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Work of the Organisation for European Economic cooperation

Report

1. PART I

The problems confronting Western Europe

1. In the Convention under which 0. E. E. C. was set up Member countries formally recognised that their economic systems are interrelated and that the prosperity of each of them depends on the prosperity of all and bound themselves to co-operate closely in their economic relations with one another. More specifically, they agreed to join in drawing up general programmes as often and to such extent as may be necessary; to promote with vigour, both individually and collectively, the development of production through efficient use of the resources at their command; to make the fullest and most effective use of their manpower; to develop their trade to the maximum extent, and, to this end, to achieve as soon as possible a multilateral system of payments among themselves; and to co-operate with other like-minded countries in reducing tariff and other barriers to the expansion of trade. In addition, each country undertook to take such steps as lie within its power to ensure the stability of its financial position, having due regard to the need for a high and stable level of trade and employment;

2. The main function of the Organisation as such is to provide the machinery for carrying out these far-reaching provisions. In effect, it has served to enable Members to maintain a continuous process of mutual consultation on an extremely wide range of economic problems for which it seemed likely that co-operative action would help to provide a s.olution. The basic principle of the Organisation is that Members should consider problems jointly and seek a common solution; even if this cannot be found, at least they will consider the repercussions of national measures on other Members.

3. The work of 0. E. E. C. must therefore be considered in the light of the economic problems confronting Western Europe during the last few years, which have not been static. When the co-operative effort was begun in 1947 all Members were wrestling with the consequences of the war. This had created increased calls on the national output of many kinds, notably :

a. to restore the buildings, machinery, soil fertility, transport facilities and other fixed assets which had been destroyed during the war, or had been allowed to deteriorate;

b. to re-fill the pipe-line of civilian production and distribution, by restoring stocks and work in progress at all stages;

c. to replenish household stocks of clothing, domestic equipment and the like.

4. At the same time the possible level of the national output was held down by the very same gaps in the equipment of industry, agriculture and the transport system which were raising the level of requirements, and by the need to redistribute the labour force and re-organise production generally on a peace-time pattern. There was thus a general excess of requirements, calculated on any reasonable standard, over the potential level of output. This implied, moreover, that total monetary demand for goods and services was almost certain to be in excess of supply, with the inevitable pressure towards inflation and an adverse balance of payments.

5. Besides this general excess of demand, nations were also confronted with particularly acute shortages of individual commodities, many of which were essential if their productive resources were to be properly used (e. g. fuel or fertilisers), or were necessary for the maintenance of their population (e. g. basic foodstuffs). These " particular " shortages mainly related to goods which Member countries normally obtained by means of foreign trade, and so largely reflected an inability to secure the necessary foreign exchange to pay for them, either by exports or by the use of gold reserves (or credit). But this was not always the case : sometimes there was a world shortage of the goods—-possibly caused by the breakdown of Asiatic production—and sometimes they were locally produced (e. g. coal or electricity).

6. These two types of difficulty—the general and the particular—coalesced in the shape of " the dollar problem. " Most of the key items which were in particularly short supply could be obtained by any country which had an adequate supply of dollars, whilst countries could add to their total flow of resources, and also meet part of their excess demand, if they could secure a surplus of imports by using up their stock of dollars or obtaining a dollar loan. In consequence, the generous provision of Marshall Aid made a vital contribution to the solution, for the time being, of both problems : it enabled the Member countries to obtain the key items without which their own productive resources would largely have been ineffective, and iÇadded directly to the total flow of goods and services. This last point was more important than it might appear from a comparison of the amount of imports paid for by Marshall Aid with the national output, because these extra goods made a special contribution to the fight against inflation.

7. A further problem facing Western Europe in 1947 deserves mention. The mechanism of international trade had largely been disrupted by the war, and its reconstruction was hampered both by the low level of international reserves which most countries possessed and by the widespread tendency towards inflation and disequilibrium in the balance of payments. This point is discussed further in paragraphs 24 and 25, but it clearly tended to prevent Western Europe from making the best use of its productive resources.

8. In brief, then the main things which needed to be done during the period of the European Recovery Programme were :

a. To raise the total level of Member countries' production, so that their output should suffice for a more adequate level both of consumption and investment, without relying on an additional supply of free imports.

b. To bring internal monetary demand into balance with national output, so as to avoid inflationary pressures or the attraction of too many goods to the domestic market.

c. To ensure an adequate supply of the scarce items, either by increased domestic production, or by establishing an effective means of using exports to buy them from another country —whether that country were in Europe, or America, or elsewhere.

d. To establish a satisfactory mechanism for international trade generally, and a reasonable balance of payments for all countries.

9. These problems are, of course, inter-related and overlapping, and the same measures will frequently contribute to the solution of more than one. Marshall Aid provided the indispensable basis on which the countries' economies eould survive whilst arriving at a solution, and the first problem before the Organisation was therefore to agree on how to divide it between the Members.

10. The record of the last few years shows that, given the breathing-space provided by Marshall Aid, Member countries made good progress in tackling these problems. The position naturally varies somewhat from one country to another where local factors have been of great importance (e. g. the war in Greece). But in general Member countries' economies have been readjusted to a peace-time basis; some of the most vital physical reconstruction had been achieved; working stocks have been re-establish so that industry can operate more efficiently; the output of key commodities has been increased, and the means of paying for those which have to be imported, greatly improved by the rise in exports; the adverse balance of payments of Member countries as a whole has been reduced from 8 billion dollars in 1947 to 1 billion in 1950 ; national output has greatly increased in every country; living standards have been restored, on the average, to about the pre-war level ; and the fight against inflation was, at least until mid-1950, progressively more successful.

11. Even apart from the new difficulties which arose after the outbreak of the Korean war, this did not, of course, mean that Members no longer had any problems, or that there was no longer a pressing need for co-operation. The sudden apparent easing of the dollar problem in 1950 was at least partly due to factors which may prove transient—e. g. American purchases for strategic stocks and a certain inflow of private capital;

individual countries still had urgent problems in their balance of payments. Some countries were still below prewar standards, and the pre-war standard itself was in some cases particularly inadequate. Nevertheless, the position half-way through 1950 might well be regarded as a notable milestone on the road.

Emergence of New Problems

12. Since the Korean war began, however, Member countries have found themselves faced with new difficulties. The world demand for most raw materials has increased, largely in anticipation of rearmament programmes which are still in their early stages. In certain cases, notably wool and cotton, this increased demand has happened to coincide with reductions in supply, but even where supply has continued to rise the demand has outstripped it and caused either shortages, or violent increases in price, or both. The demand for shipping has also increased, largely for transitory reasons, and freight rates have risen very sharply.

13. These developments have not affected all Member countries equally. For nearly all it has, however, meant an adverse movement of their terms of trade, the effect of which was sometimes delayed for a time whilst goods bought at the old prices were being delivered, but which was bound in the end to raise substantially the cost of imports. In some cases this has seriously aggravated the Member's balance of payments problem, and made it difficult to pay for essential imports. More generally the danger has been that adequate supplies of certain vital raw materials have not been obtainable, even though the country had the money to pay for them. In either case the countries of Western Europe have found themselves faced once again with risk of being unable to secure enough of the key items without which their productive machine cannot function properly. The important difference is that this time possession of dollars is not a guarantee of supplies in the way, that, for many items, it was in 1947.

