharply the credit supply.[21] Gaillard called on Jean Monnet (his former boss at the Commissariat Général du Plan) to lead the difficult negotiations in Washington. The Monnet team enjoyed support from Jacobssen and the Department of State, which no doubt helped it to overcome opposition from the Treasury and the Export-Import Bank.[22] Once the United States had agreed to address France's deficit with the dollar zone, the Europeans could hardly refuse to finance its EPU deficits. Nonetheless, the Swiss almost torpedoed the aid package by cutting their proposed contribution at the last minute, causing renewed German hesitations.[23] In the end the French managed to wring some $655 million from their allies, including $274 million from the United States, a $131 million stand-by credit from the IMF, and $250 million from the EPU.[24]

Of course, in addition to protecting the franc from speculation, the January credit package virtually ended the EPU's influence over French policy. To be sure, the OEEC Council did charge the Managing Board with supervising the application of the Gaillard memorandum, giving it the power to block the $70 million meant for the 1958-1959 fiscal year. Thus, in June 1958, after the political crisis which brought General Charles de Gaulle back to power, and when the French neglected to submit a second quarterly report, the Managing Board refused to release the second tranche of the EPU credit. Worse: the French, once again pointing to balance-of-payments difficulties, marked the anniversary of de Gaulle's 1940 call for resistance by delaying reliberalisation of imports from OEEC. The next month, however, the Managing Board did agree to extend the credit, no

doubt as a result of political pressure: at a time when the Free Trade Area negotiations had reached a critical point, the OEEC countries could hardly afford to appear stingy.[25]

* * *

By the autumn of 1958 the economy began to feel the delayed effects of Gaillard's policies while the public regained confidence under conservative Finance Minister Antoine Pinay, famous for his anti-inflationary policies and his opposition to devaluation. In July Pinay, taking advantage of de Gaulle's popularity, had managed to float a major loan which took pressure off the French Treasury. Although currency markets still expected a devaluation by the spring of 1959, and the Managing Board continued to supervise the French economy, it seemed that the French had made the first steps on the road to recovery.[26]

But just when France's finances were starting to stabilise, the British suddenly raised the stakes in European monetary diplomacy.[27] Now the issue was no longer how to manage payments within the EPU but whether to switch over to a new system of convertible currencies. In London, the Bank of England and the Treasury, encouraged by the rise in sterling reserves since Suez, and no doubt concerned that the government would be tempted to reflate the domestic economy in the months leading to the 1959 general elections, argued that Britain should restore non-resident convertibility as soon as possible. Starting in August, British monetary authorities began to lobby for a return to convertibility, which also implied the replacement of the EPU by the European Monetary Agreement. But the Prime Minister, Harold Macmillan, concerned lest the dissolution of the EPU provide the French with an excuse for breaking off the Free Trade Area talks, repeatedly blocked approaches to the Banque de France and the Bundesbank. However, Macmillan's prudence did not prevent the financial press from speculating that the British would soon make the pound convertible as a means of revenge against the French.

For France, the danger was not so much that further EPU credits would not be forthcoming, but that roughly $450 million in past loans would come due immediately, placing Paris once again at the mercy of foreign creditors. (Indeed, some in Britain, including senior ministers, thought that precisely this threat might serve to convince the French to soften their opposition to the Free Trade Area.[28]) However, in late September, even before rumors regarding British schemes leaked out, the de Gaulle government, determined both to stabilise French finances and to assure national independence, had commissioned an *ad hoc* committee under Jacques Rueff to draft a financial reform plan. Little is known about the drafting of the plan, but the process was presumably influenced by Britain's convertibility projects as well as by German promises of financial support.

In late 1958, as the French crisis was reaching its *denouement*, the European powers took a series of decisions that would eviscerate the OEEC. First, in mid-November, after determining to throw in its lot with the Germans and apply the EEC Treaty, the French government publicly rejected the Free Trade Area. The French move no doubt made it only a matter of time before the British would decide to restore convertibility. Thus, in mid-December, following hectic behind-the-scenes manœuvering (including a German promise of a $300 million loan to shore up the franc), the British, French and German

finance ministers jointly agreed to restore convertibility and to dissolve the EPU by the end of the month. The de Gaulle government took advantage of this occasion to apply a tough version of the Rueff committee's recommendations, including far-reaching economic reforms, substantial budget cuts, and a 17.5 per cent devaluation of the franc, which made it possible to stop inflation in the medium term while maintaining public and private investment. Thus, after years of pressure from her OEEC creditors, France finally restored financial stability, but only as a part of decisions that effectively ended the OEEC's role in Europe's commercial and monetary affairs.

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The French crisis demonstrated both the strengths and the limitations of European monetary co-operation in the second half of the 1950s. The credits granted by France's OEEC partners helped the country to delay suspending import liberalisation until June 1957, thereby limiting commercial tensions in Europe. Furthermore, EPU supervision of France's policies strengthened the chances for domestic reform and trade liberalisation. But the history of the crisis shows that, despite the Managing Board's efforts at compromise, the EPU often proved unable to reach workable solutions. As a result, the terms on which France received credits were to be decided by the methods of traditional diplomacy, including the by now ritual voyage by high French officials to Washington. Over time, as the stakes involved in the negotiations rose, the EPU's power would decline until it was reduced to little more than a forum for inconclusive debate.

One may also question whether the nostrums proposed by the experts really addressed the causes of France's difficulties. To the extent that these resulted from accidents, such as the rather sudden reduction in United States military aid, the 1956 harvest failure, or the post-Suez oil price hike, they hardly indicated a need for long-term adjustment. And while deficits also reflected a national preference for continued growth and investment, this was arguably a laudable goal: not only France, but all OEEC countries benefited from French expansion. Indeed, France's most important trading partner, Germany, repeatedly chose to extend credits, not only for political reasons, but also to maintain its export markets.

In effect, the Managing Board tended to take an overly narrow view of France's difficulties. More was at stake in the French crisis than financial orthodoxy or the stability of the franc. Thus, one country's tenacious economic difficulties turned into a European diplomatic crisis because the OEEC was unable to engender sufficient macroeconomic policy coordination, the condition *sine qua non* for continued trade liberalisation. Moreover, had pressure for deflation been successful, it might have undone French acceptance of the Common Market. Likewise, had the EPU been better able to safeguard French interests, this might have improved the chances for the Free Trade Area, and with it, the preservation of the OEEC as a framework for West European co-operation.

In sum, the French Crisis highlighted the EPU as a source of both needed credits and unwelcome advice which simultaneously kept the French economy afloat yet loosened Paris's attachment to the OEEC. The EPU's weaknesses reflected not so much

institutional myopia as differences in national economic interests and doctrines. Whatever their causes, the EPU's decline strengthened the case for limiting integration to the Lotharingian core of the European Continent. In this way, the French crisis undermined the economic order that had done so much to favour postwar Europe's economic recovery and growth.

NOTES

1. Abbreviations used in the notes:
   DE/CE Direction des Affaires économiques et financières, Service de coopération économique (see MAE)
   HAEC Historical Archives of the European Communities, Florence
   MAE Ministère des Affaires étrangères, Paris
   PREM Prime Minister's Office (PRO)
   PRO Public Record Office, Kew.
2. For an interpretation that stresses its achievements see J.J. Kaplan and G. Schleiminger, *The European Payments Union: Financial Diplomacy in the 1950s*, Oxford, 1989, 266-86.
3. I would like to thank the helpful archivists at the Historical Archives of the European Communities, and especially those responsible for the OEEC collection, Madame Catérine Previti, Conservateur du Patrimoine, and Dr. Jean Marie Palayret, Director.
4. Economic historians have neglected the post-reconstruction years of the Fourth Republic. Until Frances Lynch's forthcoming book appears, the most useful sources will remain contemporary analyses such as A. de Lattre, *Politique économique de la France depuis 1945*, Paris, 1961; J. Weiller, ''Relations commerciales et financières de la France au cours de la reprise des années 1952 à 1956'', *Cahiers de l'I[nstitut de] S[cience] É[conomique] A[ppliquée]*, Series P, No. 9 (January 1964), 3-40; and *idem*, ''Les conditions internationales de la croissance française et la crise des paiements des années 1956-1958,'' *Cahiers de l'ISEA*, Series P, No. 10 (October 1964), 91-116.
5. Speculation was apparently set off by the rumor that Robert Marjolin, who favoured devaluation, might serve as Finance Minister in a government headed by Socialist Christian Pineau. MAE, DE/CE 198, Leroy-Beaulieu to Sadrin, 7 January 1956.
6. Kaplan and Schleiminger, *European Payments Union*, 271.
7. HAEC, OEEC Archives, 365, EPU, *Comments by Mr. Calvet on the Occasion of the Examination of the Situation of France at the 82nd Session of the Managing Board of the European Payments Union, 13th, 14th and 15th March, 1957*, TFD/PC/454.
8. Kaplan and Schleiminger, *European Payments Union,* 272.
9. See, for an example, HAEC, OEEC Archives, 256, *Minutes of the Meeting of the Working Group of Economic Experts, 9th-10th October 1957*.
10. J.K. Horsefield, *The International Monetary Fund, 1945-1965: Twenty Years of Monetary Cooperation,* Washington, 1969, 1:428.
11. Kaplan and Schleiminger, *European Payments Union*, 272.
12. D. Kunz, *The Financial Diplomacy of the Suez Crisis*, Chapel Hill, 1991, 154-62.

13. For French requests see *Foreign Relations of the United States, 1955-1957* (hereafter *FRUS, 1955-1957*) Washington, 1992, 27:96-98.
14. This in fact represented only $50 million in new credit, because under the EPU rule requiring 75 per cent gold or dollar settlements, to take advantage of the $200 million *rallonge*, the French would have to pay in $150 million. Kaplan and Schleiminger, *European Payments Union*, 273.
15. HAEC, OEEC Archives, 365, OEEC Council, *Report by the Managing Board of the European Payments Union on the Position of France*, C(57)65, 5 April 1957.
16. See *FRUS, 1955-57*, 27:124-26.
17. Kaplan and Schleiminger, *European Payments Union*, 275.
18. HAEC, OEEC Archives, 365; OEEC Council, *Invocation by France of Article 3(e) of the Code; Report by the Steering Board for Trade*, C(57)179, 27 July 1957.
19. HAEC, OEEC Archives, 365, OEEC Council, *Report by the Managing Board of the European Payments Union on the Situation of France*, C(57)210, 10 October 1957.
20. HAEC, OEEC Archives, 365; EPU, *Minutes of the 91st and 92nd Sessions held at the Château de la Muette on 8th-10th and 21st-25th January, 1958,* MBC/M(58)1.
21. HAEC, OEEC Archives, 365, *Memorandum by French Authorities*, annex to ''The Situation of France and the French Government's Programme'', Report by the EPU Managing Board to the OEEC Council, C(58)31.
22. See MAE, DE/CE 332, Monnet's reports on his negotiations in Washington in the telegrams, French Embassy in Washington to the Ministry of Foreign Affairs, 16, 24, and 25 January 1958.
23. Kaplan and Schleiminger, *European Payments Union*, 280.
24. For the details of the financial package, see [United States], Department of State, *Department of State Bulletin*, 38 (1958), 269-73.
25. Kaplan and Schleiminger, *European Payments Union*, 282.
26. HAEC, OEEC Archives 365, *Development of the Situation of France During the First Nine Months of 1958*, Report by the Managing Board to the OEEC Council, C(58)243, 31 October 1958; compare the views of the IMF team which visited France in late October; MAE, DE/CE 207, *Minutes of Meeting No. 10 held on Wednesday, October 29, 1958 at 5:00 p.m., Ministry of Finance*.
27. For developments in late 1958 see P.M. Pitman, ''Le programme de réforme financière français et le rétablissement de la convertibilité en Europe occidentale,'' forthcoming in *Du franc Poincaré à l'écu*, ed. Comité pour l'histoire économique et financière, Paris, 1993.
28. PRO, PREM 11/2671, *Note of a Meeting held at 10 Downing Street, S.W. 1, on Thursday, 28th October 1958, at 12.15 p.m.*, 28 October 1958; *Note of a Meeting held at 10 Downing Street, S.W. 1, on Wednesday, 5th November 1958, at 10.15 a.m.,* 6 November 1958.



Ludwig Erhard at the OEEC Ministerial Council Meeting, 5 November 1957.



Couve de Murville at the OEEC Ministerial Meeting, December 1958.



Olivier Wormser at the OEEC Ministerial Meeting, December 1958.



OEEC Ministerial Meeting, December 1958. From left to right: John Coulson, Reginald Maudling and Sir Hugh Ellis-Rees.



Summit Meeting at the Elysée, December 1959. From left to right: Harold MacMillan, Charles de Gaulle, Konrad Adenauer, Dwight D. Eisenhower.



The Four Wise Men visit the OEEC, March 1960. From left to right: Bernard Clappier, Randolph Burgess, Xenophon Zolotas, Paul Gore-Booth.



Randolph Burgess (left) and Douglas Dillon (right) at the OEEC Council Meeting, January 1960.



