ECONOMICS AND THE EUROPEAN UNION Part Six EUROPEAN COAL AND STEEL COMMUNITY AND EUROPEAN PAYMENTS UNION, 1950-58 Article by Peter Brooke, taken from http://www.peterbrooke.org/politics-and-theology/eu-economics/ First published in Irish Foreign Affairs, Vol 15, No 2, June 2021

The ECSC

According to the Wikipedia entry on the European Coal and Steel Community:

'The ECSC was first proposed as the Schuman Declaration by French Foreign Minister Robert Schuman in 1950 on Victory Day (9th May) as a way to prevent further wars between France and Germany. He declared he aimed to "make war not only unthinkable but materially impossible" which was to be achieved by regional integration of which the ECSC was the first step.'

Alan Milward, in his book *The Reconstruction of Western Europe, 1945-51*, gives a more down-to-earth explanation (p.395): *'The Schuman Plan was invented to safeguard the Monnet Plan.'*

The Monnet Plan had been devised on the assumption that Germany would be de-industrialised and that France would emerge as the leading European industrial nation. But to fulfil this ambition, France would have to become a major producer of steel. And to become a major producer of steel, France would have to get control of the coking coal available in the Ruhr, which was in the British zone of occupied Germany. The alternative - importing coking coal from the US - was expensive. The previous article in this series has shown, again following Milward, that the French Foreign Office, already in 1948, had realised that the US and Britain were determined to restore German sovereignty, including sovereignty over the Ruhr and that to get access to the necessary coal, France would have to come to terms with a sovereign German government. But even as late as 1950, on the very eve of Schuman's speech, the French government still had hopes in the 'International Ruhr Authority' as the means of preserving itself against a resurgent Germany.

In the event, the Treaty forming the ECSC was only signed in April 1951 and only came into effect in 1953 - for coal in February and for steel in May.

The impetus towards the 'regional integration' evoked in the Wikipedia article came almost entirely from the United States. The Americans from the start had imagined Europe as something similar to what we have at the present time with, if not a single currency, national currencies mutually convertible at fixed rates - the ideal conditions for what Kalecki and Halevi call 'oligopolies' and others would call 'multinationals' - companies operating on a scale indifferent to national boundaries. US planning during the war envisaged this on a world scale, hence the United Nations, the International Monetary Fund, the World Bank, even, in the ambitions of Harry Dexter White, and with him Roosevelt and Morgenthau, encompassing the Soviet Union. But in the aftermath of the war, these ambitions had to be reduced dramatically. Not only did they face the rival ambitions of the Communist world but the convertibility of sterling, which was to open up the British Empire and the wider sterling area to penetration by the dollar, failed, as did the first attempt to develop a single market in Western Europe through the Organisation

for European Economic Co-operation and the European Recovery Programme ('Marshall Aid'). Far from representing a steady advance across countless obstacles to realising a European dream of integration, the period of the European Recovery Programme represented a quite impressive record of European resistance to the American dream of European integration.

In these circumstances the European Coal and Steel Community, which covered only six countries (France, Germany, Benelux and Italy) and only dealt with coal and steel must have looked quite pathetic, the more so since its short life was very fraught, largely due to the problems encountered by France - particularly in 1954 the defeat in Dien Bien Phu and the beginning of the Algerian War of Independence. In 1956, quoting Halevi: *'while preparing the disastrous Suez adventure with Anthony Eden, France's Prime Minister* [the Socialist, Guy Mollet] *went so far as to suggest to the British government the creation of a unified Sterling-Franc monetary area'*[1] which, though it came to nothing, hardly indicates a great commitment to the "Little Europe" of the ECSC.