14. Besides the risk of industrial dislocations due to shortages, the high price of raw materials automatically reduces the real national incomes of most Member countries by its effect on their terms of trade. This reduction is naturally greatest in countries which base a large part of their activity on the import of materials which have risen greatly in price but, for most countries it will probably be smaller than the rise in the real national income between 1949 and 1950. It comes, however, at an unfortunate time when an increasing part of the national income has to be devoted to rearmement, and the growth of production is threatened by shortage of materials. Not only does this combination mean that the amount of the real national income left over for civilian purposes will be reduced, but it imposes a great strain on countries' ability to maintain internal financial stability. Rising prices to cover the dearer imports and rising taxes to pay for rearmament is not a palatable mixture, and is bound to inspire demands for higher money incomes; even if these were not granted, a reduction in saving would almost inevitably follow, which would increase the pressure of demand. Yet, as the terms of trade have become more unfavourable, rearmament is taking place, and total production is held down by shortages of materials,there can be no escape from a reduction in the real supply of goods and services for civilian purposes. If the demand is not kept down to this level by orderly, non-inflationary measures it will be reduced by the disorderly and inequitable method of inflation. Furthermore the dislocation caused by the inflation itself, including frequently social unrest and the running-down of working-stocks to an inadequate level for efficient production, will add to the total size of the burden; and the rise in prices will be intensified by anticipatory buying on credit.

15. The problems of internal financial stability and the shortage and high prices of raw materials are the most urgent ones which Member countries have in common, and even they present rather different features in different countries. Apart from them, however, certain countries have very serious balance of payments problems. The nature of these has changed somewhat from the time when all roads led to the dollar shortage, partly because the system of drawing-rights described in paragraph 26 no longer exists to cover the expected deficits of some Members in their dealings with others. For the time being there is no common " dollar problem " applying to all members alike though this position may not endure. Rather there is a series of separate problems for individual countries which have deficits in their total balance of payments; these may need to be subdivided into their main components—with the other Member countries counting as one unit owing to the European Payments Union-but there is no general presumption that the deficit will arise in any particular area. In so far as there is a serious lack of balance within the area covered by the European Payments Union, the machinery for considering it at an early stage has already been provided.

16. This change in the nature of the balance of payments problem, and the uncertainly whether the old dollar problem will reappear in its acute form constitute a source of new problems for the Organisation to tackle. From the organisational point of view these varying individual problems may weel present more difficulties than the one large problem which was common "to everybody.

2. PART II

Main activities of O. E. E. C.

17. With such a wide rage of problems, all of them capable of being tackled from many different angles, it is natural that the activities of 0. E. E. C. have been of a very varied nature. No attempt will be made even to name them all here : reference may usefully be made to the publications of the Organisation listed at the end of the accompanying booklet, which describes the structure of 0. E. E. C. its history and method of working. For the purposes of this Report, however the main activities may be roughly divided into four groups :

a. Those which aim at providing a satisfactory mechanism for intra-European trade and payments.

b. Those which aim at equitable distribution of scarce resources between Members.

c. Those which aim at increasing output.

d. Those concerned with internal financial stability.

18. The role of the four groups of measures in relation to Member countries' problems may be described broadly as follows :

19. The first group contributes to the raising of Member countries' real national incomes by enabling each one to exchange products which it can produce relatively easily for those which it cannot. It also helps to solve " particular " shortages by ensuring that an increased output of scarce goods by one country can be used to cover the deficits of all Members, and not merely that of the producer; this applies particularly to the reduction of Europe's need for imports from dollar area as the output of (say) food, machinery or chemicals has risen in various Member countries.

20. The second group contributes to the raising of production by securing a relatively steady flow of materials, or at least helps to avoid the dislocation which would follow if particular countries found that their supply fluctuated in a violent and unpredictable manner. In so far as the agreements about the division of Marshall Aid can be included under this heading, the beneficial consequences are clearly enormous.

21. The group of measures which aims at increasing output frequently helps with reducing the shortages of particular goods or the needs for dollar imports, but in other cases the relation of the increased output to particular shortages or the dollar problem is not very close, and the basic objective is to raise the national income by improving productivity. In doing so these measures can help to restore internal financial stability.

22. Measures aimed directly at improving internal financial stability have an obvious direct purpose, but indirectly they also help to raise the real national income by providing consditions in which industry can work efficiently and saving is encouraged; furthermore they are of great value in securing a satisfactory balance of payments. The reaction of financial instability in one country on conditions in another may be very serious, particularly if the first is a very large one, so that efforts by each country to maintain stability in its own economy are an essential from of co-operation in assisting the recovery of others.

2.1. Section A

Arrangements for intra-European trade and payments

23. Action in this sphere falls under two main headings : liberalisation of trade, including invisible transactions, and the creation of the European Payments Union. The measures have been closely inter-related, however, and neither set could have been satisfactory without the other.

Liberalisation of Trade

24. At the end of the war intra-European trade had to be restarted under most difficult circumstances. The currencies of nearly all countries were inconvertible, and there was little prospect of a balance in the payments either between pairs of countries or between any one country and the rest of the world. Consequently, the best that could be done was to negotiate a series of bilateral agreements which mostly provided for a certain margin of credit to be granted in either direction, after which the debtor country would have to make payments in gold or dollars.

25. Since prospective creditors were not prepared to part with more than a very limited amount of their exports without getting an immediate return, the credit margins were usually fixed at a fairly low level. As neither partner to an agreement was willing to run the risk of having to pay gold, each tended to 'play for

safety' by imposing a whole network of exchange restrictions, permits, and the like, on any imports which it did not consider " essential. " Negotiations might lead to agreements about the level and character of permitted imports on either side, but, nevertheless, trade was most undesirably restricted at a low level and even so some countries found themselves having to import some things which they did not particularly want either because they had accumulated a surplus of a certain currency or because they had to agree to this in the course of the negotiations in order to obtain other goods which were of great value to them or in order to obtain facilities for their own less essential exports. Under such a regime it was inevitable that many forms of undesirable discrimination should be widely practised, and that each country would be afraid of finding that others were discriminating against its exports when negotiating with third parties.

26. The two agreements about intra-Euro-pean payments which formed part of the arrangements for the European Recovery Programme for the first two years enabled a higher volume of trade to be carried out within this general framework, despite the fact that many of the credit limits had been reached, through the system of " drawing rights. " Under these arrangements a country which expected to have a surplus during the next year with another country would agree to make a free grant in its own currency to the prospective debtor as a counterpart of the dollar grant which it received from the United States. This sytem undoubtedly helped to raise the level of beneficial trade between Member countries, but if had the drawback that it gave no incentive to the prospective creditor to seek to increase its import orto divert its goods to the dollar market, or to the prospective debtor to reduce its need for imports, since each stood to gain most by seeing that the forecast result was in fact attained. Moreover, the trade which resulted was essentially of a bilateral kind, despite an attempt to include some multilateral.features in the arrangements, so that, the most beneficial exchange of goods could not be achieved. And the system depended fundamentally on the continued inflow of the E. R. P. funds which provided the inducement to potential creditors to grant drawing rights.