Sir Hugh Ellis-Rees at his farewell party, April 1960.



Signature of the OECD Charter in the Salon de l'Horloge, Quai d'Orsay, December 1960.



M. Thorkill Kristensen, first Secretary-General of the OECD.

Chapter XVIII

''AN ACT OF CREATIVE LEADERSHIP'': THE END OF THE OEEC AND THE BIRTH OF THE OECD[1]

Richard T Griffiths[2]

Writing to his superior on New Year's Eve, 1958, the Deputy-Secretary General of the OEEC ''Flint'' Cahan reflected,

> ''The year which has now ended has been a momentous one for the Organisation. I am fully confident that 1959 will present even greater opportunities for achievement. After such a resounding demonstration of the importance of the OEEC as that which we have just had... I can no longer doubt that our troubles over the Free Trade Area will shortly be resolved.''[3]

Even a cursory look at the OEEC's record would have led an observer to the conclusion that it had been one of considerable attainment. The introduction, in December 1958, of nonresident convertibility represented the fulfilment of a goal set over a decade earlier. This permitted the dissolution of the discriminatory, soft, automatic credit regime of the European Payments Union and the belated operation of the Bretton Woods agreement. Simultaneously, however, the OEEC lost one of its main functions, which had been the management of the European payments system. The other major achievement of December 1958 was the decision by France to abolish quotas on 90 per cent of its private trade. France had been in breach of the Liberalisation Code for several years and the announcement meant that, under the auspices of the OEEC, all the major trading nations in Europe had virtually abolished quotas on their mutual trade. This success, however, also raised questions about the future of the trade liberalisation scheme, the other major prop of the Organisation's activities. Should the OEEC respond by concentrating on the total elimination of quotas on intra-European trade and, if not, what else should it be doing?

In December 1958 one could argue that the intra-European trade and payments schemes, introduced initially to solve the dollar deficit had been too successful. Quota discrimination against the United States was still widespread at a time when the outflow of dollars was becoming a source of deep concern for the American administration.[4] If the European payments position no longer justified regional discrimination, and if intra-European trade discrimination had ceased to be a part of the solution and had become part

of the problem of international disequilibria, and if international forums in the shape of the IMF and the GATT already existed for dealing with these issues, was it not time to contemplate a change in the OEEC's character?

All the above considerations have been used to explain the transition of the OEEC, with Canadian and United States association, to the Organisation for Economic Co-operation and Development (OECD), with Canadian and United States membership. They all appear, for example, in the ''Group of Four'' report on the future of the OEEC, published in April 1960.[5] Thus one could argue that the OEEC's very success had put it out of business. Unfortunately the historical record reveals a story that is neither so tidy nor so kind. At the end of 1958, officials in the OEEC had little time for self-satisfied contemplation. Instead they were embroiled in a crisis that divided its membership and that sapped the Organisation itself of its leadership and sense of direction.

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The crisis that gripped the OEEC in its final days originated in questions that had been smoldering for several years: questions that lay at the core of the operation of the Liberalisation Code. Nonetheless there was no reason to anticipate that they would so come to dominate the agenda; far less that they would signal the beginning of the end of the Organisation.

The tariff issue had never really been properly tackled by the Organisation. In 1954-55 the Benelux countries had been considering the creation of a free trade area within the OEEC as a means of linking the process of quota removal irrevocably to the elimination of tariffs. Since this never even reached the agenda, in January 1955 the so-called ''Low Tariff Club'' signalled their dissatisfaction with developments by making their acceptance of a new 90 per cent liberalisation target conditional upon progress on the tariff front. In eighteen months time they demanded a review of progress, with the possibility of reversing the relaxation of their quota regimes if nothing had been done. It is probable, too, that this rebuff kept the customs union issue on the political agenda in the Netherlands and provides a direct explanation why it re-emerged in a Benelux memorandum to the six foreign ministers of the European Coal and Steel Community when they met in Messina in June 1955.[6] At that meeting the Six agreed to initiate a study into the issues addressed by the Benelux memorandum and extended an invitation to the United Kingdom to join them.

The United Kingdom, caught unprepared by the invitation, considered trying to steer the initiative to the OEEC where it could use the chairmanship to stall progress.[7] This strategy, and a loose preference expressed for a free trade area, both failed to deflect the Six from continuing their discussions on a common market. By this stage, remarkable though it may seem in retrospect, policy-makers had convinced themselves that the venture would collapse. Unwilling to be seen as responsible for its failure, the United Kingdom, in November 1955, announced its withdrawal.[8] Since the assumption that the common market negotiations would fail proved to be manifestly misplaced, ministers were soon confronted with the need to formulate a policy that would cope with the prospect of ''the reality of a discriminatory bloc, in the heart of industrial Europe,

promoting its own internal trade at the expense of trade with the other countries in the free world''.[9] By May 1956, ministers had reduced the range of options to one, which would neutralise the dangers of the customs union and might prove sufficiently attractive to the Six: that of a pan-European free trade area (henceforth FTA).[10] The scheme, announced officially in November 1956, was limited to industrial goods only in an effort to preserve Commonwealth preferences and United Kingdom (and others') protectionist agricultural policies.[11] By this time, the fate of the FTA had become inextricably entangled with the OEEC.

In July 1956, the OEEC Council was due to deliberate the renewal of the liberalisation scheme and the 90 per cent target. The ''Low Tariff Club'' had come armed with a proposal for automatic tariff cuts of 25 per cent on commodities whose trade was primarily intra-European, with the benefits extended to other GATT members. The British cabinet wanted to reject this but was understandably concerned that this step would risk the reimposition of quota restrictions, a paralysis of the OEEC and the loss of all credibility when its FTA scheme was eventually announced. The ideal solution would have been to overtrump the low tariff scheme with the FTA as a more attractive and radical option but the plan was not ready, let alone approved. Thus, the solution was to resort to the tried and trusted method of referral to an OEEC Working Party: this one to study ''co-operation'' between the Six and the rest of the OEEC. Fortunately the OEEC's Secretary-General, René Sergent, was willing to front the manœuvre.[12] The transparency of the ploy was obvious to all and left a bitter aftertaste. The Six saw it as a United Kingdom attempt to ''sideline Messina and smother it''; the proponents of the European commodities scheme were incensed that their proposal was not discussed. This second sentiment was shared by the Americans who had hoped to benefit from the non-discriminatory elements in the scheme and ''reproach us bitterly for shelving it.''[13]

It was in this atmosphere of suspicion, disappointment and recrimination that Working Party No. 17, chaired by Baron Snoy d'Oppeurs, was born. The Working Party moved smartly to discussing, particularly, what rules would be needed by a free trade area and how these would differ from the requirements of a common market. It also spent much time hearing of the difficulties that any such arrangements would cause Europe's less developed countries. The excellent final report, published in January 1957, listed an impressive range of technical difficulties;[14] difficulties that could be exploited to kill the proposal if the political climate were not right. Moreover, although the United Kingdom plan need not have been presented in the OEEC, the creation of Working Party No. 17 and the nature of its deliberations made it difficult to do otherwise. Besides, since the United Kingdom held the chair, the OEEC offered the advantage of shaping the agenda and controlling the discussions. The fate of the OEEC thus became linked to the outcome of the FTA negotiations.

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There is no room here to describe the often tedious negotiations on the FTA or to analyse the reasons for their eventual failure. It is important simply to note that by early 1958, the discussions were veering sharply away from a pure, ideal-type free trade area.

French counter-proposals, for example, wanted restrictive entry rules for certain sectors, a share in UK preferences in Commonwealth markets and separate decisions for each step in moving towards the FTA.[15] Until this point the Eisenhower Administration had supported the creation of the EEC, despite the potential commercial disadvantages, because its creation had advanced its political goals in Europe. It made a clear distinction between the positive appraisal of the EEC and the more neutral tolerance for the FTA, which threatened to spread discrimination against the United States on a wider geographical scale and which also lacked the same political content.[16] Nonetheless, as the chasm began to grow between the United Kingdom and the Six, the State Department urged American ambassadors to use their good offices to avoid a complete breakdown.[17] This brought a response from Paris and Luxembourg asking whether the effort was worth expending on something that bore little resemblance to the GATT interpretation of a free trade area and that was likely to embody ''significant restrictive and preferential aspects'' directed against US commerce.[18] These developments occurred against a backdrop of a sharp fall in the size of the American trade surplus and a correspondingly sharp deterioration in the overall deficit on the balance of payments. The balance on civilian goods and services had fallen from a 1957 peak of $8.6 billion, to $5.3 and $2.9 billion in the following two years. During this period, net military sales and government grants alone stayed within a range of $5.5 billion. Other capital movements experienced only a small decrease, thus leaving an overall increase in the balance of payments deficit from $0.4 billion in 1957 to $4.5 billion in 1959.[19] What had previously been regarded with haughty equanimity or disdain, now became the subject of a more prosaic reassessment. Although the State Department's basic position remained unchanged, it now warned against stopgap solutions inconsistent with the GATT and against any solutions that would endanger the implementation of the Treaty of Rome.[20]

In the event, the threat to the Treaty of Rome came first not from the FTA, but from the collapse of the Fourth Republic and the coming to power of De Gaulle who had always been a fervent opponent of supranationality. Although he immediately dispelled any ideas that France might abrogate the Treaty, there still remained the possibility that France might approach the first tariff cuts, scheduled for January 1959, by employing all the exemption clauses it contained. On the other hand, if the French wanted to liberalise the domestic economy and expose it to competition, the Treaty of Rome, with its safeguard clauses and provisions for harmonising certain social legislation, offered a controlled environment for doing so. As the French finance minister, Antoine Pinay, told Reginald Maudling, who was chairing the OEEC's negotiating committees, France had no intention of jeopardising the painful process of economic restructuring by ''premature indulgence'' in the FTA.[21] In an attempt to circumvent the danger that France might not assume its full EEC obligations, both Germany and the EEC Commission threw their weight behind French efforts to shape the FTA to its own liking. Thus the Six supported French demands for special studies for paper and pulp, aluminium, chemicals, automobiles and parts, to determine what extra restrictions they would require for their inclusion in the FTA. In a letter to Macmillan, Maudling branded this initiative as attempt to ensure that ''when the Free Trade Area comes into being, there is no freedom and very little trade''.[22] Nonetheless, in September 1958, the OEEC agreed to undertake these studies.

The United States Undersecretary of State, Douglas Dillon's, call in the GATT in September 1958 for a new round of tariff negotiations afforded the occasion for another French diversionary tactic. This was seized upon by the head of the economic section at the Quai d'Orsay, Olivier Wormser, to suggest that possibly the OEEC states should agree their bargaining positions in advance to prevent the erosion of preference margins agreed in the FTA or to prevent new trade distortions emerging. It took little fantasy to realise that, if it came about, this extra preliminary negotiation would render GATT procedures virtually unworkable.[23]

If the FTA was turning into a bizarre travesty, there was little doubt that the lead was being taken by France. It was also France that now appeared willing to derail, at the outset, the United States initiative to improve its trading position through a new GATT round. Wormser bluntly informed United States embassy officials that France ''was not ready to be led down (the) path of trade liberalization via FTA and GATT''.[24] At the end of October, the French ambassador Hervé Alphand had a meeting with Dillon. It was to mark the beginning of a period of close co-operation between both governments at the end of which there would be no pan-European FTA and no OEEC. The archive record of that encounter is cryptic but, with a little imagination, it is clear what went on. Things, Alphand probably conceded, were indeed a mess and France appeared to deserve the blame. But everything was caused by the FTA, which France had never wanted from the beginning. As long as the threat of the FTA remained, the liberalisation of the French economy was in danger, the GATT round was in danger and France's participation in the EEC was in danger. What, he asked, did the Americans really want: the EEC or the FTA? Dillon replied that the United States had always preferred the EEC above the FTA, from which Alphand deduced that he would acquiesce in any decision to terminate the latter if it would preserve the former.[25]

On 7 November, immediately after a ministerial meeting of the Maudling Committee, Jacques Soustelle, the French minister of information, announced that France saw no point in continuing negotiations along the present lines. Although the statement was open to different interpretations, a letter from de Gaulle to Macmillan the same day put the issue beyond any doubt.[26] Also the same day, Dillon was asked at a press conference for a statement on events. In a reply that emphasised American interests in wide tariff cuts and a liberal EEC tariff regime, he uttered not one word of regret or blame about the demise of the FTA.[27]

With the FTA dead, the OEEC member states faced the likelihood that on 1st January 1959, when the EEC put into operation their first mutual tariff cuts and extensions of quotas, the organisation would be faced with renewed, institutionalised discrimination within its ranks. In truth, the indignation surrounding this prospect was somewhat contrived since customs unions, by their nature, favour their membership but they are nonetheless permitted by the GATT. Besides, the initial 10 per cent tariff cut was unlikely to have an immediate impact on the pattern of trade. However, in the standoff that the FTA negotiations had become, the ''discrimination'' had come to acquire a symbolic importance. Thus, on both sides of the divide, policy-makers tried to find ways to mend the breach. One obvious solution would be to extend the EEC concessions to other OEEC member states, as a ''first installment'' on the FTA. This, too, had occurred to French policy-makers but they were dissuaded by the Americans from making any

such suggestion. John Tuthill, the American commercial attaché in Paris, informed Wormser that the United States would not accept a preferential discriminatory proposal aimed against itself, ''which contained only the negative political merit of avoiding a clash within Western Europe''. The following day, the American ambassador to the EEC virtually sat at the shoulder of French officials until they had got things right: the tariff concessions would not be offered to the OEEC members but to the GATT as a whole, as a demonstration of the Community's commitment to a liberal world commercial order.[28] The United States was beginning to use its privileged relationship with the Six, and with the French in particular, as a vehicle for realising its own commercial global strategy aimed at reducing tariff and non-tariff barriers against US exports. Aside from the EEC, this view had no room for further discrimination in Europe.