The most important aspect of the ECSC was that it did bind West Germany and France together, albeit in an alliance *contre nature*, an alliance whose main purpose from the French point of view was to keep some sort of control over the Germans. It is questionable if Germany really needed it in economic terms. Germany, Belgium, the Netherlands, Luxemburg, Austria and Switzerland, constituted in themselves a rather neat little trading bloc. The governments of Belgium, the Netherlands and Luxemburg, in exile in London, had already agreed to form between themselves a customs union - 'Benelux' - as early as 1944. An attempt to bring Benelux and France together in a 'little Europe' had faltered partly at least because of the Netherland's reluctance to support French proposals for dismantling the German steel industry and restricting German trade.[2]

From the German point of view France was probably an encumbrance, Italy much less so. Italy had no great geopolitical ambitions after the loss of its own imperial possessions (in the case of Ethiopia at the hands of the Belgian government in exile, via the Belgian Congo, which was also a main supplier of rubber to the allies, not to mention the uranium used for the atom bomb). Like Germany, Italy was highly reliant on exports of manufactured goods and imports of food and raw materials. Unlike Germany it specialised not in high capital value products, the stuff of oligopoly, but more on *'intermediate capital goods and mechanical consumption goods like home appliances as well as motor vehicles'* (Halevi, 1957 to 1979, p.14). These were much more vulnerable to competitive pricing than the German specialities but just the sort of thing the German beneficiaries of Erhard's consumer led policy wanted. In the immediate post war period the Christian Democrat government in Italy, supported by the Communist Party, pursued a policy of austerity, reducing imports through reducing domestic consumption rather than through tariffs, which by 1957 had been lifted on 99% of all imports from Europe. Its

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[1] Joseph Halevi: Europe 1957 to 1979: From the Common Market to the European Monetary System, Institute for New Economic Thinking, Working Paper no 101, June 2019, p.5

[2] Richard T.Griffiths and Frances M.B.Lynch: 'L'échec de la "Petite Europe" - Le conseil tripartite 1944-1948', *Guerres mondiales ey conflits contemporains*, No.152 (October 1988), pp.39-62.

large pool of unemployed labour in the South, which kept wages down in the more industrialised North, provided other parts of Europe with a useful source of immigrant labour. Following Halevi (1957 to 1979, p.13): *'Outmigration to France and Belgium but not yet to Germany, which would be absorbing Italian immigrants from the second half of the 1950s till the late 1960s, began in earnest as soon as those countries were about to near completion of postwar reconstruction.'*

Ludwig Erhard saw the ECSC as *'a needless restriction on German Industry'*[3] but Adenauer saw that the alliance with France was Germany's road to political rehabilitation, the removal of the Ruhr authority and the weakening of the Occupation Statute, which was still operative and still being used to dismantle or break up the larger German enterprises - something of which Erhard may well have approved. In fact Germany probably benefited more from the ECSC than France which never realised anything close to Monnet's original vision of industrialisation and by 1957, on the eve of signing the Treaty of Rome in March, needed a substantial loan from the IMF.

THE EPU

Which was the more surprising because through the 1950s Europe had a means of dealing with balance of payments problems independent of the IMF. This was the European Payments Union and, unlike the Coal and Steel Community it had been set up under the auspices of the OEEC and covered all the countries of Western Europe - excepting Spain but including Portugal, Iceland, and Turkey. According to Halevi it was devised by two American economists he admires - Robert Triffin and Charles Kindleberger - but it was far removed from the original American vision. Halevi calls it *'an institution that operated as close as one could imagine to Keynes's idea of an international clearing union that the US Government rejected at Bretton Woods.'*[4] Milward gives a rough description of how it worked:

'The EPU was a multilateral mechanism, replacing the network of bilateral agreements which had promoted and financed the growth of intra-Western-European foreign trade since 1945. National currencies had to be made freely transferable between central banks up to the limits set out in the agreement for the settlement of current account deficits and surpluses. The settlements were made not directly between central banks themselves, but through the medium of a multilateral clearing house, the Bank of International Settlements (BIS) in Basle. The limits within which currency transfers had to be automatically made in settlement were expressed by initial currency quotas allotted to each member-state on the basis of the estimated value of its foreign trade. These, together with $350 million allotted from Marshall Aid, made up the working capital of the EPU. Deficits were settled monthly by multilateral compensations between the various debts and surpluses, carried out by the BIS in terms of the EPU's own unit of account, the écu, equivalent in value to the American dollar.

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[3] Milward p.413

[4] Joseph Halevi and Peter Kriesler: 'Stagnation and conflict in Europe', *International Journal of Political Economy*, Vol.34, No.2 (Summer 2004), p.23.