27. In 1949, 0. E. E. C. started a movement to secure a general reduction of the restrictions on trade which Member countries had imposed. It was clear that whilst each country might feél that it gained in terms of dollars by restricting its imports and so avoiding the risk of having to make gold payments, nevertheless the process was largely self-defeating when applied on all sides, so that a general reduction of barriers thould lead to a beneficial all-round increase in she level of intra-European trade, without any serious loss of gold by any country. The main problem was to find a method whereby Members could agree on such a general and simultaneous reduction of barriers.

28. It was clearly impossible to estimate exactly what the effects of any reduction would be, and so to ensure that the final outcome would be an exact balance of payments, even if this had been desirable; the countries therefore agreed on a simple formula which would at least ensure that action was taken speedily. This was that each country should remove all quantitative restrictions on imports from other Members to an extent which would cover a certain percentage of its total imports from other participating countries and their overseas territories in a base year (1949 for Germany, 1948 for others). The percentage was to apply not only to the total trade of the country, but also to each of the three main divisions—agricultural products, raw materials and manufactures. Government imports were to be left out of account, and it was simply prescribed that they should be transacted on commercial principles in accordance with the relevant provisions of the Havana Charter.

29. To make some provision for the risk that this formula would lead individual countries into difficulties, there were included various safeguards, especially for those faced with an adverse balance of payments. A country which wished to avail itself of these safeguards had to be prepared, however, to justify its action to other Members, and this general reliance on mutual trust and co-operation reduced the need for a detailed set of rules to cover all contingencies.

30. The percentage was fixed at 50 per cent by a decision of 2nd November, 1949, countries being free to select what goods they close so long as this proportion was reached in all three sectors. Bilateral bargaining helped to ensure that at least some of the commodities to which suppliers attached importance were included in the lists, but inevitably countries tended to select those items which caused least anxiety to them.

31. Most countries were able to comply with this decision fully; some indeed liberalised more than the required percentage and the rest nearly all came very near to doing so. The next step was clearly to raise the percentage, but this was bound to encounter greater difficulties. Each country had started with the " easy " commodities from its point of view, so that an increase in the percentage would raise the effects much more than porportionately. This difficulty would be much reduced if a multilateral payments system could be introduced, so that each country had only to worry about its position vis-a-vis Western Europe as a whole, instead of the risk of a deficit with any particular country. Furthermore, it would be a great help if this system

provided a fairly substantial margin of credit, so that any country which did find itself in deficit would not immediately have have to pay out gold; since the future was inevitably uncertain, no country could be sure that it would avoid a deficit, so that this provision made it easier for all countries to extend liberalisation.

32. Both these conditions were in fact met by the creation of the European Payments Union, described below, on 19th September, 1950, and it had previously been agreed to raise the percentage of liberalisation to 60 per cent fifteen days after this scheme came into force. Furthermore, as payments were now to be on a multilateral basis there was no need for any Member country to exclude any other from the benefits of is liberalisation for balance of payments reasons : hence the rule of non-discrimination was applied in the liberalised sector and became fully effective on 1st January 1951. The Council have also agreed that there should be no discrimination in the non-liberalised sector, but the technical methods of making this effective are not so easy or automatic, and no procedure for dealing with complaints of violation has yet been established; in particular, one country has stated that it must preserve some facilities for bargaining on these imports unless it is assured of an equitable supply of primary commodities.

33. Little time was lost before deciding, on 27th October, 1950, that there should be a further advance to 75 per cent liberalisation, to become effective in February, 1951. On this occasion, however, difficulties in the agricultural field made it impossible to agree to raise the percentage in each of the three commodity divisions; countries therefore only agreed to raise it to 75 per cent for the total, with a minimum of 60 per cent for each division. In addition, member countries are required to consolidate as from 30th April, 1951, the liberalisation of commodities covering 60 per cent of their trade after which no consolidated item may be withdrawn except under the safeguard clauses mentioned above, even if the minimum percentage is still observed.

34. The difficulties in the way of liberalisation have been increased by the great rise in prices of imported raw materials, which has tended to create a serious balance of payments problem for certain countries even within the European field. Six countries—Greece, Austria, Denmark, Iceland, Norway, Germany—have applied for relief under the safeguard clauses and been exempted from their commitments. They have, however, continued to maintain varying degrees of liberalisation in accordance with their circumstances.

35. Whilst the " percentage " method of liberalisation has been very effective in securing rapid action, its defects become more noticeable when the figure reaches such a high level as 75 per cent. In particular, the goods on which the restrictions had been very severe in the base period, and which it might be most desirable in the common interest to liberalise, are not very likely to be selected by the country concerned; for their liberalisation would count very little towards the country's commitment, since few imports were admitted in the base year. Moreover, so long as each country made its own choice of products to liberalise it was unlikely that the same ones would be liberated by all. The group which co-ordinated the negotiations for the 75 per cent stage therefore recommended that all the items on a " common list " should be liberalised by those countries which were able to reach the 75 per cent target. This list was prepared by the group and included all textiles and textile machinery, together with some agricultural and chemical products. These proposals were provisionally adopted by the Council on 7th April, subject to reserves by the Irish and Turkish Governments[1] together with a provision that member countries which consider that they are unable to liberalise items on the list shall justify to the Organisation the maintenance of quantitative restrictions on these goods.

36. Negotiations for extending this procedure and widening the list of products covered by it are still in progress. Apart from increasing the area of liberalisation, it would have the result of making an advance towards the " unified European market " which has frequently been stressed as a desirable objective. On the other hand, there is a real difficulty in producing a list which all countries will consider fair.

37. There are, of course, other barriers to trade, e. g., tariffs, besides those to which the liberalisation programme has been applied. Members have agreed in the Convention to cooperate with other like-minded nations to reduce such barriers, and progress has been made long these lines at a series of international conferences. The obstacles are, however, greater than those encountered by the mutual removal of quantitative restrictions, since these had mostly been imposed in the recent past for balance of payments reasons, and had done little to encourage production of a kind which could not withstand foreign competition when they were removed. A widespread further reduction of tariffs would create more serious problems of adjustment for the producers affected, although the long run benefits to the world would be substantial.

38. Approaches have also been made by the Dutch, Italian and French Delegations towards more radical forms of European integration. At a Ministerial Council meeting on the 7th July 1950, they suggested that the Organisation should study proposals which were called, after their sponsors, the Stikker, Pella and Petsche Plans.

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1. The percentages of liberalisation achieved by these two countries are 75,2 % and 63,2 % respectively.

39. All three plans regarded the closer economic association of European countries as a means of lowering production costs, of raising the standard of living of the population of Member countries, and of bringing their balance of payments with countries outside Western Europe into equilibrium, while at the same time developing production, maintaining a high and stable level of employment and advancing towards the restoration of multilateralism on a world scale. The three plans agreed that these results cannot be attained by each country acting separately, but only through a joint co-ordinated effort by the Members of O. E. E. C.

40. The creation of a single European market •—such as would provide for the complete economic integration of Europe—would require not only the removal of quantitative restrictions, hut also of tariffs and other impediments to trade between European countries. This is the declared aim of the Stikker Plan. The Pella Plan aims specifically at the progressive reduction of tariffs on a preferential basis; and the Petsche Plan at the creation of a financial institutions which would promote productivity.