At the next OEEC Council meeting, in December 1958, the Six offered to share their tariff cut on a GATT basis, without demanding reciprocity.[29] On the other hand, they wanted to deal with the opening of quotas bilaterally. It was this point that caused controversy since, under the OEEC Liberalisation Code, a country that had not fulfilled its 90 per cent obligation was not allowed to discriminate against other members. At that precise moment, France was still in breach of the Code. In an ill-judged statement, which exceeded his brief, the President of the Board of Trade, David Eccles, threatened France with reprisals should it undertake new quota discrimination. The French foreign minister, Couve de Murville, leapt to his feet and exclaimed that he had not the slightest intention of continuing negotiations under threat and withdrew his support for the EEC's compromise on this point.[30] Huddled consultations in corridors and side rooms failed to budge the French and the Council meeting ended in disarray. The OEEC Council was not to meet again at ministerial level for over a year.[31] For American observers the European squabble on sharing out French quota concessions in the interests of non-discrimination must have appeared somewhat obscene: virtually every member state present still maintained differential quota discrimination against the United States.[32]

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In the months that followed, two groups worked towards a solution. The seven ''non-Six'' members in the Maudling negotiations agreed in March 1959 to explore the possibilities of forming a free trade area amongst themselves. The move had a certain commercial logic of its own but was conceived primarily to facilitate an eventual reconciliation with the Six based on a wider FTA.[33] The six EEC states had meanwhile instructed the Commission with the task of preparing a common position. There were two lines of thought. One lay in trying to salvage the FTA by incorporating some positions dear to the French: a sector approach to resolve the problem of tariff disparities and to move forward by stages requiring new decisions along the way. The alternative lay in worldwide solution which would have no European dimension other than consultations on specific projects. This second approach was favoured by the French, who were heartily sick of the FTA; by the German government, still paying the ''price'' for full French participation in the EEC; by the Commissioners such as Hallstein and Rey, who saw this as the best way to reinforce a separate identity for the Community...[34] and by Americans, who could hardly have done better if they had written the script themselves.[35]

The first Commission proposals were never published nor were they accepted by the ministers of the Six. Instead, a further committee was established which limped slowly towards a second memorandum. Dubbed ''the Hallstein Report'', this eventually appeared in September. It pledged the EEC to a path of commercial liberalism and underscored the global approach of the earlier version. Several months earlier, however, the Seven had started their own free trade area negotiations in Sweden that would end in the creation of the European Free Trade Association (EFTA). These developments, in their turn, raised the problem of how to reconcile the two groups. Among the ideas being aired was a mutual extension by the Six and the Seven of the next round of tariff cuts.

The State Department received sharply conflicting advice from its ambassadors. The messages from Brussels and Paris had little time for the Seven, let alone any eventual bridge between them and the Six. They condemned the efforts of the Seven as the outcome of a typically selfish attitude which took no account of the progress towards political unity in Europe or the commercial interests of the United States. To support EFTA endangered the forwards looking policy of the EEC and risked creating the impression that it would go to any lengths to avoid a split in Europe. On the other hand, London warned of the heavy political costs involved in opposing the Seven and counselled against ''destroying hope'' of a solution between the two groups.[36] Faced with this advice, the State Department modified its position and aired the change when European ministers were in Washington for the annual IMF and World Bank meetings. As Dillon informed the German economics minister Ludwig Erhard, the United States would support the Seven if the arrangement was consistent with the GATT. Its ''real concern'', however, was a ''discriminatory arrangement'' between the Six and the Seven ''to the detriment of the rest of the World and particularly the United States... if such a discriminatory arrangement came into being, the United States would oppose it in the GATT''.[37] This already represented a considerable departure from the position of a year earlier, but the French wanted more: the unequivocal endorsement of the Six and an end to any talk of pan-European FTAs. The problem was that it was still far from certain that the EEC, and France, would develop in a liberal direction. Dillon told Pinay of his worries about French protectionism and suggested that an authoritative statement of French policy on the course the EEC should follow would help dispel American suspicions. Alphand followed up this contact by asking for some help in controlling the British.[38] From the archive record there is no explicit evidence of a deal. However, if there was one, the United States was good to its word. On 13 October, the United States ambassador to the EEC was instructed to convey broad US support for the Hallstein proposals.[39] A few days later, Dillon asked for a meeting with Sir Roger Makins who, because of the United Kingdom elections, was deputising for his minister. He warned him bluntly that whilst the American Congress had accepted the EEC because of its political function in promoting Franco-German rapprochement, the administration anticipated a much rougher ride for any new regional blocs without a similar political content.[40]

All these manœuvres had three effects. First, the Six immediately suspended any further consideration of Dutch schemes for mutual tariff cuts by the EEC and EFTA. Second, Macmillan called a restricted ministerial meeting to examine United Kingdom policy towards Europe and, immediately afterwards, established a committee of officials to prepare a new policy. Finally, it raised a question mark over the future of the OEEC. It

had already lost its functions on monetary matters when the EPU had been abolished. The United Kingdom, especially, had hoped to use it to cope with the tariff and quota discriminations stemming from the existence of the EEC. The French were equally adamant that it should do nothing of the kind. But, if it were not now to reconcile divergent commercial policies, what was it to do?

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To appreciate the next stage of the OEEC's history, it is necessary to consider developments within another international body: the North Atlantic Treaty Organisation (NATO). At its third annual meeting in November 1957, the NATO Parliamentary Congress had called for member states to take measures to enhance their economic collaboration. The motion had been the basis for several pious declarations of intent but precious little else. However, by the beginning of 1959, there were reasons, perhaps, to take the resolution a little more seriously. In the first place, the Soviet ''economic offensive'' in the Third World had caught the organisation off-balance for both a material and a propaganda response. Secondly, the French threats to withdraw their Mediterranean fleet from NATO command, following a US abstention on a United Nations vote on the Algerian question, disrupted NATO's unity and sense of purpose throughout the year. Simply put, NATO was in need of a diplomatic coup of some kind.

In March 1959, Hubert Humphrey tabled a motion in the United States Senate that, building on an earlier NATO Congress Resolution, had invited the Senate to enjoin all democratic states to examine new ways to foster ''more effective and democratic unity in advancing their economic and political affairs, their joint defence and the aims of world peace and individual freedom''. The proposal called for the convening of an Atlantic Congress and, secondly, for a committee of leading citizens to be charged with the task of preparing recommendations.[41] Although the draftees had taken account of Herter's sensibilities, expressed before he replaced the dying John Foster Dulles as Secretary of State,[42] the State Department had considerable doubts about complicating the ''democratisation'' of NATO (*i.e.* the Parliamentary Conference and now the Congress) with yet another layer of bureaucracy.[43] Despite misgivings, the so-called Atlantic Congress was opened by Queen Elizabeth II in Westminster Hall in June 1959.[44] It was confronted with a petition, signed by 157 internationally known figures, that emphasised the growing importance of the ''economic front'' in the Cold War, and proposed the transformation of the OEEC into an Organisation for Atlantic Economic Co-operation in which the United States and Canada would participate as full members.[45] Cahan, who had addressed the Congress, saw little sense in the idea; as associate members the United States and Canada already had many rights without the hassle of having to pay, or the more onerous obligation of getting legislative approval for membership. He felt that nothing would come of it but suggested that the Organisation should nonetheless make some contingency plans.[46] A preliminary State Department evaluation also doubted whether the Congress would make any lasting impact on events. Compared with the Council of Europe in 1949, whose success the Congress had been hoping to emulate, the preparatory work had been inadequate, the level of representation patchy, the quality of the debate imprecise and the follow-up mechanism totally lacking.[47]

The idea of constructing an Atlantic organisation out of the OEEC rather than within NATO began to gather strength after the Congress. For example, in an interview in *United News and World Report* (13 July) Jean Monnet called for a partnership between industrial Europe and the United States to co-ordinate aid to underdeveloped countries. In August, the US delegation to the EEC reported that ''top Commission circles'' felt that the OEEC had finished its task of liberalising postwar Europe. Since they were unwilling to give it the role of creating a seventeen-country FTA, they suggested transforming it into a body that included the United States and Canada and that could discuss ''Free World problems''.[48] The idea was nudged more firmly into the limelight by the French. Alphand and Wormser approached Dillon to sound out American thinking on ''some broader problems of the free world''. In particular, they suggested that the UK, the EEC and the USA could usefully collaborate in two areas: the co-ordination of responses to business cycles and of policy to deal with the needs of the less developed countries. The proposal, they suggested, was useful in its own right but it could also serve ''to divert the British from their narrower preoccupation with European trade problems''.[49] The US ambassador to NATO, Randolph Burgess, added another consideration. Pointing to the OEEC's proven record against protectionism and the reserve of pan-European spirit, he urged its revitalisation to forge a front against Soviet economic expansionism. ''There is no other organisation in sight to do it better. The destruction or substantial impairment of OEEC... would amount... to handing the Soviets a tremendous victory on a silver platter.''[50] A final consideration, of course, was that sitting together with the Europeans would allow the Americans to keep a tighter grip on the future development of European discriminations.

The growing head of steam behind a reorganisation and redefinition of the OEEC did not dispatch the NATO claim. In November, the Secretary-General of NATO, Paul-Henri Spaak, asked Herter for ''quick and spectacular'' action to solve NATO's economic problems, both within the alliance and in its assistance towards less developed countries. Without wanting to increase the US economic contribution, he nevertheless called for its imagination and leadership. The State Department's position, however, was that NATO was not the appropriate body for dealing with the aid issue since its close identification with the aid effort might embarrass friendly governments.[51] The Treasury and Defence Departments were also concerned that linking defence and foreign aid might allow Europeans to try to shift the balance within the total towards increased aid and lower defence. Accepting these arguments, however, ''would leave us with no concrete and immediate initiative for NATO Ministerial Meeting [the summit meeting scheduled for mid-December] and we would be reduced to continued exhortations for Europeans to do more without any further impetus to crystallize the situation and generate pressures on Europeans as a group''.[52] The Fifth NATO Parliamentary Conference in Washington on 16-20 November recommended better co-ordination within the OEEC but deliberately held aloof from choosing between a transformation of the OEEC, with United States and Canadian membership, and the creation of a new NATO Economic Council.[53]

At the end of November, Herter decided the issue. In a memorandum to Eisenhower he advocated reform of the OEEC and American membership. The new body would mobilise the resources of industrialised countries to assist the Less Developed Countries and would redirect emerging trade rivalries in Europe into ''constructive channels''. He concluded, ''This action would symbolise our determination to work with Western Europe

on the basis of full partnership in attacking the major problems of development and trade. It would constitute an act of creative leadership in a recently deteriorating situation''. The Americans were particularly concerned to ''provide for some form of participation by Japan'' in the new organisation, preferably as a full member. However, despite the composition of the organisation, it was underlined that United States commitments would not go beyond acceptance of basic objectives and agreement to discuss and provide information.[54]

The task of securing European support for the initiative fell to Dillon. After obtaining British acquiescence,[55] if only because it was felt that American involvement might temper the predisposition of the French to ''kill the OEEC altogether'',[56] Dillon travelled to Paris where the proposal was developed further and adapted to French sensitivities. On the evening of 11 December, Dillon and Tuthill met with Wormser to examine the possibility of future discussions in Europe on the Six/Seven issue and the American balance of payments problem.[57] Wormser immediately dismissed the OEEC as the appropriate forum for such discussions and initially rejected a suggestion that, when the ministers assembled in Paris, that they should also have informal talks, outside the scope of the main OEEC meeting. However, following conversations between Dillon and Monnet and discussions between Monnet and Couve de Murville the so-called ''Dillon Proposal'' was agreed, based on new French instructions which had ''come down from above''. Nobody, least of all Sergent and Cahan, doubted ''the importance of the influence still wielded behind the scenes by M. Monnet''.[58] The proposal called for the formation of a ''New Group'' to meet before the OEEC Ministerial meeting, to discuss the future of European economic co-operation and the possibility of strengthening trans-Atlantic links. To demonstrate the Group's independence, it would meet at the Hotel Majestic rather than at the OEEC Secretariat.