'The terms on which overall net deficits had to be settled were far more generous than under earlier international multilateral payments systems such as the gold exchange standard of the 1920s. An initial tranche of 20 per cent of each country's original quota had to be provided as credit to potential trade debtors. After that initial tranche debtors paid on a sliding scale in which the proportion of gold or dollars that they were required to pay in settlement of their debt increased and the proportion of their national currency decreased with each successive tranche of the quota. When the debt was between 20 and 40 per cent of the original quota it was necessary to make 20 per cent of the settlement in gold/dollars. When the debt reached more than 80 per cent of the original quota it was necessary to settle up to 80 per cent in gold or dollars, and only once the quotas were exhausted did settlements have to be made entirely in hard currency.

'Although the aim of these rules was to provide a progressive disincentive to run trade deficits, the volume of credit which they allowed was still much greater than that which the IMF could make available to its members. Furthermore it was a negotiating machinery. The Management Board of EPU reported to the Executive Committee of OEEC and it was supposed to follow the same cooperative methods. With agreement, a debtor could increase its import barriers without question of retaliation ...'[5]

I gave a rough account of the Keynes proposal in an earlier essay in this series[6] - also pointing to the similarity with the European New Order announced in July 1940 by Walther Funk.[7] All three have in common that national governments retain sovereign control of their currency; that, to quote a near contemporary account by Graham Rees, Professor of Economics in the University College of Swansea: *'by means of offsetting bilateral surpluses against bilateral deficits, this currency clearing house submerged bilateral balance of payments positions in the anonymity of a set balance of payments position of each country with the group as a whole'*;[8] and that there was an accepted common currency - Funk's Reichsmark, Keynes's 'bancor' (a currency independent of the interests of any particular state), the EPU's 'écu' with a back-up in the gold based dollar. The great advantage of the system was that it allowed the different countries freedom to pursue a wide variety of interventionist policies and restriction of international trade, including against the US. According to Milward (European Rescue, p.356) *'discriminatory trade controls over OEEC as a whole were applied against 40 per cent of manufactured exports from North America.'*

ADVANTAGES OF WAR (perhaps)

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[5] Alan S.Milward: *The European Rescue of the Nation-State*, London, Routledge, 1992, pp.348-9.

[6] Peter Brooke: 'The road to Bretton Woods (Part Two): Fighting for Britain against the US', *Irish Foreign Affairs*, Vol 14, no 2, June 2021, also on my website at http://www.peterbrooke.org/politics-and-theology/eu-economics/part-three/

[7] Funks speech, which impressed Keynes, can be consulted at http://www4.dr-rath-foundation.org/brussels_eu/roots/06_economic_reorganization_europe.html.

[8] Graham Rees: 'The Anatomy of successful cooperation: the example of the European Payments Union', *Il Politico*, Vol.25, No.3 (September 1960), p.651.

So far removed was all this from what the US wanted - the rationale presented to the US Congress and people, based on the creation of a United States of Europe along the model of the USA - that it may well have jeopardised US financial support to Europe. What may have saved it was the Korean War, or at least the fear of Communism which it intensified.

In the last article in this series I supported Werner Abelshauser's thesis that the rapid restoration of Germany's industrial and economic power was due not so much to the liberalisation policies promoted by Ludwig Erhard as to the fact that Germany had retained much of the industrial infrastructure created under the Nazis, especially during the war, together with a tradition of corporate enterprise that stretched back at least as far as the unification of Germany in the late nineteenth century. This potential for the development of high capital value products was unleashed by the emergence of a usable currency, something that had long been planned by the British and American occupiers and only held back by the need to seek, or to appear to seek, agreement with the Soviet side.

Erhard, however, was responsible for the administration of the reform and the way in which he went about it encouraged not so much development of Germany's productive capacity as a consumer boom. This, together with the need German industry had for raw materials to start up industrial production again, produced a demand for imports which rapidly put Germany into a balance of payments deficit that posed a radical problem for the EPU right at the moment of its inception. Quoting an account by Peter Temin (Emeritus Professor of Economics at the Massachusetts Institute of Technology, a student, as it happens of Charles Kindleberger):

'The EPU had set quotas for the member countries based on their 1949 intra-European trade. West Germany's trade had not revived as quickly as that of other countries, and it received a low EPU quota. As a result, West Germany would have to pay an increasing share of its deficit in gold, reaching 100 per cent before the end of I950. The country did not have the foreign exchange reserves needed to effect this transaction. The resulting problem emerged at the EPU managing board's first meeting in October I950 ...