41. Under the Stikker Plan the economic integration of Europe, to be carried out by sectors, will require measures to counteract any disturbances which a Member country might suffer as an immediate consequence of integration. The Pella Plan places the accent on the necessity of spreading tariff reductions in such a way as to enable Member countries, and in particular those with the weakest economic potential, to adapt their economies to the effect of the reductions. The Petsche Plan stresses the need to treat economic expansion and investment programmes not so much as national problems but as European problems, to be solved by methods of rationalisation with the aid of a European bank.

42. A Working Party of the Executive Committee examined the three plans and, on 1st October 1950, submitted a report analysing them and determining the scope of the further studies which would be necessary before a decision could be taken.

43. In October and December, 1950, the Council decided to have studies made of certain sectors to see what the proposals would involve if applied to them. These were entrusted to various Technical Committees and are now in progress.

The European Payments Union

44. The need for an effective multilateral system of payments, which would also provide a margin of credit, has been explained above. It was required to enable Members to take the risk of reducing their restrictions on imports, and so permit trade to take place which could not fail to benefit the group as a whole, but which might otherwise have involved particular countries in disproportionate losses of gold. It was also required to enable each country to reap the full benefits of its exports to Europe, by using the proceeds to buy from whichever country could best meet its requirements instead of being constrained to spend them in the importing country. Similarly, it eliminated the need for countries to try to sell their exports in one Member country rather than another, in order to balance a bilateral deficit. Without effective convertibility of Members' currencies, true non-discrimination was impossible; with it, each country could sell in whatever was the best market for its exports and use the proceeds in whatever was the best market for its imports.

45. The essential principle of E. P. U. is a simple one. Payments are made between nationals of the various countries in the same way as before, and each Central Bank continues to report periodically to the Bank for International Settlements the net outcome of the transactions between its country and each of the others. The B. I. S. combines these statements so as to show a single net figure (positive or negative) representing the position of each country vis-à-vis the others taken together. This net balance is, up to a point, simply carried forward as a debt from that country to the Union (or vice-versa) ; if, however, the cumulative figure reaches a certain limit, then part of the excess is paid in gold according to fixed rules. The limit for each country depends on its " quota ", which is fixed at about 15 per cent of its intra-European payments and receipts in 1949. Until the cumulative balance reaches one-fifth of this quota it is simply carried forward; beyond that point half of a country's credit balance is paid in gold, until its quota is reached whilst the proportion of a debit balance to be paid in gold rises progressively from 20 to 80 per cent.

46. It will be seen that this sytem is in principle quite independent of Marshall Aid, except that it needs an initial capital to cover the risk that the Fund will have to pay out more gold for a time that it receives. Its function is indeed quite different from that of the old Intra-European Payments Agreements. Instead of using American grants to pay for bilateral deficits which had been forecast, the Members mutually agree that each will leave in the fund part of any unforeseen balance which may, in fact, be clue to him after a multilateral clearing, so that debtors to the Fund need not immediately pay in full.

47. The transition from the old principle to the new was not, in fact, made quite as sharply as this description would imply. Certain countries which were thought likely to earn surpluses under the new regime started with a debit balance, for which they were compensated by a grant under E. R. P. in much the old way, and others which were expected to have deficits were given an initial credit balance.

48. It is not, of course, possible to say how much intra-European trade expanded as a result of E. P. U., since its introduction was essentially linked with the extension of liberalisation, and the effects are therefore necessarily inseparable. Even if we take the two together, the picture is necessarily affected by other changes which have taken place, but it is of interest to note that the spectacular increase in the volume of intra-European trade up to 1949, at the end of which the pre-war volume had been regained, so far from slackening during 1950, increased at a greater rate (29 per cent) than in the year before (23 per cent). Moreover, the rate of increase was greater in the second half of the year than in the first. This increase, it is true, was part of a general increase in the volume of trade of the participating countries in a context of expanding world trade. Trade within Europe, however, was becoming an increasingly important part of the total trade of the participants and by the end of 1950 the countries of Western Europe were selling a greater part of their exports to each other and taking a greater part of their imports from each other than in 1938.

49. It is also impossible to give any precise estimate of the extent to which the introduction of E. P. U. enabled a more satisfactory pattern of multilateral trade to be established, by freeing countries from any incentive to make their bilateral payments conform to a fixed mould prescribed by their agreements on drawing-rights and gold payments. Here again, however, there are some suggestive indications that the system has proved of real value. Thus in the period covered by I. E. P. S. (October, 1948, to June, 1950) the total of cumulative bilateral deficits, after allowing for drawing-rights granted by the creditor-partner, was only a little over 1,000 million dollars, or an average of about 50 million dollars per month; countries were not allowing their payments to any other country to get far above their receipts from that country. In the first nine months of E. P. U., however, the total of cumulative bilateral deficits was as high as 1.700 million dollars, or about 190 million dollars per month, even after deducting those covered by the use of " existing resources "—e.g. sterling balances which Italy owned at the beginning of the scheme, and used to cover part of its deficit.

50. The above comparison somewhat exaggerates the importance of the countries' new freedom to spend their available resources in whatever Member country seemed best, if only because the recipients of bilateral drawing rights would have spent a large part of them in the same way even if they had not been " tied " to the granting country[2]. More direct evidence, albeit of a less comprehensive kind, is available, however, to show the changed direction of countries' purchases and sales since the extension of liberalisation, non-discrimination and multilateral clearing of payments. Thus, whatever time-period is used for the comparison, there have been a number of striking changes in the bilateral trade and payments relations of E. R. P. countries with one another.

51. On a more technical basis it is easy to see the advantages of E. P. U. over the preceding system. The previous combination of I. E. P. S. and bilateral payments agreement not only failed to secure more than a trifling amount of multilateral compensation or clearing; even in the bilateral field it also failed to exploit the full possibilities of ofî-zetting a deficit in one month against a surplus in another. Thus, if a country had reached the limit of the credit margin allowed by its partner, and had no drawing rights, any deficit had to be covered by paying gold. Even if the country subsequently had large surpluses, the gold would only be recovered if these surpluses had first not only repaid the credit previously received but also given whatever credit in the other direction was provided in the bilateral agreement. Where a country with a bilateral deficit had been granted drawing rights by its partner and used these to cover the deficit in one month, the amount was not in general repayable even if it subsequently had a surplus. Thus, there was a risk of gold payments being made or drawing-rights used " unnecessarily, " as indeed happened, and the total amount of deficits which could be covered by a given volume of these was needlessly reduced.

52. E. P. U., on the other hand, not only makes full use of the multilateral principle, it is also fully cumulative. Thus, a country, which has had to meet part of its deficits in gold will recover the whole of that gold if it subsequently has enough surpluses to reduce its cumulative deficit to one-fifth of its quota; a country which has received gold for part of its surpluses to date will immediately have to repay some of that gold if it incurs a deficit in the next month. Whatever the route.by which a certain cumulative position is reached, the cumulative receipts or payments of gold will be the same.

2. Even if the bilateral deficits under I.E.P.S. are computed before deducting drawing rights, the rate was about 110 million dollars per month, against 190 million dollars under E.P.U.