With agreement secure, Dillon now favoured using the December summit meeting between Eisenhower, Macmillan, de Gaulle and Adenauer to make the announcement rather than leaving it for the State of the Union address to Congress the following month. But first he had to overcome last minute Treasury opposition to ceding any responsibilities on aid to the revamped OEEC, or to any new NATO body for that matter. Dillon dismissed Treasury objections as derived from a narrow, parochial interpretation of departmental competencies. To limit the summit declaration to trade would be beneath the dignity of the world leaders and would ignore Eisenhower's commitment to the aid issue. Besides, he observed astutely, ''I feel certain that President would prefer broad and comprehensive approach to world economic problems which entirely in keeping his character and interests. Other heads of government will also prefer this type of approach''.[59] The next day he addressed the President directly, suggesting that ''the Western summit meeting offers a great opportunity to demonstrate convincingly the determination of the leaders of the Free World to patch up the European trade quarrel and to move ahead with measures to mobilise and co-ordinate assistance from the industrialised countries to the less developed areas.''[60] After the foreign ministers had ironed out the remaining problems,[61] it was left to the four leaders of the free world to glaze their otherwise ''initiativeless'' meeting with the formal announcement.[62]

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Throughout 1959, the OEEC's headquarters in Paris was not a happy place. The deep divisions in the membership in the wake of the December, 1958 Council meeting were also reflected within the Organisation's hierarchy. Sergent and Cahan had both gradually become disenchanted with the French delaying tactics[63] and the facade of an impartial Secretariat had become more difficult to maintain. This had cost Sergent the support of many top officials in France.[64] Moreover, Cahan had been in favour of even more assertive action, and Sergent was either unable or disinclined to restrain him, especially in the aftermath of the FTA's collapse. Cahan, therefore, made a succession of unauthorised and partisan speeches in Strasbourg, Dublin and Ankara. He capped this in August 1959 by circulating a pamphlet entitled *A House Divided.* This criticised the disarray after the failure of the FTA and, in particular, regretted that the Organisation was not headed by someone of greater stature.[65] This was the last straw, and the Bureau, four heads of delegation who supervised the daily running of the Organisation,[66] decided to suggest that he leave the Organisation. Indeed, voices were raised in favour of sacking the entire top of the Organisation, and were only dissuaded from doing so by the consideration that the time was not ripe for a ''ministerial crisis''. That did not mean that they were prepared to tolerate maladministration and Sergent was summoned and told to take a tougher line.[67] The malaise at the top had spread throughout the Organisation. Section heads ran their departments like fiefdoms, with little regard for the overall direction of the Organisation's policies. Senior posts were left unfilled because appointment committees became battle grounds for personal prestige. Staff who would not normally have looked for other jobs now began to consider them seriously, especially after speculation on the OEEC's future had become rife in the aftermath of the NATO Parliamentary Council meeting in mid-November. When, in January 1960, the head of the trade section, Marc Ouin, left for a senior post with Renault, it sent shock waves through the Organisation.[68] The final blow to morale was yet to come. When the Hotel Majestic meeting started on the evening of 12 January 1960, the OEEC was completely excluded. Sergent was furious and described his position as ''highly embarrassing''. He claimed that he had acted in the best interests of the Organisation but had been treated with a complete lack of consideration. He could not understand why he had been not been invited to a meeting that concerned the future of the Organisation of which he was Secretary General. He was particularly bitter towards Wormser, and also towards Dillon, ''who of course would fall over backwards to do anything the French wanted''.[69]

The discussions in the Hotel Majestic were marked by the clear division of the Six and the Seven into opposing camps. Both groups of countries had taken the opportunity to meet separately beforehand to prepare their collective positions. The United Kingdom representative, Paul Gore-Booth, noted sardonically that ''the importation into diplomacy of the Parliamentary tradition of a Government and an Opposition, will not really be very satisfactory''. Moreover, the Americans and the French made little effort to conceal their special relationship. Ignoring the protocol of seating arrangements in alphabetical order, the United States delegation sat snugly next to the French: ''an apparently trivial but not unimportant fact''.[70]

Despite such underlying tensions, there was no opposition to the proposed reorganisation of the OEEC, with most parties adopting a ''wait and see'' approach. The outcome of the meeting was a resolution establishing a ''Group of Four on Economic

Organisation'' (G4). This had reflected the ideas already formulated a year earlier by Jean Monnet who, despairing of seventeen countries deciding anything, had advocated the formation of a small Executive Economic Committee within the OEEC.[71] In November 1959 his *Action Committee for the United States of Europe* had called for a Round Table of the EC Commission, the United Kingdom, the United States and one other OEEC country to discuss common problems, to elaborate common policies for aid to Less Developed Countries and to co-ordinate policies for balanced economic expansion. According to American sources, these proposals had earlier been cleared with Couve de Murville.[72] Now, with the exception that there was a member from an EC state rather than from the Commission, G4 represented the adoption of the formula. It consisted of Gore-Booth, Burgess, a high French official from the Quai d'Orsay, Bernard Clappier, and the governor of the Bank of Greece, Xenophon Zolotas. Their task was to examine the various problems and possibilities for a rejuvenated OEEC, and to prepare a draft convention.

The freezing out of OEEC official influence continued when the G4 started work not at the Chateau de la Muette, but in offices provided by the French Government at the Centre des Conférences Internationales in Paris. The OEEC member states, the heads of international organisations and the heads of some OEEC departments were invited to express their views on the most appropriate arrangements for reorganisation.

The Americans were the first to outline their position, arguing that the current front in the Cold War had changed from defence to economics. ''In this situation the members of the OEEC must look onwards and combine their own growth and stability with policies aimed at achieving the same results in the outside world.'' Burgess emphasised the priority of aid in the new organisation, and the importance of including the Japanese.[73] By contrast, the British were more cautious about going too far in the aid field, and preferred an ''Atlanticist'' concept for the new organisation which would restrict membership to North America and Europe.[74]

However, the two most difficult areas of contention within the Group were, firstly, the question of the trade competence of the new organisation, and secondly, the degree to which it would be a continuation of the old. On the issue of trade, it became clear from the outset that the United States and France would have nothing to do with the existing Code of Liberalisation, and they were extremely reluctant to concede any competence in the field of trade at all.[75] This was met by the argument that the overwhelming majority of OEEC members who had expressed their views to the group preferred to maintain the Code in some way.[76] The task of reconciling these diverging views was given to Clappier who had ''an exceedingly difficult time wrestling on the one hand with his colleagues and on the other with his conscience''. Ultimately a compromise draft was prepared, which argued that the old Liberalisation Code must go, but left open the possibility of a replacement. Equally, trade competencies were not explicitly excluded and could be added to the new Organisation's tasks if the members so decided. It was not quite what the British had wanted but was considered a vast improvement on Wormser's views.[77]

The problem of the transition period to the new organisation caused further divisions along much the same lines. The French and Americans were anxious to present the future organisation as a wholly new one. They therefore argued that all OEEC decisions and

resolutions should lapse, and the new organisation be reconstituted to include only those acts which were unanimously agreed to. This way, a single veto could be used to block any undesirable aspect of the OEEC. On the other hand, most of the European members stressed their desire for the continuity of the legal personality of the Organisation, and argued that all OEEC acts should be preserved unless they were subsequently altered by the new organisation. Under this interpretation, the power of veto could be used to block any change in the OEEC. The French view was forcefully conveyed to the Group by Wormser, who stressed that the OEEC, like all international organisations, was an instrument of government without independent existence. ''If on an objective, dispassionate appraisal, it was found to have completed its job, it should be altered, suppressed or replaced without sentiment.'' Without the responsibility for the EPU and with a regional trade approach disfavoured by the GATT, ''only the debris of OEEC were left''.[78] A compromise solution was reached in which it was agreed that the legal personality of the organisation should be preserved, but that all acts of the OEEC would be subject to a unanimous vote before carrying over to the new organisation. This in effect meant the lapsing of all OEEC decisions, and the scales were ''thus weighted in favour of those who desire a clean sweep''. However, Gore-Booth felt that this concession was ''part of the price of getting United States, Canadian and French membership at all''.[79]

These compromise solutions, together with a draft convention, were incorporated into the final report of the G4, handed down on 7 April 1960. The report recommended the reorganisation of the OEEC to include the United States and Canada, and to be renamed the ''Organisation for Economic Co-operation and Development'' (OECD). In drafting the report, the United States came out strongly for enhancing the role of the Secretary-General and making him chairman of the Council. This was partly because they were impressed with what Spaak had achieved for NATO and partly from a philosophy of hiring a good man and letting him get on with the job. Whilst Gore-Booth could see the logic in this, he held the United Kingdom line, supported by Zolotas, in insisting on the preservation of the Executive Council. The primary function of the new organisation would be the co-ordination of aid for underdeveloped countries, but it would also involve a measure of economic policy consultation, and co-operation on trade matters.

Among the EFTA countries, the Report received hostile reaction from the Norwegian finance minister, Arne Skaugs, who treated the British ambassador to ''a tirade'' about the G4 report. He could not understand why Paul Gore-Booth had ''let us all down'' by following the American and French line and agreeing to such a thoroughly unsatisfactory set of proposals.[80] They were angered by the suggestion that all OEEC decisions and regulations should lapse, and by the ambiguity on trade competence. These complaints were echoed by the Swedes, who expressed themselves to be fully sympathetic with Norwegian views.[81] Even greater furore greeted the Report in Switzerland, with the appearance of a long and highly critical article in the *Neue Zurcher Zeitung* on 29 April, which was said to closely reproduce the views of the foreign trade minister, Hans Schaffner. From the start, the Swiss had been suspicious of the United States initiative. There was some resentment at what was regarded as a ''diktat'' by the larger powers, but the main opposition arose from the suspicion that the Americans, together with the French, wished to shelve the Six/Seven problem and establish the EEC as the

dominant European organisation. The Swiss felt that France did not want a European regional association, nor a healing of the rift between the Six and the other OEEC countries. This was also felt to be the policy of the United States, who were primarily concerned with their balance of payments problem and therefore did not wish to see Europe united on trade questions – hence the relatively weak emphasis on trade questions in the G4 report. They felt that the Report's recommendations would lead to the ''emasculation'' of ''the only organisation in Western Europe effective in economic affairs as the price of United States membership, and as the result of French and US policies''.[82]

In the United Kingdom, the response was on the whole, quite favourable. Ellis-Rees saw the report as a success, especially ''considering that the Americans embarked on the exercise with very little understanding of what the OEEC represented and that the French outlook was tainted with nihilism''.[83] Of course there were objectionable elements, some of which were articulated by the EFTA partners and ''we could perform a broad reversal of policy, but that if we did so, we would consolidate the opposition to our views and be left with scarcely a friend in the process. The OEEC cannot go on as it is; if we reject the present initiative we shall have destroyed the only, if imperfect, symbol of free European economic co-operation and unity which now exists''.[84]

* * *

During these proceedings, the atmosphere in the Chateau de la Muette had become ever gloomier. In happier days, Cahan had considered an overhaul of the Secretariat one of the more important tasks since its methods, dating almost unchanged from 1949, were ''quite unsuited'' to the current work. He had looked forward to a small team guiding the reorganisation.[85] Instead the OEEC's operations came under the less relaxed scrutiny of the G4 hearings. The technical committees received short shrift from nearly all the national delegations and a thorough clean-out appeared an almost universal solution. Of the major committees, the work of the Steering Board of Trade received the most plaudits and pleas for its continuation in some form. This, of course, was opposed by the French who were still worried that it would allow the reopening of the FTA question. The EPU had already been wound up and its remaining tasks subsumed by the European Monetary Arrangement, an unobjectionable setup to which no-one objected. The European Productivity Agency, however, came in for a great deal of criticism. It appeared as a bunch of technocrats following their own policies whatever the aims of the Organisation.[86]

None of this helped to improve morale and the British embassy described the Headquarters, which was preparing for the farewell party for Ellis-Rees, as being in a ''state of chaos''. Sergent and Cahan were extremely unhappy about the impotence to which the OEEC had been reduced and the bleak future that appeared to await it. When it came to the printing of the report, Clappier had been under strict instructions to avoid any mention of the OEEC on the cover. The OEEC had only been allowed to print the report because they could do it faster than any other printer in Paris – and they had subsequently been told by an official at the Quai d'Orsai: ''Now you have been reduced to a printing establishment. That is the right role for you''. Within a month of publication of the

report, some eight or nine Counsellors or Directors had resigned, and the organisation had no real work to do.[87]

The growing malaise within the Organisation brought greater urgency to the need for a quick changeover period from OEEC to OECD. The Americans took the lead in this, proposing the early date of 6 May for a meeting of officials from member countries to discuss the G4 report. However, this seemingly procedural matter also brought out differences among the member countries, with the Swiss, Swedes, Germans and Italians all protesting that this date gave inadequate time for proper evaluation. The British were well aware of the need for rapid action, but were reluctant to meet American requests to pressure the Swedes and Swiss. In the words of a US State Department representative in London, ''the air was not exactly humming with co-operation''.[88]

The meeting was therefore postponed until 24 May. Much as the Americans had feared, this extra time also provided the opportunity for further objections, which began to cut across Six/Seven loyalties. The Germans expressed their concern over the weak trade clauses. They felt that the OECD should do much the same as the OEEC in trade matters, and that certainly the Code of Liberalisation should be retained. They also shared Norwegian and Swiss fears about the lapsing of all OEEC decisions and regulations. If the signatories of the OECD convention had little idea of what they were agreeing to, they would be buying a ''pig in a poke''.[89] Similar concerns were also voiced by the Dutch who felt that this ''loophole'' would probably be used by members of the new organisation to get out of their OEEC liberalisation and other obligations.[90] However, by far the most significant development was the appearance of an ''Alternative Draft Convention'', put forward by the Swiss. Their draft envisaged that decisions and agreements of the OEEC would remain in force unless otherwise decided by Council. Moreover, it included a specific reference to the objective of ''liberalising trade and payments and establishing as free and wide a market as possible''. The Swiss desire to settle the Six/Seven dispute in the new organisation was reflected in a further amendment, which provided that the respective heads of both the EEC and EFTA should be represented in the new organisation.[91] The marked divergence between Swiss views on the one hand, and French and American objectives on the other, appeared to guarantee a heated contest at the meeting on the report.