'The Americans, in particular, were not charitable. As in I93I, the Germans were suspected of using the international monetary system for their own nationalistic aims. Happily, these negative views did not prevail. The EPU called in the expert team of Cairncross and Jacobsson who argued that the West German trade imbalance was only temporary. The EPU extended a $I20 million credit to West Germany with macroeconomic conditions. As requested, the West Germans tightened credit in late I950 and early I95I. Erhard also suspended some of his trade liberalization, formalizing the change in February. A trade balance surplus appeared in March I95I.'[9]

Temin is arguing against a view argued by Abelshauser that the war, which started in June 1950, prompted a surge in demand for the high-capital intensified goods Germany was good at, thus prompting a 'Koreaboom'. Temin says (p.738) that *'neither American imports nor German exports rose unusually at that time. Instead Germany suffered an adverse price shock*

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[9] Peter Temin: 'The `Koreaboom' in West Germany: Fact or Fiction?', *The Economic History Review*, New Series, Vol. 48, No. 4 (Nov., 1995), p.750.

at the same time as its imports increased. The result was not a boom but a balance of payments crisis. The fledgling EPU acted swiftly to keep this small problem from escalating into a major economic or political crisis.'

Mark Spicka's book, *Selling the economic miracle*, which I quoted in the previous article and which is mainly concerned with the public relations policies of the CDU/CSU government, broadly accepts Abelshauser's view and gives some figures which seem to support it: *'New orders for goods to support the war effort streamed into the country. The industrial production index shot up from 100 in the fourth quarter of 1949 (1936=100) to 134 in the final quarter of 1950. This trend continued with production reaching 146 by the end of 1951 and 158 by the end of 1952.'*[10] He gives Abelshauser as his source. Halevi agrees: *'The first five years following the defeat of Japan corroborate the view that recovery may peter out. This happened around 1948-49 after the drastic anti-inflationary budgetary policies applied by Joseph Dodge. The reconstruction led recovery stalled and the economy headed towards something more severe than a recession until the arrival of the 'gifts from the Gods' as Japanese economic historians are fond to call the Korean War. In Europe too recovery could have faltered. In Italy where, as pointed out by Augusto Graziani, the 1947 deflationary stabilization had been particularly harsh, the economy stagnated till the end of 1949. The Korean War proved once more to be the factor that prevented the slide into a recession. The early postwar German case is also a good indication that there was no substitute for the creation of effective demand on a large Continental scale. The Bundesrepublik's recovery would have likely come to a halt without the income transfer from the United States, without Cold War rearmament, and, specifically, had the Korean War - an unforeseen event from the European standpoint - not acted as a major impulse to demand for Germany's capital goods.'*[11]

Nonetheless Spicka, Temin and Halevi are agreed that the combination of an increased consumer demand for imports and the need for imports to support the restoration of industrial production at a time when, because of pressure from the war, prices were rising posed problems for the German economy. And Temin concludes (p.752):

'Even though the fighting itself was far away, American attitudes towards a possible war in Europe changed dramatically. Instead of thinking about reducing military expenditures after the last European war, the Americans urged everyone to consider increasing them in anticipation of the next war. The Americans put their money where their mouth was and supplied scarce dollars to promote an expansion of military spending.'

Hence Charles Kindleberger's remark, quoted by Halevi (Europe since 1945, p.5) that *"the recovery program, never came to an end but was swallowed up in defense activity which developed under the North Atlantic Treaty Organization (NATO) following the North Korean attack on South Korea."*

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[10] Mark E.Spicka: *Selling the Economic Miracle - Economic reconstruction and politics in West Germany, 1949-1957*, New York and Oxford, Berghahn Books, 2007 (the full text is available free of charge at https://www.berghahnbooks.com/title/SpickaSelling), pp.97-8.