53. Since the principles on which settlements were made under the two systems were so different it is not possible to make a straightforward comparison between their workings, but the following table shows the essential features on as comparable a basis as possible :

COVER OF THE BILATERAL DEFICITS

U N D E R T H E I . E . P . S.	**U N D E R T H E E. P. U .**
October 1948 $ p. to June 1950. Million 100	**Million units of account July 1950 (= $ p. to March 1951 Million). 100**
Total of the b i l a t e r a l deficits in 21 separate months 4,030 100	Totalof the b i l a t e r a l deficits in 9 separate months . . 2,340 100
Covered by : Net reduction of deficits due to the « compensations » on balances . . 90 2	Covered 2 by : C o r r e s p o n - ding surp l u s e s in o t h e r months . . 590 25
R e c e i p t of d r a w i n g rights. . . 1,280 32	Multilateral compensa - tion 670 30
R e c e i p t of d r a w i n g rights. . . 1,280 32	Net reduction by use of e x i s t i n g resources . 70 3
Net increase of bilateral d e b i t balances . . . 1,580 40	Use of initial b a l a n c e s grandet by E.P.U. . . 265 11
Bilateral gold 250 6	C r e d i t granted by E.P.U. . . 525 22
	G o l d paym e n t s to E.P.U. . . 220 9
(1) The total of the cumulative bilateral deficits was only 12,300 million, but the settlements were applied to the change in the bilateral balance during each separate month.	(2) As E. P. U. gives full effect to the cumulative principle and operates on the net (multilateral) position of Members, only the cumulative net deficits require to be financed : these totalled $ 1,080 million and were covered by the last four items.

It is a striking feature of E. P. U. that the automatic facilities which it provides—the full operation of the cumulative principle and multilateral compensation—have covered over half the total bilateral deficits.

Members' position in E. P. U.

54. It was not to be expected that all countries would balance their payments with other Members of the Union, even approximately. The Members represent only a part of the trading area of the world and it would be perfectly natural for one (or more) of them to be in global equilibrium whilst having a surplus or deficit within this field. There is also the risk that a country would have a deficit with E. P. U. which was not " balanced " by a corresponding surplus elsewhere, but represented part of its global deficit; this tisk has been increased by the great rise in the price of imported materials, which has had such a serious effect on some countries. Similarly, there might be surpluses in both sectors.

55. The question of what should be done if a country reached the limit set by its quota, whether as debtor or as creditor, could not be settled rigidly in advance, because the reasons for this result might be so varied. The scheme could not work " automatically " under such circumstances, and the Members therefore adopted their normal technique for dealing with awkward cases by providing in advance that if difficulties became apparent there should be mutual discussion about what action was desirable. This reliance on the spirit of co-operation was an essential feature of the scheme.

56. The Managing Board which was set up is responsible for reviewing a Member's position as soon as it appears likely that its quota may be exhausted in either direction. It was soon faced with an important decision, since in October-November 1950 it became apparent that Germany was entering the position of an " extreme debtor. " The Managing Board recommended that a review of the reasons for this should be speedily prepared by independent experts. It then reported that the increased demand for imports originated in the rapid increase in production in Germany combined with a wave of purchases from abroad not only to supply the export industry but for greatly increased domestic use. In addition, expectations of a revaluation of sterling and lack of confidence in the mark had led. German importers to make payments abroad as far in advance as possible, while German exporters tended to grant long delays for payment by their foreign customers, the two tendencies producing a strong adverse effect on the current balance of payments.

57. The German Government submitted a programme of the steps it was taking and it was considered that these measures, coming on top of the expected downward trend of the deficit from March onwards, would be sufficient to bring the German economy back into equilibrium. In view of this programme and subject to certain guarantees, the Organisation extended to Germany a special credit of up to 120 million units of account to help her surmount her balance of payments difficulties considered to be temporary.

58. Things have not turned out as well as was hoped, partly because Germany has not yet succeeded in making effective the measures which had been proposed for credit restriction and increased taxation. The German Government was forced to suspend the liberalisation of trade in February, acting under the provision made for countries in balance of payments difficulties. It submitted a further memorandum in March describing the position and the measures which it proposed to take, and this was examined by the Managing Board. The Report of the Managing Board dealt not only with Germany's position but also with the repercussions on other Members, and led to the adoption by the Council on 8th April of a co-operative programme for dealing with the various problems. This aimed at strengthening Germany's fundamental position by a number of recommendations about internal measures which the German Government agreed to adopt, so as to increase German exports and reduce her demand for imports. The immediate position was to be eased by urging German importers to seek by negotiation a postponement of contracts until after 31st May, whilst countries with a strong position in E. P. U. would similarly try to limit their exports to Germany for which payment would he due before 1st June.

59. The amount of new licences issued by the German Government which would be valid for imports before 1st June was to depend on the results of the E. P. U. clearings in March and April. The allocation of these licences was to be made after proposals for their apportionment had been submitted by a Mediation Group of three experts. This group was instructed to take into account the essential needs of the German economy, but otherwise to propose an apportionment primarily in favour of Denmark, Greece, Iceland, the Netherlands, Norway and Turkey, whilst giving consideration to the seasonal exports of other Members and taking into account the interests of other Members who might be substantially prejudiced because their bilateral agreements with Germany had not been carried out.

60. To reduce the unfavourable repercussions of Germany's reduced purchases, Members with a strong position in E. P. U. were urged to admit, on reasonable terms, additional imports from those whose traditional exports to Germany had been particularly affected.

61. As regards future bilateral agreements, Member countries in a strong position in E. P. U. were urged to offer large import quotas to Germany and ask only for small ones in return; in agreements between Germany and other debtors of E. P. U. both parties were urged to leave quotas at about the previous level. On goods for which no quotas were involved, Germany was urged to reduce her purchases from countries in a strong position (including their monetary areas), unless the goods had previously been liberalised; in that case the code about liberalisation (including the escape clauses) should continue to apply both to Germany and to all other Members.

62. These proposals represent a constructive attempt to tackle a very difficult problem in a spirit of co-operation, with the common objective of finding a solution which provides for a high level of trade. There are bound to be further problems of a similar character to be faced, since the working of E. P. U. to date has shown a marked tendency for certain countries to have repeated deficits and others to have repeated surpluses. Such a process inevitably means that quotas gradually become exhausted, and the list of problems consequently increases; but experience with the case of Germany suggests that the Organisation will make a determined attempt to arrive at constructive solutions which all Members can accept.

2.2. Section B

Allocation of scarce resources

63. The most important example of an agreed allocation of scarce resources between Member countries is undoubtedly the division of Marshall Aid. This Aid represented the most vital of all the scarce resources which Members need to ensure their economic recovery, and its division was a severe test of their willingness to co-operate in solving a very difficult problem. To arrive at agreement, Members adopted procedures which are quite without precedent, including the submission to the Organisation of elaborate " programmes " by each country, which were then subjected to careful scrutiny. This mutual examination was a lengthy and laborious process, which would have been quite impossible without a strong sense of mutual confidence. Its successful achievement undoubtedly did a very great deal to increase that confidence and to encourage further efforts at co-operation in other fields; it also had other benefits discussed in the next section.