The tone of the May meeting, however, was set by a conciliatory British statement welcoming the G4 Report as a basis of further progress, and suggesting that elements of the Swiss draft might usefully be incorporated. They were anxious to avoid a situation whereby a hard line by the Swiss, Swedes and Norwegians would discourage eventual American participation.[92] They therefore called for restraint on the review of OEEC acts, so that the identity of the organisation could be preserved as fully as possible. Later in the day, the Swiss formally presented their alternative convention and emphasised that the acts of the OEEC should be maintained. On this point they received strong support from the Swedes, Belgians, Dutch, Norwegians, Portuguese, Spanish, Austrians, and Italians. In addition, they proposed that a special committee should be established within the new organisation to discuss the Six/Seven problem.[93] Some heat was taken out of the discussions by an American intervention that made clear that they were not opposed to a continuation of the OEEC's work on trade but only to the discriminatory, regional character of previous measures. This took much of the wind from the French argument

that the elimination of jurisdiction over trade had been to assuage American sensibilities. The British played an intermediary role, seeking to ''strike a balance between supporting reasonable demands of EFTA partners, and securing a compromise to earn the gratitude of the Americans''. The final resolution was a United Kingdom brokered compromise. It created a working party to draw up a draft convention based on the G4 report, the Swiss proposals and the matters raised at the meeting. It would also establish ''criteria'' and a procedure for deciding which acts of the OEEC would be carried over to the new Organisation. A further ministerial meeting would, hopefully, endorse the results and approve the designation of a new Secretary-General.[94]

On 22-23 July, a ministerial meeting was held in Paris to initial the draft Convention. Much had been achieved by the Working Party in the intervening weeks, especially in the dispute over preservation of OEEC acts. It had reached sufficient agreement on ''fundamental'' OEEC acts to allow the Swiss and others to sign the convention without fear of a radical transformation. The ministerial meeting was therefore able to achieve a substantial settlement of most of the difficult points. The critical issue remained the trade competence of the OECD. Initially, the French had continued to block the trade issue, and insisted that they would accept what the United States Government could accept, ''no more and no less''. They were clearly embarrassed when the Americans were prepared to go as far as accepting a separate ''trade'' paragraph in Article 1 of the Convention but bravely agreed ''for the sake of European agreement''. Finally, the conference appointed the former Danish Finance Minister Thorkil Kristensen, as Secretary-General designate of the OECD, and Secretary-General of the OEEC during its final phase. Under his direction continuity during the transformation would be achieved.[95]

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The final draft convention establishing the Organisation for Economic Co-operation and Development was signed on 14 December 1960. The OECD went on to establish itself publicly for the quality of its economic analysis and, less well known, for providing a forum for the discreet discussion of economic problems. That, however, cannot detract from the fact that its birth was neither easy nor uncomplicated. ''Lessons'' from history are hard to draw, especially for a development so embedded in the specificities of the past as were the origins of the OECD. We began the article with a quotation from Flint Cahan's New Year's letter looking forward to 1959. It is perhaps appropriate to end with an extract from his reflections for 1960:

> ''Nobody has yet succeeded in convincing me that all we do now is good and useful. Much of it is a hang-over from our past, and we all know that countries and organisations who cannot escape from their pasts are doomed, one day, to die. This is the inevitable fate of human beings, but it need not be the fate of organisations, provided they are sufficiently adept at adapting themselves to changed circumstances.''[96]

NOTES

1. Abbreviations in the notes:
   BA Bundesarchiv, Koblenz
   CAB Cabinet (See PRO)
   DE/CE Direction Économique, Service de Coopération Économique (See MAE)
   FO Foreign Office (See PRO)
   HAEC Historical Archives of the European Communities, Florence
   MAE Ministère des Affaires étrangères, Paris
   NARA National Archives and Records Administration, Washington
   PREM Prime Minister's Office (See PRO)
   PRO Public Record Office, Kew
   RG 59 Record Group 59, State Department (See NARA)
   T Treasury (See PRO).
2. I would like to thank Stuart Ward for his research assistance in the preparation of this article.
3. HAEC, OEEC Archives, 13/3, Cahan to Sergent, 31 December 1958.
4. It would, in a couple of years, become a cause of embarrassment for Europe as well.
5. *A Remodelled Economic Organisation. A Report by the Group of Four established by the Resolution of 14th January 1960 of the Twenty Governments and the Commission of the European Economic Community*, Paris, 1960.
6. The Six had been discussing a customs union within the context of their negotiations for a European Political Community. When, in the summer of 1954, these had petered out it had been apparent that France had been resolutely opposed. Not wanting to invite a new failure at the outset of the European ''relaunch'', Monnet and Spaak had originally been sceptical about including it in the Benelux memorandum. They had preferred sticking to their original plan of extending the ECSC to cover atomic energy, a field that they knew interested the French.
7. PRO, FO 371/116038, Ellis-Rees to FO, 7 June 1955.
8. The government sanctioned an OEEC heads of delegation meeting to make the announcement. To the fury of the Benelux countries, in particular, Ellis-Rees used the occasion to brand the initiative as premature and to accuse the Six of attempting to divide Europe into two camps. PRO, CAB 134/1030, *Statement by Sir Hugh Ellis-Rees, 6 December 1955*.
9. PRO, FO 371/122022, Thorneycroft to Eden, 20 January 1956.
10. PRO, T 234/190, *Record of Conclusions of a Meeting held in the Chancellor of the Exchequer's Room, Treasury, on 31st May 1956*.
11. HMSO, *A European Free Trade Area, United Kingdom Memorandum to the Organisation for European Economic Co-operation*, London, 1957.

12. PRO, CAB 129/82, *Organisation of European Economic Co-operation and tariffs. Memorandum by the Chancellor of the Exchequer and the President of the Board of Trade*, CP(56)172, 9 July 1956; CAB 128/30, Minutes of Cabinet, 12 July 1956.
13. PRO, T 234/195, Bretherton to Cohen, 23 July 1956. This account is somewhat at odds with the upbeat account in Macmillan's memoirs. See H. Macmillan, *Riding the Storm, 1956-1959*, London, 1971, 79.
14. OEEC, *Report on the possibility of creating a Free Trade Area in Europe prepared for the Council by a special working party*, Paris, 1957.
15. PRO, T 234/375, *Projet français associant à la Communauté Économique européenne les autres pays européens au sein d'une Union Européenne de Coopération Économique*.
16. *Foreign Relations of the United States*, 1955-1957, IV, 450-453.
17. NARA, RG 59/440.002/1853, Department of State Instruction, 31 January 1958, 13 February 1958.
18. NARA, RG 59/440.002/1853, Paris to Secretary of State, 19 February 1958; Luxembourg to Secretary of State, 26 February 1958; RG 59/440.002/1854, Paris to Secretary of State, 1 March 1958.
19. Figures taken from *Survey of Current Business, 1968*, and converted into the earlier system of categorisation up until 1965. The American practice of including short term capital is not common in Europe. However, in this case the figure is extremely small and does not distort the overall picture.
20. NARA, RG 59/440.002/1853, State Department Circular, 20 February 1958; RG 59/440.002/1854, State Department Circular, 20 March 1958.
21. PRO, FO 371/134528, Foreign Office to OEEC Delegation, 4 July 1958.
22. PRO, PREM 11/2532, Maudling to Macmillan, 30 September 1958.
23. MAE, DE/CE 754, Note 6 October 1958. This position was greeted with frank incomprehension by the British (PRO, T 234/378, *Record of a meeting held in the Paymaster General's Office... Tuesday 14th October 1958*) and it was also raised in the Maudling Committee later that month.
24. NARA, RG 59/440.002/1855, Paris to Department of State, 30 October 1958.
25. MAE, DE/CE 754, Alphand to MAE, 31 October 1958; NARA 59/440.002/1855, Department of State Circular, 3 November 1958. The following day, the French embassy sought clarification of the US priorities, that the USA had no intentions to intervene, that it only supported an OEEC solution ''if possible''.
26. Quoted in Macmillan, *Riding the Storm*, 457-458.
27. NARA, RG 59/440.002/1855, State Department Circular, 8 November 1958.
28. NARA, RG 59/440.002/1855, Paris to Secretary of State, 18 November 1958; Luxembourg to Secretary of State, 19 November 1958.
29. Many French and Italian tariffs would have had to come down eighteen months later as part of the realignment to the new common external tariff (CET), so the concession was not as great as it seemed. Moreover, the mutual concessions on the Benelux tariffs that lay below the CET were not globalised.
30. HAEC, OEEC Archives, 24/3(80), Council 423rd session, 15 December 1958.

31. The problem was resolved when, at the end of December, France returned to 90 per cent liberalisation as part of a sweeping package of economic reform that included a second devaluation, the restoration of convertibility and the full acceptance of EEC obligations.

32. Compare the European data in OEEC, *Twelfth Annual Economic Review*, Paris, 1961, 185, with the data for the USA in O. Hieronymi, *Economic Discrimination against the United States in Western Europe (1945-1958),* Geneva/Paris, 1973, 119.

33. See R.T. Griffiths, ''The Importance of Fish for the creation of EFTA'' in *EFTA Bulletin*, 1/92, 1992, 34-40.

34. BA, B 136, 2598, Vialon to Adenauer, 28 January 1959; MAE, DE/CE 745, CIE *Note a.s. politique commerciale extérieure de la CEE*, 30 January 1959. HAEC, *Premier memorandum de la Commission de la Communauté Économique Européenne au Conseil des Ministres de la Communauté en exécution de la décision du 3 December 1958 relatif aux problèmes posés par la création d'une Association économique européenne*, 26 February 1959, COM(59)18 Rev 2.

35. Marjolin's rationalisation of the Commission's report to Butterworth carefully mirrored all the American sensibilities. See NARA, RG 59/440.002/1856, Brussels to Secretary of State, 4 March 1959.

36. NARA, RG 59/440.002/1858, Brussels to Secretary of State, 10 September 1959; Paris to Secretary of State, 24 September 1959; London to Secretary of State, 24 September 1959; RG 59/840.00/4395, Luxembourg to Secretary of State, 25 September 1959.

37. NARA, RG 59/440.002/1858, Department of State Memorandum of Conversation, 28 September 1959. Similar conversations were held with Lange, Luns and Segni.

38. Pinay made this statement in his budget speech on 6 November. He called for the quick removal of all quota discrimination against dollar goods (placing a two year limit on quotas on manufactures), the reduction of the EEC's external tariff on the basis of reciprocity and an early start to GATT negotiations.

39. NARA, RG 59/440.002/1858, Department of State Circular, 13 October 1959.

40. NARA, RG 59/440.002/1858, Department of State to London, rptd, 19 October 1959.

41. Senate Resolution 19 March 1959 introduced by Humphrey, Clifford Case, Cooper and Kefauver (S.Con.Res 17). Identical resolutions were tabled in the House of Representatives by Morgan, Carnahan and Zablocki (H.Con Res.146, 107, 108).

42. NARA, RG 59/740.5/3159, Roper to Herter, 21 April 1959: ''...we have tried to get the document to correspond with what Clifford Case said you thought advisable. Maybe we're on the road to a convention that will show as much imagination in facing up to the problems of government in the twentieth century as another convention showed once in facing up to the problems in the eighteenth century''.

43. NARA, RG 59/740.5/3159, Merchant to Secretary of State, 4 May 1959.

44. This was a privately sponsored and privately directed event attended by some 600 citizens from fourteen of the fifteen NATO states; Iceland refused to attend such a meeting in London because of the ''cod war'' between itself and the UK.

45. *The Times*, 6 June 1959, p. 7. The petition included such names as former President Truman, Adlai Stevenson, W. Averell Harriman, and future under-Secretary of State, Chester Bowles. Full list of signatories and the text of the petition are in NARA, RG 59/740.5/3160, *Declaration of Atlantic Unity*.