[11] Joseph Halevi: *The Political economy of Europe since 1945 - a Kaleckian perspective*, Institute for New Economic Thinkinf, Working paper No. 100. June 2019, p.9.

The EPU was supposed come to an end - together with Marshall Aid - in 1952. It was the US State Department that wanted to keep it in existence, seeing it as a vehicle for advancing European integration. This was probably where US anxiety about the war with Communism proved to be advantageous. Although Britain was a major debtor in the system the Conservative government was hostile to it and was trying, unsuccessfully, to persuade the Americans that sterling was ready to become convertible with, and therefore as good as, the dollar. Ludwig Erhard in Germany too was pressing for convertibility of the deutschmark and a removal of all exchange controls. It is here that we can see a contrast between the neoliberal ideal proclaimed by Erhard and the actual strength of the economy which lay with the much maligned cartels. Quoting Milward again (European rescue, p.370): *'In a country where even the central bank perceived the currency as primarily an instrument of commerce it was unthinkable that the opinions of industrial exporters could be ignored. When consulted, the industrial association,* Deutscher Industrie und Handelstag *was even more insistent than the BDL* [Bank Deutscher Länder] *that any division between convertible and inconvertible currencies within EPU was a threat to German exports. This was to be a consistent position of German industrialists. Their collective organisation the* Bundesverband der deutsche Industrie *made the same argument two years later* [in 1955]. *Anything, they argued, which broke up the EPU would hold back the rapidly growing exports to EPU members who would no longer be able to pay for them with the same ease. What Erhard railed against as unrequited exports because they were paid for only by EPU credits, were the capital goods which brought high profits on which further investment depended and whose production had beneficial multiplier effects on the German economy.'*

Given the apparent success of the EPU the question arises why did it come to an end? A clearing union supported by seventeen different countries seems almost too good to be true. It was of course dependent on American support and was very far removed from American ambitions, which still aimed for complete currency convertibility and the abolition of tariffs. It was accompanied by a process of trade liberalisation agreed by the OEEC. Graham Rees (European Payments Union, p.650) praises it as the means of establishing *'the financial conditions necessary for the breakdown of the trade restrictions and discrimination enshrined in the network of bilateral agreements which characterised European trade during the period of currency inconvertibility, low reserves, unreal exchange rates, inadequate production and inflationary pressures.'* He concludes (p.655) that *'by this date* [1958] *the near convertibility of some members currencies and the increased degree of transferability of others, together with agreements concluded by most members with non-member countries for the transferability of currencies, combined to make the E.P.U. an unjustifiable survival from the years of dollar shortage.'*

The accounts I have seen of the last days of the EPU mainly concern politicking between Britain and the countries that were to form the EEC but it would be interesting to know what, say, Portugal, Ireland or Turkey thought of it. The US was thinking in terms of the wider possibilities of the 37 member General Agreement on Tariffs and Trade, formed in 1947 in the general world-wide perspective of the Bretton Woods arrangements. Britain was hoping in vain that sterling could join the dollar as an international reserve currency. France, which had pushed for the ECSC as a means of getting access to German coking

coal, was worried about the advancing prospect of the EEC which would expose them to the full force of the revived Germany's capacity for exports. That was one reason why Guy Mollet initially welcomed the British proposal in 1956 for a free trade area that would cover the whole area of the OECC. It was when it became clear that Britain, in order to preserve the preferential arrangements it had with the Empire, wanted to exclude agriculture from its FTA, that France, embroiled in the Algerian war and experiencing severe balance of payments difficulties that went beyond what could be handled by the EPU, agreed to the Treaty of Rome, which De Gaulle in opposition regarded with scorn.[12] Nonetheless, the FTA project was going ahead under the auspices of the OECC through a committee chaired by Reginald Maudling.