64. The other main activities falling under this head relate to raw materials, and need to be considered in relation to the actions taken in Washington. 0. E. E. C. took a leading part in the initiation of international discussions on the question of the scarcity and high prices of materials. As long ago as the 7th October, 1950, the Council of Ministers called for speedy reports on each of the main materials from its Technical Committees; these were to analyse the reasons for the rise in price, suggest measures for increasing output

or limiting demand, and to pay special attention to the possibility of establishing an allocation, system for those commodities in which Members were, as a group, more or less self-sufficient. For other commodities, it was recognised that action on a wider plane would be necessary, and the Council called for suggestions about procedure for securing this.

65. Reports were produced for all the main materials, together with a general report summarising the problem. The Council of Ministers took a second decision on the 2nd December, 1950, which recommended Member countries to take all possible measures to increase their production of certain materials (e.g. coal, metallic ores, sulphur, wood-pulp), and to intensify their recovery of scrap and other waste products. The Technical Committees were also to continue to keep the situation under constant review and to consider what measures could be taken within the framework of the Organisation, e. g. for co-ordinating purchases of American coal, or for initiating an allocation system for such products as metallurgical coke, scrap, and iron ore.

66. These Resolutions related mainly to commodities for which Europe could make a real effort to help herself out of her difficulties. As regards those materials which the Member countries import mainly from outside their territories proposals were made for calling international conferences in appropriate cases. Shortly afterwards, an O. E. E. C. Mission visited Washington and discussed with the United States Authorities common problems arising from the shortages of raw materials. At much the same time the United States, United Kingdom and French Governments, who had reached the conclusion that the problems of commodity shortages could be dealt with effectively only on a world-wide basis and that continuing machinery was needed for this purpose, proposed to other interested Governments the creation of a number of standing international commodity groups. Arrangements have been made for co-operation between O. E. E. C. and this new international machinery, the International Materials Conference, which has now been set up at Washington. Under these arrangements, 0. E. E. G. is represented in the I. M. C. and also continues to discuss between its members collective action wherever this seems useful, notably in increasing production of scarce materials, encouraging measures of economy and substitution and harmonising restrictions on consumption.

67. Meanwhile, 0. E. E. C. has continued with its work on the materials for which the problem is of a more " domestic " nature. It has been able to reach agreement oh a first allocation of the limited supply of shipping tonnage available for bringing American coal to Europe in the course of the second quarter of 1951, with a view to avoiding a scramble for ships. Simultaneously a common policy on the allocation of coal of European origin will be pursued, so as to enable Member countries to adopt a uniform attitude in the meeting at Geneva where definite allocations are recommended to Governments, including those of some non-Member countries.

68. Members have also been discussing the possibility of introducing common measures of restriction on unnecessary consumption of materials. This not only has the advantage of enabling them to pool their ideas, but should also help to avoid the risk of one Member exporting goods to another, the production of which had been forbidden in that country. Here again, it is too early to assess the results which are likely to emerge, but à useful start has been made with proposals for a common list of restrictions on copper consumption.

2.3. Section C

Measures for increasing output

69. The measures falling under this heading may be roughly sub-divided as follows :

a. Attempts to co-ordinate plans for increasing output of certain goods for which expansion seemed particularly desirable, or to co-ordinate investment

b. Technical measures designed to encourage increased productivity or efficiency, whether in industry, agriculture, power supply, trade, transport or any other branch of the economy.

c. Measures for re-distributing manpower.

70. Needless to say, the categories overlap to some extent, and it should not be forgotten that other types of action (e. g. on international trade and payments) have a powerful indirect effect on output.

Co-ordination of Plans

71. Wherever possible it has been the aim of the Organisation to facilitate an orderly and consistent expansion of production in Western Europe. In order to achieve viability, it was particularly necessary to increase output of those commodities which would contribute either to increasing exports or reducing imports, especially imports from the dollar area.

72. The most comprehensive action in the direction of co-ordination of plans was achieved as an integral part of the procedure for dividing Marshall Aid. Each country submitted an elaborate statement of its programme, covering in greater or less detail the whole of its economy and that of its Overseas Territories. After scrutiny these programmes were brought together to reveal their implications as a group. No attempt was made at a formal reconciliation of these plans into a common master plan for Europe, which would then be binding on all countries : apart from anything else, such action would have implied a degree of detailed control over events which no Government possesses. But certain conclusions became apparent—:*, g. the need to alter the structure of European production if the dollar gap were to be closed, not merely to restore the pre-war structure, and the main conclusions were discussed in the Reports of the Organisation, which described the types of action required. On a whole range of topics, moreover, both Governments and their producers were given a vastly greater amount of information on which to base their policies.

73. In October, 1949, the 0. E. E. C. drew the attention of Member countries to the fact that a 5 per cent increase in agricultural output would permit them to halve their imports of foodstuffs from the dollar area. It was suggested that the main increase would come from an expanded production of animal feeding-stuffs, and particularly of grass and rootcrops, leading in time to an increase in the output of animal products. This might be achieved partly by the application of improved technical methods (including those which the Organisation was taking special steps to foster, as described above), and partly by the application of additional resources so as to extend the cultivable area and introduce additional capital.

74. In the face of an increased demand for foodstuffs and the danger of a reduction in the exportable surplus of foodstuffs in overseas countries, the Organisation has again, through a Council Resolution, called upon Member countries to do everything in their power to increase agricultural production. Member countries have also been asked by the 0. E. E. C. to give full details of the steps they propose to take to further increase their production.

75. The need to economise in dollar expenditure has also caused the Organisation to stress the need to increase output of timber and non-ferrous metals, particularly in the Overseas Territories, and to increase, when this was possible, the use of synthetic fibres and the production of certain types of machinery and equipment for which markets existed.

76. Member countries were already undertaking a great expansion of their oil refinery industry, and the various construction programmes have been constantly reviewed in the 0. E. E. C. in order to ensure that they should make the best use of available resources. In October, 1949, a " First Report on the Co-ordination of Oil Refinery Expansion in the 0. E. E. C. Countries " was published and it was agreed as a matter of principle that all new projects for the construction of oil refineries should be submitted to the Organisation before being carried out. This has enabled some coordination of the various expansion programmes to be achieved, and various technical modifications were made to certain projects as a result of the discussion.

77. Similar developments have taken place in the field of the development of the iron and steel industry. All new projects evolving in Member countries which either represent improvement of existing production capacity or create new capacity of crude steel and semi-finished or finished products, are to be submitted to the Organisation if they exceed certain value limits. In this case also a fairly considerable influence has been exercised on the expansion programmes of some of the participating countries which have cancelled or postponed various plans which were due for immediate realisation. Moreover, the permanent contact which is established in this way between Member countries allows for mutual interchange of information about plans, and so influences to some extent the development programmes in Member countries in the direction of co-ordination.

78. The efforts of the Organisation to co-ordinate investment in other fields have been less successful. Detailed studies which have been carried out have demonstrated the extraordinary complexity of the problems involved in the general co-ordination of investment in Western Europe. It has, however, been possible for the Organisation to bring together various investment plans prepared separately in Member countries in order to ensure that the fullest possible information on investment projects should be available to industry and Governments with whom final decisions rest. In the case of electricity, where economy in capital expenditure could be obtained by grouping the producing units on opposite sides of an international boundary, five

regional operating groups have been established and have enabled further agreements to be reached for the exchange of eletricity between certain Member countries and for the construction of new transmission lines to link national power systems.