46. HAEC, OEEC Archives, Secrétaire Général, Réorganisation de l'OECE, 12/III, Cahan to Sergent, 16 June 1959.

47. NARA, RG 59/750.5/3160, Paris to Secretary of State, *The Atlantic Congress, London, 5-10 June 1959*, 26 June 1959.
48. NARA, RG 59/440.002/1857/, Birgfield to State Department, 3 August 1959. Tuthill to Acting Secretary of State, 11 September 1959.
49. NARA, RG 59/440.002/1858, Memorandum of Conversation, 5 October 1959.
50. NARA, RG 59/440.002/1858, Burgess to Secretary of State, 22 October 1959.
51. NARA, RG 59/740.5/3162, Kohler to Under Secretary, 18 November 1959 and accompanying documentation.
52. NARA, RG 59/750.5/3162, Herter to Burgess and Tuthill, 9 December 1959.
53. NARA, RG 59/750.5/3163, NATO Parliamentians' Conference, *Report of the Economic Committee* and *Economic Committee Resolutions*, November 1959.
54. NARA, RG 59/440.002/1858, *Memorandum for the President. Subject: Proposed United States Initiative to Mobilize Free World Resources for Development and to Strengthen Trade Relations*, *Proposal for US Membership in a Reorganized OEEC*, 24 November 1959. These documents are reproduced in *Foreign Relations of the United States, 1958-1960, Vol. IV: Foreign Economic Policy*, Washington, 1992, 58-62.
55. PRO, T 234/717, *Mr. Dillon's Visit, Sixes and Sevens: Record of a Meeting Held in the Foreign Office at 3 pm on December 8, 1959*.
56. PRO, T 234/718, Memo from Clarke to Treasury Officials; *Europe*, 4 January 1960.
57. An account of this meeting was given by Valery to Ellis Rees, who duly communicated developments to the Treasury. PRO, T 234/721, Ellis Rees to Clarke, *Note for the Record: Dillon Proposals*, 17 December 1959.
58. PRO, FO 371/150094, Harpham to Jackling, 5 May 1960. For Dillon's account of the events see NARA, RG 59/750.5/3612, *Memorandum for the Secretary*, 13 December 1959.
59. NARA, RG 59/840.00/4397, Dillon (eyes only) to Herter, 15 December 1959.
60. NARA, RG 59/840.00/4397, Dillon to Eisenhower, 16 December 1959.
61. NARA, RG 59/440.002/1859, Herter to State Department, 19 December 1959.
62. The Communique called for an informal meeting to be held in Paris with the object of ''furthering the development of the less developed countries'', and ''pursuing trade policies directed to the sound use of economic resources and the maintenance of harmonious international relations''; *A Remodelled Economic Organisation; A Report by the Group of Four, Paris, April 1960*.
63. Cahan had become increasingly impatient of French manœuvering. For example, he condemned the French proposals in March 1958 as ''the most selfish, the most hypocritical and the most unrealistic approach to an international problem that I have ever seen in a document prepared by the government of a civilised country'' (HAEC, OEEC Archives, 13/3, Cahen to Sergent, 24 March 1958). Later, he described their attitude as ''the negation of co-operation'' (*Ibid*., Cahan to Sergent, 23 June 1958).
64. PRO, FO 371/150076, Crawford to FO, 30 January 1960, reporting a conversation with Valery.
65. PRO, FO 371/142463, Ellis-Rees to Gore-Booth, 12 September 1959.
66. They were Ellis-Rees, Valery, Ockrent and Werkmeister.
67. PRO, FO 371/142463, Ellis-Rees to Gore-Booth, *Note for the Record*, 21 September 1959, 22 September 1959.

68. PRO, FO 371/150079, Ellis Rees to FO, 16 January 1960

69. For practical reasons, the meeting was not attended by all twenty OEEC member and associate countries, but by a cross-section of thirteen countries to represent the various interests. Most of these countries were from the EEC and EFTA, but Greece attended as a representative of the ''peripherals''. The thirteen countries were Belgium, Canada, France, Denmark, Germany, Greece, Italy, The Netherlands, Sweden, Switzerland, Portugal, the United Kingdom, the United States, and a representative of the Commission of the EEC. PRO, FO 371/150091, Ellis-Rees to Gore-Booth, *Note for the Record*, 21 April 1960.

70. PRO, T 234/719, Paul Gore-Booth, Paris Economic Meetings, 11-15 January 1960; *Some Diplomatic Notes*.

71. NARA, RG 59/840.00/4392, *Legal Implications of US accession to OEEC Convention*, (Department of State Legal Advisor), 10 December 1959. Background Brief for Dillon by Button, 13 December 1958.

72. NARA, RG 59/840.00/4396, Butterworth to Secretary of State, 18 November 1959, 11 December 1959.

73. PRO, FO 371/150076, Gore Booth to FO, 29 January 1960; FO 371/150077, *Second Meeting of the Group of Four on Economic Organisation, Centre des Conférences internationales (Paris), 29 January 1960*.

74. PRO, CAB 134/1819, *Re-organisation of the OEEC. Memorandum by the Chancellor of the Exchequer*, EQ(60)5, 8 February 1960.

75. PRO, FO 371/150091 Gore-Booth to FO, *GOFEO: Comments by the UK Member on Report and Draft Convention*, 20 April 1960.

76. A preference for the continuation of trade functions in the new organisation was expressed in varying degrees by the EFTA countries, Benelux, Germany, Greece and Spain. PRO, FO 371/150079-81.

77. PRO, FO 371/150091, Gore Booth to FO, *GOFEO: Comments by the UK member on Report and Draft Convention*, 20 April 1960.

78. PRO, FO 371/150077, *Twelfth Meeting, Centre International de Conférences, Paris, 8 February 1960*; FO 371/150078 Gore-Booth to FO, 9 February 1960.

79. PRO, FO 371/150091, Gore Booth to FO, *GOFEO: Comments by the UK member on Report and Draft Convention*, 20 April 1960.

80. PRO, FO 371/150093, Laver to Holliday, 4 May 1960.

81. PRO, FO 371/150094, Cullen to Holliday, 9 May 1960.

82. PRO, FO 371/150093, Gore-Booth to FO, 11 May 1960.

83. PRO, FO 137/150092 Ellis-Rees to Jackling, 26 April 1960.

84. PRO, FO 371/150094, *Future of the Organisation for European Economic Co-operation. Paper approved by the Minister of State, Foreign Office*, 11 May 1960.

85. HAEC, OEEC Archives, 13/3, Cahan to Sergent, 31 December 1958.

86. PRO, FO 371/150079, *Twenty Third Meeting. Centre Internationale des Conférences, Paris, 22 February 1960*, GF/CR/23.

87. PRO, FO 371/150094, Harpham to Jackling, 5 May 1960.

88. PRO, FO 371/150093, Gore-Booth to FO, 3 May 1960.

89. These fears were conveyed through numerous sources, including the German delegate to the OEEC, Werkmeister, and the German Commercial Counsellor in London. PRO, FO 371/150094, Hankey to Gore-Booth, 12 May 1960.
90. PRO, FO 371/150093, Kirk to Holliday, 29 April 1960.
91. PRO, FO 371/150095, *Notes on the Swiss Draft Convention*, 16 May 1960.
92. These fears had been expressed earlier within Arnold France's ''inner group'' in the Treasury dealing with European economic co-operation. PRO, FO 371/150094, Rich to FO, 16 May 1960.
93. PRO, FO 371/150097, Hankey (OEEC) to FO, 24 May 1960.
94. PRO, FO 371/150098, Hankey to Selwyn Lloyd, 1 June 1960.
95. PRO, FO 371/150104, Hankey to Home, *Ministerial Conference on the proposed Organisation for Economic Co-operation and Development*, 4 August 1960.
96. HAEC, OEEC Archives, 12/3, Cahan to Sergent, 24 December 1959.

Annex 1

THE MARSHALL PLAN SPEECH
ADDRESS BY GENERAL GEORGE C. MARSHALL
US SECRETARY OF STATE
HARVARD UNIVERSITY, 5 JUNE 1947

Presented here is the text of the speech given by United States Secretary of State, George C. Marshall, at Harvard University on 5 June 1947. This speech initiated the post-war European Aid Program, commonly known as the Marshall Plan. The Organisation for European Economic Co-operation, predecessor to the Organisation for Economic Co-operation and Development, was created to co-operate with the government of the United States in planning for the distribution of the aid. The paragraph in the speech which led to the creation of the Organisation for European Economic Development has been rendered in italics in this version.

I need not tell you, gentlemen, that the world situation is very serious. That must be apparent to all intelligent people. I think one difficulty is that the problem is one of such enormous complexity that the very mass of facts presented to the public by press and radio make it exceedingly difficult for the man in the street to reach a clear appraisement of the situation. Furthermore, the people of this country are distant from the troubled areas of the earth and it is hard for them to comprehend the plight and consequent reactions of the long-suffering peoples, and the effect of those reactions on their governments in connection with our efforts to promote peace in the world.

In considering the requirements for the rehabilitation of Europe, the physical loss of life, the visible destruction of cities, factories, mines and railroads was correctly estimated but it has become obvious during recent months that this visible destruction was probably less serious than the dislocation of the entire fabric of European economy. For the past 10 years conditions have been highly abnormal. The feverish preparation for war and the more feverish maintenance of the war effort engulfed all aspects of national economies. Machinery has fallen into disrepair or is entirely obsolete. Under the arbitrary and destructive Nazi rule, virtually every possible enterprise was geared into the German war machine. Long-standing commercial ties, private institutions, banks, insurance companies, and shipping companies disappeared, through loss of capital, absorption through

nationalization, or by simple destruction. In many countries, confidence in the local currency has been severely shaken. The breakdown of the business structure of Europe during the war was complete. Recovery has been seriously retarded by the fact that two years after the close of hostilities a peace settlement with Germany and Austria has not been agreed upon. But even given a more prompt solution of these difficult problems, the rehabilitation of the economic structure of Europe quite evidently will require a much longer time and greater effort than had been foreseen.

There is a phase of this matter which is both interesting and serious. The farmer has always produced the foodstuffs to exchange with the city dweller for the other necessities of life. This division of labor is the basis of modern civilization. At the present time it is threatened with breakdown. The town and city industries are not producing adequate goods to exchange with the food producing farmer. Raw materials and fuel are in short supply. Machinery is lacking or worn out. The farmer or the peasant cannot find the goods for sale which he desires to purchase. So the sale of his farm produce for money which he cannot use seems to him an unprofitable transaction. He, therefore, has withdrawn many fields from crop cultivation and is using them for grazing. He feeds more grain to stock and finds for himself and his family an ample supply of food, however short he may be on clothing and the other ordinary gadgets of civilization. Meanwhile people in the cities are short of food and fuel. So the governments are forced to use their foreign money and credits to procure these necessities abroad. This process exhausts funds which are urgently needed for reconstruction. Thus a very serious situation is rapidly developing which bodes no good for the world. The modern system of the division of labor upon which the exchange of products is based is in danger of breaking down.

The truth of the matter is that Europe's requirements for the next three or four years of foreign food and other essential products – principally from America – are so much greater than her present ability to pay that she must have substantial additional help or face economic, social, and political deterioration of a very grave character.

The remedy lies in breaking 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. The manufacturer and the farmer throughout wide areas must be able and willing to exchange their products for currencies the continuing value of which is not open to question.

Aside from the demoralizing effect on the world at large and the possibilities of disturbances arising as a result of the desperation of the people concerned, the consequences to the economy of the United States should be apparent to all. It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may render in the future should provide a cure rather than a mere palliative. Any government

that is willing to assist in the task of recovery will find full co-operation I am sure, on the part of the United States Government. Any government which maneuvers to block the recovery of other countries cannot expect help from us. Furthermore, governments, political parties, or groups which seek to perpetuate human misery in order to profit therefrom politically or otherwise will encounter the opposition of the United States.

It is already evident that, before the United States Government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government. 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. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program so far as it may be practical for us to do so. The program should be a joint one, agreed to by a number, if not all, European nations.

An essential part of any successful action on the part of the United States is an understanding on the part of the people of America of the character of the problem and the remedies to be applied. Political passion and prejudice should have no part. With foresight, and a willingness on the part of our people to face up to the vast responsibility which history has clearly placed upon our country, the difficulties I have outlined can and will be overcome.

As published in: *Foreign Relations of the United States, British Commonwealth and Europe,* vol. 3, 1947, pages 237-239 (Government Printing Office: Washington, 1976).

Annex 2

CHRONOLOGY*

1947

01/01	George C. Marshall appointed US Secretary of State in succession to James Byrnes.
12/03	''Containment'' speech by Harry Truman. Aid to Greece and Turkey.
05/06	Speech by US Secretary of State George C. Marshall at Harvard University. Offer of aid to Europe.
17/06	France and the United Kingdom accept Marshall Aid.
27/06-02/07	Franco-Anglo-Soviet Conference in Paris. Soviet rupture.
12/07-22/09	Conference on European Economic Co-operation convened in Paris by France and Great Britain to prepare the report to the US Government on economic aid.
22/09	The report puts the European deficit at 22 billion for the four years to come.
17/12	The Interim Aid Act for assistance to certain European countries comes into force.