De Gaulle came to power in June 1958. Initially Adenauer refused to meet him owing to his reputation as a fierce nationalist and opponent of the EEC. But in Frances Lynch's account (p.123):

'The meeting with Adenauer which finally took place at Colombey-les-deux-Églises on 14 September 1958 proved to be a meeting of minds. In wide-ranging talks which covered the globe both men agreed that France and West Germany would have to co-operate closely with each other in order to make Europe independent of the United States. De Gaulle, insisting that Europe would have to be larger than the six Common Market countries, failed, however, to draw Adenauer out on the subject of the FTA. All that Adenauer would say was that Britain, whom he likened to "a rich man who had lost his fortune without yet knowing it," was not, he believed, trying to attack the Common Market in proposing the free trade area. De Gaulle, who was not as convinced that Britain's intentions were so honourable, now needed to find some means of exposing Britain's underlying strategy, but without isolating France from its Common Market partners in the process.'

Lynch (p.127) outlines the French suspicions as to Britain's underlying strategy:

'As far as the Quai d'Orsay was concerned, British objectives had become perfectly clear. The British government wanted to undermine the Treaty of Rome, but not to replace it with a larger Europe of seventeen but with the one-world system. To achieve this objective the British government had pursued a complicated strategy with, in some cases, the full support of the United States. Considering the IMF and GATT to be superior to any other treaty, aware of the divisions among the Six, and with a confidence based on the improvement of the British foreign exchange position and by the decisions taken in New Delhi to restore the convertibility of sterling and the deutschmark, the British government was trying to weaken those elements in the Treaty of Rome which had made it possible for France to open its borders. These were first and foremost the preferential aspect of the common agricultural policy which the British government was trying to get GATT to condemn; the right of West Germany to retain quantitative restrictions despite the strength of the West German balance of payments; the terms of association of the overseas territories with the EEC on the grounds that they discriminated against the interests of underdeveloped countries; and the common external tariff.'

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[12] I am basing this account largely on Frances B.Lynch: 'De Gaulle's first veto: France, the Rueff Plan and the Free Trade Area', *Contemporary European History,* Vol.9, No 1 (March 2000), pp.111-135.

Basically, then, De Gaulle had been opposed to the EEC on the grounds that it involved a liberalisation of its trade policy in accordance with the demands of the OEEC - convertibility of the franc, and an end to discriminatory quotas imposed on certain imports, which would *'result in grave distress for smaller French industries and even produce a number of bankruptcies'* (Lynch, p.133). But he had come to accept the EEC as a means of securing at least the protections that Mollet had negotiated in the Treaty of Rome and West German support in opposition to the more dangerous FTA demanded by the British and behind that the possibility that the FTA would simply be folded into the wider system of GATT. To sustain this acceptance however, De Gaulle had to accept the austerity package proposed by the fiscal conservative, Jacques Rueff, a man who defined himself as the 'anti-keynes' and whose views on sound money and a non-interventionist economic policy were very close to those of the German ordo-liberals. We met him briefly in an earlier article in this series.[13]

Lynch concludes:

'De Gaulle, who had been no supporter of the EEC, saw the issue as a power struggle between France and Britain over who should control the economic development of Europe, and thereby of France. At the heart of the struggle was the need to win the support of the Federal Republic of Germany. Although Adenauer shared de Gaulle's distrust of the United States he did not extend this to the United Kingdom. His basic sympathy for Britain, together with Ludwig Erhard's positive endorsement of the FTA, was to force de Gaulle to try to turn the EEC into a Franco-West German alliance in order to defeat the FTA. But not even the promise of French troops to defend Berlin against a Soviet attack, nor de Gaulle's full commitment not to employ safeguard clauses and to honour the trade liberalisation provisions of the Treaty of Rome on 1 January 1959, were enough. The West Germans would only accept the economic division of Europe provided that it was not also a monetary division ... Had de Gaulle not agreed to restore the convertibility of the franc and honour France's obligations to both the OEEC and the EEC on 1 January 1959 the consensus among the Six would have evaporated. The Rueff plan had become a political necessity.'

Not a lot to do with Schuman's professed aim of achieving regional integration as a way to prevent further wars between France and Germany.

[13] Peter Brooke: 'The Road to Bretton Woods: Britain goes off the Gold Standard (Part One)', *Irish Foreign Affairs,* Vol. 14, No.1, March 2021, p.25. Also accessible at http://www.peterbrooke.org/politics-and-theology/eu-economics/part-two/