79. A special report was published by O. E. E. C. on International Investments, which stressed in particular the need for using outside capital to develop production in under-developed countries and suggested methods of procedure. This work was completed at about the time of the Korean invasion which caused a postponement of action to follow up the ideas.

Technical Measures on Productivity

80. The Organisation has established or developed during the past two years a network of industrial, technical and scientific activities, both on an international plane and at a national level. In general it has assumed that, for rapid economic progress at the present stage of European affairs, more will be achieved through its agency by the promotion of an early application of existing knowledge than by devoting its own resources to the encouragement of fundamental scientific research, and it has accordingly concentrated its attention upon measures which will directly or indirectly facilitate :

a. The collection of useful technological information and experience, both in America and in Europe;

b. The spread of such information to the circles in each Member country most able to apply them productively;

c. The rapid practical application of improved techniques of production, commerce, finance and administration;

d. The creation of independent bodies or organisation to implement the technical developments which are considered to be in the general interest of Member countries.

81. The resources upon which the 0. E. E. C. has relied for this purpose are those that each Member country individually is willing to make available, and the increased potential that arises from concerted action on an international plane between Member countries. The main instruments used have been as follows :

a. The 0. E. E. C. Documents Exchange scheme, thanks to which Member countries exchange and undertake to make known to the appropriate industrial or professional circles, official technical documents published by their Governments in the fields of : technology, medical matters of industrial interest, physical and biological sciences of interest to industry, economic questions relating to industrial productivity;

b. The Technical Assistance programme, financed in part by United States and by which representatives of the major industries, trades, and professions of Member countries, including the United States (and now Canada) can visit one another's establishments, and thereby, visually and by personal contacts, acquire and exchange practical information as to practices, processes, plant, designs, costs, etc., in countries and establishments other than their own, and by which broad sections of the public are able from the final reports prepared by such teams of representatives, to benefit from the experience acquired by the latter;

c. The Technical Information service, comprising a network in Europe of National Centres of Technical Information and Liaison, linked with the Technical Information Service of the Office of Technical Services, Department of Commerce, Washington, U. S. A., by which private individuals and industrial organisations may obtain technical information in reply to questions on detailed matters of industrial technique ;

d. The European network of National Productivity Centres, established as the extremities of a system of European collaboration to deal with matters of productivity;

e. Discussions under the 0. E. E. C. in Paris, in the course of which leading representatives in the fields of general applied science, standardisation, technical assistance, productivity and special aspects of industrial technology in each of the Member countries, meet, exchange information and work out together practical means of collaboration on a bilateral or multilateral basis.

82. This work of the 0. E. E. C. has achieved considerable success in developing a spirit of international goodwill and of belief in international collaboration between technicians in a variety of sectors of industry. Some 500 representatives of industry, trade and finance in Member countries have been given the opportunity of visiting the United States under the aegis of O. E. E. C, and have brought back much valuable practical experience of modern American methods and equipment. The success of these visits, in the course of which

American industrialists have opened to them the doors of their factories, has been such that European firms which previously would never have allowed a competitor to visit their plants, have opened their doors to teams of visiting technicians from their own and other countries.

83. It is not so easy to select examples of the work undertaken which would give a proper impression of its scope, but the following may serve as illustrations :—

84. In the agricultural fields, special studies were made with the aid of American experts, on the development of hybrid maize, oilseed production, and grassland improvement. A successful conference on methods of grassland improvement in North-Western Europe was held in Paris in May 1950 under the aegis of the French Government and the O. E. E. C, a similar conference on the special grassland and forage problems of the Mediterranean area is being sponsored in Rome this June by the Italian Government and the O. E. E. C. In view of the importance of spreading technical information to the multitude of small agricultural producers a special report was also published on the working of Agricultural Advisory Services in 14 European countries, for which again American experience was specially examined.

85. In industry, discussions between experts of different countries have been organised on diverse topics such as the transporting of gases over long distances; the movement of marine sediments in estuaries and along the coasts ; the utilisation of peat; the physical properties of mixtures of coals and lignites; the influence on productivity of the factors colour, lighting, and noise in industry; the utilisation of tonnage oxygen for the oxidation of natural and industrial gaseous hydro-carbons.

86. Agreement has been reached to undertake work co-operatively on these subjects. Another particularly interesting case is the agreement between a number of Member countries to erect jointly two semi-scale low-shaft blast furnaces in Belgium and Germany respectively, to carry out trials in the use of tonnage oxygen to smelt iron ore and fuels hitherto considered unsuitable for pig-iron production. If successful, these experiments should help to remove an ever-threatening shortage.

87. As regards electricity a novel method of consultation was adopted, under which unions for the co-ordination of the production and transmission of electricity are at present being established, on which both Governments and the electi'icity industry will be represented. Within these bodies there has been an interchange of technical information.

88. A rather srjecial case consists in attempts to increase the efficiency of exporting as such, with special reference to the dollar area. In 1949, a detailed report was prepared by the Trade Committee on the export drive to the dollar area and this was followed by an examination and comparison of the measures adopted by Member countries. Particular attention has been directed to the increased use of free trade zones in the United States, and a mission has recently visited the United States to study the question. In August, 1950, the Member countries jointly participated under the aegis of the 0. E. E. C. in an International Trade Fair held at Chicago. A feature of this was that exhibits were jointly displayed as products of European industry, instead of being grouped on national stands. In September, 1949, the 0. E. E. C. prepared and published the first of a series of six-monthly studies on delivery periods for machinery and equipment so as to provide information about what was available in Europe for export.

89. Considerable efforts have been made to increase European earnings from tourism. Joint action has been taken to make travel easier by getting rid of visas, shortening halts at frontiers, and the provision, of more generous customs facilities for tourists. At the same time, steps have been taken to increase transport capacity and to encourage off-season travel. A publicity campaign in the United States was undertaken on behalf of Member countries in 1949, and over $ 1/2 million has so far been made available for this purpose. A technical aid mission has been sent to the United States to study the American hotel industry and to draw conclusions as to how the European industry can best cater for American tastes. The report of the mission and a general report on tourism and its role in the economic recovery of Europe are to be published shortly.

Manpower

90. Members of the O. E. E. C. have pledged themselves to ensuring the fullest and most effective use of available manpower, the provision of full employment and co-operation in the progressive reduction of obstacles to the free movement of persons. In most Member countries a high level of employment has been maintained since the war, but in Germany and Italy special circumstances of different kinds have produced an excess of manpower for which employment cannot easily be found. The O. E. E. C. has, through its Manpower Committee, encouraged the mobility of labour within Europe and emigration from Europe as a contribution to solving the problem of reducing manpower surpluses. Co-operation has been close with the I.

L. 0., the I. R. 0., and the Economic Commission for Latin America, and a grant of $ 1 million[3] was made to the I. L. 0. to finance an extended programme of technical assistance to European and overseas countries to facilitate the movement of workers from Europe overseas.