1948

02/01	The US Congress passes the Economic Co-operation Act releasing $5 million in economic aid to Europe for the first of the four years covered by the European Recovery Programme (ERP). Paul G. Hoffman appointed Administrator of the Economic Co-operation Administration (ECA).

* Originally published in the *OECD Historical Series, The European Reconstruction 1948-1961, Bibliography on the Marshall Plan and the Organisation for European Economic Co-operation (OEEC),* OECD 1996.

16/04 Signing of the Convention for European Economic Co-operation by the Foreign Ministers of sixteen European countries and the Commanders in Chief of the Anglo-American and French zones of occupation in Germany, bringing the Organisation for European Economic Co-operation (OEEC) into being. Council elections for 1948-1949. Robert Marjolin is appointed to the post of Secretary-General. It is decided that the Organisation's headquarters shall be in Paris. Paul Henri Spaak is appointed Chairman of the Council.

17/04 Establishment of the Methods Committee and the Budget Commission.

11/05 Establishment of the following Committees:
- Balance of Payments
- Intra-European Trade and Payments
- Coal
- Electricity
- Oil
- Iron and Steel
- Food and Agriculture (Sub-Committee on Agricultural Machinery)
- Raw Materials
- Inland Transport
- Maritime Transport

22/05 Establishment of the following Committees:
- Textiles
- Chemical Products
- Timber
- Pulp and Paper
- Non-Ferrous Metals
- Hides and Skins

05/06 The Machinery Committee is set up.

11/06 Establishment of the Working Party to study problems relating to Trade.

28/06 Bilateral Franco-American agreement on Marshall Aid.

16/07 Approval of the basic principles for the establishment of the 1948-1949 Annual Programme; the principle of division of American aid by the OEEC is adopted.
Establishment of a Restricted Group on preliminary repartition of ERP aid.

20/07 Establishment of the Restricted Working Group on Intra-European Trade and Payments.

24/07 Adoption of the general principles of the Intra-European Payments Scheme.

25/07 Meeting of the ministers of member countries with Paul G. Hoffman of the Economic Co-operation Administration.

05/08 Establishment of the Committee to Study the Final Scale of Contributions.

20/09 Establishment of the Supervisory Sub-Committee (supervision of the system of payments and clearing between European countries).

04/10 Establishment of the Working Party on Overseas Territories.

14/10 The Anglo-American Zone of the Free Territory of Trieste accedes to the Convention.

16/10 Meeting of ministers of Member countries. The 1948-1949 Annual Programme is handed to W. Averell Harriman, United States Special Representative in Europe.
The Agreement for Intra-European Payments and Compensation is signed.
Establishment of the Committee of Ministers to study possible changes to be made in the structure of the Organisation.

31/12 The Council adopts the Report on the 1949-50 Annual Programme and the Interim Report on the European Recovery Programme.
Approval of the Interim Report on the European Recovery Programme 1948-1949 to 1952-1953 (1st Annual Report of the OEEC).

1949

01/01 At the invitation of the ECA, Baron Snoy (Chairman of the Council), Sir Edmund Hall-Patch (Chairman of the Executive Committee), Robert Marjolin (Secretary-General) and a group of experts leave for Washington to provide additional information on the 1949-50 Annual Programme and the Interim Report.

17/02 Establishment of a Consultative Group of Ministers to assist the Chairman of the Council in reviewing the most important issues facing the Organisation.

14/03 Establishment of a Working Party on Systems of Observation and Review.

26/03 On the basis of the Consultative Group's proposals, implementation of the 1949-1950 Programme, including intensification of the OEEC's activities in regard to agriculture and the development of tourism in Europe.

28/03 The Overseas Territories Committee is set up.

10/05 Establishment of the Working Party to consider Member countries' reports on internal financial stability.

04/06 The Consultative Group of Ministers frames trade liberalisation proposals, which are transmitted to Member country governments for consideration.

09/06 The following Sub-Committees are set up:
- Food and Agriculture, amending the Council Declaration of 12 April 1949
- Import and Export Programmes
- Agricultural Production Plans and Programmes
- Agricultural Machinery

– Fertilisers, Insecticides and Fungicides
– Working Party on Food Consumption Levels
– Fisheries.

02/07 On the Consultative Group of Ministers's proposal, the Council adopts the principles of the Payments and Compensation Agreement for 1949-50. Member countries are requested to take the necessary steps to phase out their quantitative import restrictions so as to achieve as high as possible a degree of trade liberalisation in Europe by 1951.

13/08 It is decided that Member countries will specify, by 1st October 1949 at the latest, those products from other Member countries in respect of which they have decided, or are ready to decide, unilaterally or by negotiation, to abolish import restrictions or automatic issue of import licences.

31/08 Approval of the recommendations made by the Chairman of the Council and the Secretary-General on the distribution of US aid and on drawing rights for 1949-50.

07/09 Signing of the Agreement for Intra-European Payments and Compensations for 1949-50.

29/09 On the Consultative Group of Ministers's proposal, the Council adopts new co-operation measures. The Council decides to submit a second report to the ECA on 15 January 1950 and approves a new method of fixed allocation of US aid for the last two years of the ERP.

30/09 Establishment of Restricted Special Committees to examine cases covered by Articles 33 and 34 of the Payments and Compensation Agreement between European countries for 1949-50.

31/10 Delegates of the Federal Republic of Germany take their seat in the Council for the first time.

02/11 The Council takes its first decision on liberalisation of intra-European trade, which is to bear on 50 per cent by 15 December 1949.

01/12 Establishment of the International Technical Association concerned with Artificial Textiles.

09/12 Establishment of the European Trade Fair Board.

1950

20/01 The Council approves measures to increase productivity in Europe. Working parties are set up to deal with questions relating to productivity and co-operation in scientific research and technical development.

31/01 The Council entrusts Dirk U. Stikker, Netherlands Minister of Foreign Affairs, with a mission as political conciliator of the Organisation. New decision of the Council concerning trade liberalisation.

22/02	Approval of the terms of the reply sent to the Secretary General of the Council of Europe concerning the proposals contained in the economic Recommendations adopted by the Consultative Assembly of the Council of Europe. Decision to establish official relations with the Council of European Industrial Federations. The Sub-Committee for Food and Agriculture is set up.
09/03	Establishment of a working party to consider Member countries' reports on internal financial stability.
04/04	End of the activity of the Consultative Group of Ministers.
25/04	Establishment of the Organisation's Committee for consultations with the Council of Europe.
03/05	Adoption of the first decision on liberalisation of invisible transactions.
19/05	Establishment of the Joint Working Party of the Overseas Territories Committee.
02/06	Canada and the United States are invited to participate unofficially in the work of the OEEC to review problems of common interest.
06/07-07/07	Approval of the provisions for the establishment of a European Payments Union; within fifteen days of signing an agreement establishing a European Payments Union, Member countries shall derestrict at least 60 per cent of their imports on private account from other Members.
07/08-20/08	Participation of Member countries in the first International Trade Fair in Chicago.
18/08	The Code of Liberalisation is adopted; Member countries pledge to phase out among themselves quantitative restrictions on merchandise imports. Decision to set up the European Payments Union. Appointment of the Managing Board of the European Payments Union.
04/09	Approval of a report on international investment.
19/09	The seventeen Member countries of the OEEC sign the Agreement establishing the European Payments Union (EPU).
21/09	Establishment of the Co-ordinating Group for Trade Liberalisation.
04/10	Member countries derestrict among themselves 60 per cent of their imports on private account.
07/10	The Council examines a memorandum by the Secretary-General concerning urgent economic problems and establishes a list of measures to be taken as a result of the changes which have occurred in the economic situation since the outbreak of the Korean War.
20/10	The Executive Committee instructs the Vertical Committees of the Organisation immediately to undertake a study on the scarcity of raw materials.

27/10 The Council adopts a new decision concerning the liberalisation of trade. Member countries undertake to derestrict 75 per cent of their imports on private account from other Member countries, taken as a whole, by 1 February 1951.

30/10 Establishment of a committee to consider the problems posed by relations between the Council of Europe and the Organisation.

02/12 Consideration of the Report by the Economic Committee on scarcity of raw materials. Recommendation to increase the output of and reduce the demand for scarce raw materials. Adoption of international co-operation measures and recommendations concerning skilled labour shortages in Europe.

06/12 At the invitation of the ECA, an OEEC delegation led by Sir Edmund Hall-Patch, Chairman of the Executive Committee, leaves for Washington to discuss all matters affecting possibilities of supply of raw materials.

13/12 The EPU opens a special line of credit to Germany.
The following bodies are set up:
– Food and Agriculture Committee on coarse grain production in the Overseas Territories
– Joint Working Party of the Overseas Territories Committee
– Textiles Committee on cotton production in the Overseas Territories.

1951

21/02 Germany suspends liberalisation of intra-European trade.

09/03-10/03 The Council accepts the invitation by the Governments of the United States, Great Britain and France to participate in the Central Group of the International Raw Materials Conference.

25/04 The Council approves the first report on European Economic Co-operation for transmission to the Council of Europe.

20/07 The OEEC organises a European campaign for increased agricultural production. The Council adopts the Code of Liberalisation of Trade and Invisible Transactions.

29/07 The representatives of the governments of OEEC Member countries, at a meeting of the Council, declare that their general policy aim is to increase overall production in Western Europe by 25 per cent over the next five years.

10/10 The President of the United States approves the Mutual Security Act replacing the ECA and bringing the Marshall Plan to an end.

08/11 The United Kingdom reduces from 90 to 61 per cent the degree of liberalisation of its trade with other European countries.

21/11 The Report on internal financial stability and inflation control is adopted and transmitted to the Council of Europe.

13/12 A European network of Technical Information Centres is set up on the initiative of the OEEC Committee for Scientific and Technical Matters.

1952

11/01 Establishment of a ''Ministerial Coal Production Group'' comprising the ministers in charge of coal production of France, Germany and the United Kingdom and headed by Dirk U. Stikker, Chairman of the Council, with instructions to frame proposals for increased coal production so as to enable Member countries to avoid recourse to exceptional imports in 1954.

01/03 France suspends liberalisation of intra-European trade.

11/03 The United Kingdom reduces from 61 to 46 per cent the degree of liberalisation of its trade with other European countries.

21/03 The Ministerial Coal Production Group produces its first report, with recommendations to the governments of European coal-producing countries to increase coal output.

28/03-29/03 The Council decides to introduce annual reviews of the domestic economic and financial situation of Member countries.

29/03 The Steering Board for Trade is set up.

30/06 Adoption of formal decisions concerning renewal of the EPU after 30 June 1952 for a period of one year, entry into force of a new scale for gold payments by debtors in respect of deficits incurred within the limits of their quotas, settlement of the position of certain extreme creditors and establishment of a guarantee fund.

18/07 Report on the domestic financial situation of OEEC Member and Associated countries, drawn up by a group of independent experts and examined by a Temporary Ministerial Committee set up by Decision of 29 March.

21/08 First liaison established between the OEEC and the European Coal and Steel Community (ECSC) An observer from the High Authority attends the meeting of the Supply and Distribution Sub-Committee of the Organisation's Coal Committee.

03/09-12/09 Attilio Cattani, Chairman of the Executive Committee, and Robert Marjolin, Secretary-General, attend the seventh meeting of the Board of Governors of the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF) in Mexico City. The Secretary-General reports on recent developments in the economic situation in Europe.

21/09-26/09 A workshop on agricultural information and advisory services, organised by the OEEC and the Ministry of Agriculture and Fisheries of England and Wales, is held at Wye College, Kent (UK).

15/10 The Council approves the procedure for liaison between the Organisation and the High Authority of the European Coal and Steel Community (ECSC, until the establishment of the Common Market. The High Authority will send an observer to meetings of the Coal and Iron and Steel Committees and will appoint a permanent liaison officer to the Organisation's secretariat.

20/10-21/10 First meeting of the Council under the chairmanship of Anthony Eden; exchange of views on the broad lines of the organisation's Annual Report on the economic situation and prospects of Member countries, the United States and Canada. Approval of the Report by the Temporary Ministerial Committee on internal financial stability of Member and Associated countries.

27/11 Conference on the dollar export drive, attended by representatives of the organisations in Member countries responsible for directing and co-ordinating this drive.

09/12 Adoption of recommendations for strengthening Member countries' co-operation on trade liberalisation.

13/12 4th Annual Report of the Organisation.

1953

07/02 The Council settles some practical problems arising out of the establishment of the common coal and steel market, with particular reference to the provisions of the OEEC Code of Liberalisation of Trade.

18/03 An OEEC conference on European inland transport, attended by representatives of the sixteen Member countries of the OEEC, the United States, Spain and Yugoslavia, is held at the Château de la Muette.

24/03 The Council creates, within the OEEC, the European Productivity Agency (EPA); this decision is to take effect on 1 May 1953.

30/03 The Council approves the import and export of electric power between eight Member countries of the OEEC whose power systems are already interconnected. This exchange of electric power will prevent a spill of hydro-energy and ensure continuity of supply.

10/04 An OEEC mission led by Sir Hugh Ellis-Rees, Chairman of the Council of the Organisation, visits Washington, at the invitation of the United States Government, for talks with the US Administration concerning the economic situation in Europe and the recommendations of the OEEC's 4th Report adopted by the Council in December 1952. The mission also discusses with the US authorities the problems connected with the establishment of an enlarged trade and payments system.

15/06 The Council of the OEEC takes a decision on the financing of the European Productivity Agency (EPA), and approves an arrangement between the US Mutual Security Administration and the OEEC regarding food and agricultural productivity.

17/06 The European Inland Transport Conference, after holding three sessions at the Château de la Muette, reaches the conclusion that a ''European Conference of Ministers of Transport'' must be set up.

19/06 Approval of the arrangements to renew the EPU for one year from 30 June 1953, the only changes for the period 1953-54 being an extension of quota overruns and an increase in interest rates on credits made available through the EPU.

24/07 A Recommendation for the establishment of a European Conference of Ministers of Transport is adopted.

17/10 The Transport Ministers of seventeen European countries meet in Brussels at the invitation of the Belgian Government and, pursuant to the OEEC Council's recommendation of 24 July, approve and sign the Statute of the European Conference of Ministers of Transport.

29/10 The United Kingdom raises to 75 per cent the degree of liberalisation of its trade with other European countries.

30/10 Resolution of the OEEC Ministerial Council reaffirming its ultimate objective of completely eliminating quantitative import restrictions among Member countries. The Council instructs the Managing Board of the EPU to produce a report by 31 March 1954 on possible problems in the event of reestablishment of convertibility of one or more Member countries' currencies. The Board is mandated to prepare a report by 1 March on the conditions in which the EPU would remain in force until 30 June 1955. Adoption of a Resolution concerning relaxation of quantitative restrictions on imports from the dollar area.

1954

21/01 The OEEC publishes the first year's programme of the European Productivity Agency (EPA).

29/01 The Council lays down the procedures for its association with the European Conference of Ministers of Transport (ECMT), set up in 1953.

12/02 Conference of experts of OEEC countries and the United States to consider administrative and legislative obstacles to American private investment in Europe.

17/02 The Organisation's Oil Committee undertakes a study on crude oil and natural gas prospection and exploitation in Member countries.

29/03 Adoption of new measures to liberalise invisible transactions, designed in particular to facilitate travel and study trips to OEEC countries as well as transactions and transfers relating to promotional operations.

07/04 Approval of the recommendations of the Report by the Economic Committee on the causes of the disequilibrium within the EPU leading to the extreme creditor position of Germany.

05/05-05/06 The Council meeting at ministerial level:
- lays down the broad lines of the renewal of the EPU for one year after 30 June 1954;
- sets up a Ministerial Study Group on Convertibility to study the practical problems of restoring convertibility to the currencies of a certain number of Member countries;
- adopts a resolution concerning the implementation of its October 1952 Resolution on the extension of liberalisation of trade in Europe;
- adopts a resolution on the reinforcement of the Code of Liberalisation of Trade in order to prevent excessive recourse to the derogation clauses in the Code, reduce their period of utilisation and alleviate the possible consequences of such derogations;
- adopts a resolution to request the Steering Board for Trade to submit proposals for enabling Member countries to abolish artificial export aids;
- instructs the Joint Trade and Intra-European Payments Committee to submit concrete proposals for action which the Organisation might take in co-operation with the United States and Canada to ease quantitative restrictions on imports from the dollar area.

14/05 The OEEC publishes its comments on the Strasbourg Plan.

30/06 Adoption of formal provisions for a one-year renewal of the EPU after 30 June 1954, with arrangements between certain creditor and debtor countries for the repayment of debt balances. These arrangements provide for new lending and borrowing facilities. The machinery of the Union is modified.

15/07-16/07 First meeting in London of the Ministerial Study Group on Convertibility.

09/09 Resignation of Robert Marjolin, Secretary-General of the Organisation; he leaves the OEEC early in 1955.

02/12 Publication of the Report on the Timber Industry in Europe, the first in a series on the situation in the different economic sectors.

22/12 The Council recommends that Member countries ease their quantitative restrictions on merchandise import trade and invisible transactions with the dollar area.

1955

13/01-14/01 The Council:
- adopts a Decision concerning the extension and stabilisation of trade liberalisation; Member countries are to derestrict, as from 1 July 1955, 10 per cent of their imports which are not already liberalised, and, as

from 1 October 1955, 90 per cent of their total imports on private account and 75 per cent of their imports on private account in each of the three categories specified in the Code of Liberalisation;
– establishes a Ministerial Committee for Agriculture and Food. The OEEC takes over the tasks of the ''Green Pool'';
– Spain, a member of the Pool, is enabled to participate fully in the Organisation's work connected with agriculture and food.

15/02 Appointment of Roger Grégoire as Director of the European Productivity Agency; he succeeds Karl P. Harten.

25/02 The Yugoslav Government is invited to be represented by an observer at meetings of the Council, the Technical Committees and the latter's sub-committees.

04/03 Declaration of intention by Member countries on the goals of trade liberalisation.

01/04 René Sergent takes up his duties as Secretary-General of the OEEC.

01/05 France raises to 75 per cent the degree of liberalisation of its trade with other European countries.

09/06-10/06 The Council:
– takes a Decision concerning the renewal of the EPU, the establishment of a European Fund and the trade policy rules to be followed by Member countries in the event of a return to convertibility;
– appoints a Working Party of the Council to explore the possibilities of economic co-operation within the Organisation as regards the peaceful uses of nuclear power.

Creation of a Commission for Energy under the chairmanship of Sir Harold Hartley.

29/06 Adoption of further measures to liberalise invisible transactions and transfers; decision to set up a Committee for Invisible Transactions.

01/08 EPU settlements to be made as to 25 per cent in credits and 75 per cent in gold.

05/08 Representatives of Member countries sign the European Monetary Agreement establishing a European Fund and a multilateral system to facilitate payments between Member countries.

1956

20/01 The Council decides that the Benelux countries will in future be treated as a single entity for the purposes of the Code of Trade Liberalisation. This is the first time that Belgium, the Netherlands and Luxembourg are considered as a single country in an international organisation.

27/01 The Gas Committee is set up to study problems connected with the production, transportation, distribution and utilisation of gas in Member countries.

28/02-29/02 12 Member countries sign an international agreement establishing their first joint undertaking, the European Company for the Chemical Processing of Irradiated Fuels – EUROCHEMIC.
Establishment of a Special Committee of the Council to deal with matters relating to the utilisation of nuclear energy for peaceful purposes.
The Council adopts a Resolution giving directives for the future work of the Organisation. It directs, in particular:
– that studies on the longer-term problems of economic expansion in Europe should be pressed forward;
– that investigations should be made in the economic sectors giving cause for concern: agriculture, textiles and energy;
– that 90 per cent liberalisation of intra-European trade should be consolidated at 30 September 1956, and that the Organisation should concentrate on other trade barriers such as high tariffs, restrictive state trading and artificial aids to exports, as well as on quantitative restrictions;
– that the Organisation should carry forward the study of the problem of reducing bilateralism and discrimination in trade and payments with third countries.

16/03 The Fiscal Committee is set up.

22/06 The Council decides to prolong the existence of the European Productivity Agency (EPA) until June 1960.

17/07-19/07 Establishment of a Steering Committee for Nuclear Energy composed of representatives of interested Member countries, the governments of the United States and Canada to be associated with its work.

19/07 First meeting of the Special Group set up by the Council to study the problems of the European textile industry. A special working party is set up to investigate the possibility of creating a free trade area in Europe.

24/09 First meeting of the Special Working Party set up to study the possible forms and methods of multilateral association between the Customs Union envisaged by the six member countries of the Brussels Intergovernmental Committee and the other OEEC countries.

14/11 The Anglo-Icelandic fisheries dispute is settled on the basis of OEEC proposals. The Council requests the Executive Committee to consider the general repercussions in Member countries of the current difficulties in obtaining supplies of fuels and other commodities, and instructs it to co-ordinate, for this purpose, the work of the Technical Committees for Coal, Gas and Maritime Transport, the Economic Committee, the Joint Trade and Intra-European Payments Committee and the Managing Board of the European Payments Union.

26/11 Establishment of the Energy Advisory Commission and the Energy Committee as recommended by the Commission for Energy's report: ''Europe's Growing Needs of Energy. How can they be met?''.

30/11 Establishment of the OEEC Petroleum Emergency Group to advise the Oil Committee about the available supplies of oil for Europe and to help that committee to implement its recommendations.

14/12 The Council takes steps to reduce current pressure on freight rates; measures to the same end are taken by the United States Government.

1957

17/01 The Oil Committee distributes the first 200 000 tonnes of oil products being held as a reserve for distribution by the OEEC to countries experiencing particular difficulties.

13/02 Negotiations to determine the ways and means of establishing a European Free Trade Area associating the Common Market of the Six and the other OEEC countries.

12/03 Three working parties are set up to study the problems posed by the establishment of a European free trade area.

21/03 The Steering Committee for Nuclear Energy creates a Group of Experts to draw up common health standards for European countries.

25/03 In Rome the Six sign the treaties establishing the European Economic Community and EURATOM.

05/06 Ceremonies to mark the tenth anniversary of the speech made by US Secretary of State George C. Marshall at Harvard University on 5 June 1947.

18/06 France suspends its liberalisation of intra-European trade.

17/10 The Council declares its intention to secure the establishment of a European Free Trade Area and sets up an Intergovernmental Committee at ministerial level.

18/10 The Intergovernmental Committee holds a first procedural meeting under the chairmanship of Reginald Maudling, Her Majesty's Paymaster General.

20/12 Adoption of the statute of the European Nuclear Energy Agency (ENEA), which will be established within the framework of the OEEC as from 1 February 1958; signature of the Convention on Security Control ensuring the exclusively peaceful character of the Agency's objectives. Twelve Member countries of the Organisation sign the International Agreement to set up a first joint undertaking, the European Company for the Chemical Processing of Irradiated Fuels (EUROCHEMIC).

1958

10/01 Signing of the agreement associating Spain with the work of the OEEC.

30/01 France receives special loans from the EPU-IMF and from the US Government.

01/02	The ENEA comes into being.
01/02-03/02	Belgium, the Netherlands and Luxembourg sign the Treaty of the Benelux Economic Union.
14/05	A Special Office of Scientific and Technical Personnel is set up.
28/07-29/07	The Council, after considering a report from the Working Party set up on 18 July 1956 to examine the current economic situation in Member countries, recommends that Member countries should pursue policies encouraging sustainable economic growth.
15/12	The work of the Intergovernmental Committee for the establishment of a European Free Trade Area is suspended.
27/12	The European Monetary Agreement comes into force.

1959

30/01	Spain participates in the OEEC's first joint nuclear project.
23/03	Signing of the agreement on the high-temperature reactor project of the European Nuclear Energy Agency (DRAGON project).
25/05-26/05	First meeting of the Economic Policy Committee.
12/06	OEEC countries adopt measures for protection against radiation.
01/07	The obligation as to 90 per cent liberalisation of trade among OEEC countries is extended until 30 June 1960.
07/07	On the Fiscal Committee's proposal, measures against double taxation are adopted.
20/07	Spain becomes the 18th Member country of the OEEC.
29/07	Yugoslavia joins the Ministerial Committee for Agriculture and Food.
10/08	The Convention on Security Control in the nuclear field comes into force.
04/12	The Code of Liberalisation of Capital Movements is adopted.
21/12	The multilateral settlement system set up under the European Monetary Agreement is prolonged for an indefinite period.

1960

07/07	Work begins on the construction of the EUROCHEMIC plant at Mol (Belgium).
28/07	Thorkil Kristensen is appointed Secretary-General of the OEEC with effect from 1 September and Secretary-General designate of the Organisation for Economic Co-operation and Development (OECD). He is to chair the meetings of the OECD Preparatory Committee.
29/07	Signing of the Convention on Third-Party Liability in the field of nuclear energy.

03/08 Prolongation of the OEEC HALDEN reactor project. First session of the nuclear safety tribunal set up by the OEEC.

30/09 Agreement on collaboration between ENEA and the International Atomic Energy Agency (IAEA).

05/10 The HALDEN heavy-water boiling reactor becomes operational.

14/12 Signing of the Convention on the Organisation for Economic Co-operation and Development (OECD), which takes effect on 30 September 1961 and replaces the Convention for European Economic Co-operation.

1961

30/09 The Organisation for Economic Co-operation and Development begins when the Convention of the OECD came into force under Article 14, Paragraphe 3, Section b after the instruments of ratification or acceptance had been deposited with the Government of the French Republic.

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EPC (See: Economic Policy Committee (OEEC).

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