91. The Organisation has carried out a thorough examination of the obstacles to intra-European labour moA'ements such as administrative restrictions, medical examination, attitude of workers, and employers, organisations, etc., and recommended Member countries to engage in bilateral conversations on these questions.

92. 92. The Organisation has also recognised the need to improve manpower statistics and with the assistance of the I. L. 0. is proposing to call a special conference of statisticians to examine the possibility of extending a system of sampling to European countries which do not possess full records of employment and unemployment.

93. While recognising that Western Europe as a whole has a surplus of workers, the Organisation has also come to the conclusion that the extended programme of re-armament now being undertaken will make considerable demands on available resources of skilled and mobile manpower. It has therefore encouraged its Members to undertake a thorough examination of their arrangements for vocational training and the utilisation of available skilled manpower, and has asked them for special reports on the effect of rearmament preparations on their labour position. There is no evidence as yet that re-armament will cause the persistent surplus of manpower in Germany and Italy to be absorbed. The basic policy of the Organisation is therefore still to encourage emigration overseas; its objective of increasing the mobility of labour between countries, areas and occupations within Europe is, however, being pursued with equal attention, not only with the object of relieving excess unemployment, but also to meet the needs of expanding defence production.

2.4. Section D

Internal Finaiicial Stability

94. The creation and maintenance of internal financial stability has throughout been a main objective of Members' recovery programmes. Its achievement is a matter of international concern because of the repercussions of instability in one country on others. For a small country in particular a world-wide movement towards violent inflation or deflation would present an almost insuperable problem; but for every country success requires an effective national policy, even when the world as a whole is relatively stable.

95. The role of O. E. E. C. as such has been essentially to find out and appraise the facts, and to give advice accordingly. Both in 1949 and in 1950 questionnaires were sent to all Member countries, and the replies were examined by a special working party of experts from different countries; reports were then prepared and published, not only dealing with the position in each individual country, but also giving a general review.

96. It is somewhat remarkable in itself that nations should be prepared to submit their internal affairs to international scrutiny in this way, especially when their basic approach to the problem varied substantially—e.g. as between those who believed in extensive use of direct controls and those who relied on more general measures of fiscal or credit policy. Even if agreement had not been reached, the process could hardly have failed to produce a better understanding of the alternative methods and a useful pooling of experience. In point of fact, however, the reports were adopted unanimously; the conclusions and recommendations included in respect of each country were not very dramatic in apparance, but their public acceptance as part of an international review should strengthen the forces working against inflation.

97. With the formation of the European Payments Union the need for an overall review of conditions in Member countries became more obvious, since these would affect the successful working of the Union. It is therefore provided that there should be a periodic review of conditions in all countries. Furthermore, when a country is approaching the position of an " extreme debtor " or " extreme creditor " a more elaborate investigation is called for, and the recommendations based on this should naturally carry more weight.

98. Apart from these regular investigations into internal financial stability, and the sections on that subject included in the general reports of the Organisation, the Council has passed a number of special resolutions on the subject since the war began in Korea and brought it to the forefront. These were based on a special analysis of " urgent economic problems " presented in a Memorandum by the Secretary-General, and served

3. This consisted partly of technical assistance funds put at the disposal of the O. E. E. C. by the Economic Co-operation Administration of the United States and partly of contributions by Member countries.

to emphasise the need for speedy and comprehensive action on the part of Member countries. Once again, it is impossible to assess the contribution which this international discussion of the problem has made. But action to deal with inflation is in itself usually unpleasant, and it is reasonable to assume that public recommendations, from a body which represents not only the Member itself but also all its partners in a successful programme of recovery, should help to strengt-then the hand of those people who have to secure the adoption of these necessary but unpalatable measures.

3. PART III

Nature and role of European Co-operation

99. In the light of the above description of the main actions taken by O. E. E. C, it is now possible to attempt a broad assessment of the nature and role of European co-operation in the economic field. For such an assessment, one must of course always remember that the cooperative work has been undertaken on the basis of the Convention described in paragraph 1 ; the position would have been quite different if there had not been a definite will to co-operate in a widely defined field.

100. A common characteristic of many European economic problems in the post-war years has been that a satisfactory solution could only be secured by a combination of several different types of action. In particular, this has often implied that it was highly desirable to combine international action by national Governments and action by the individuals and enterprises in the various countries. Under such circumstances, it is not very fruitful to attempt an exact assessment of the relative importance of the different contributions made to the solution. In the extreme case a solution might be impossible without all three contributions ; in general, even a small contribution from each source would substantially reduce the effort needed by the others. Certainly the contribution to be made by international action should not be ignored, even where it can, by itself, do relatively little; for small countries, in particular, the effect of international influences may be so great that an improvement in that respect may be more important than what they can achieve by national action.

101. A typical case of this inter-relation of different factors is provided by the rise in production, which was itself the keystone of European recovery. In a sense production is an affair of the individuals and enterprises who actually carry out the operations ; certainly no amount of skilful planning by national Governments or international bodies can produce results except through their effect on the producers. But a framework of national institutions and arrangements conducive to expansion is also necessary-including, for example, a stable financial system; and so is an international framework designed to secure a satisfactory market both for selling exports and for buying imports. Action on all three fronts was needed, and was undertaken, to secure recovery.

102. The main form which international co-operation has taken is naturally to help in providing a satisfactory international framework; the measures to liberalise trade, the European Payments Union and the division of Marshall Aid all fall primarily in this category. At the other extreme, 0. E. E. C. has organised some assistance directly; for producers, in the shape of technical reports and the like; here the international pooling of experience was particularly likely to raise the efficiency of all concerned. In the intermediate field, 0. E. E. C. has operated mainly by keeping the situation under constant review and making recommendations to Member Governments for action which would either improve the conditions Under which their national producing units operated or would provide some mutual assistance to those of other Members.

103. One indirect effect of the continuous co-operation carried on at 0. E. E. C. has been to bring a large number of Ministers and officials into very close contact with their opposite numbers in other countries. The effect of taking part in a joint piece of work with a determination to arrive at a solution has had a great effect in making them aware of one another's problems and also of their techniques. Even if the formal results of an investigation appear disappointing, the indirect effects of pooling both problems and experience may have been substantial.

Difficulties in the Way of Co-operation

104. It would be merely foolish to expecb that co-operation could be secured without encountering serious difficulties, despite the fact that all Member countries agreed about the broad objectives of economic recovery and sincerely wished to work together. Almost every measure which might be proposed was, in the nature of the case, likely to reveal some clash of interest between individual countries; even where all stood to gain if the proposal were adopted, an alternative one might give a larger share in the gain to particular countries. The test of Members' goodwill and desire to co-operate has been their ability to arrive by negotiations at decisions

which all could accept, despite this clash of interests; the danger in such an Organisation must always be that agreements which would, on balance, be advantageous to each Member may fail to materialise because some features, taken by themselves, inevitably appear to run contrary to the interests of particular countries.

105. This is such a general feature that only a few examples need be given by way of illustration. Thus :

a. The fact that some Members import a commodity whilst others export it may well lead to a divergence of interest over that particular item.

b. Any plan for concentrating the output of a particular product in " specialist " countries will probably be regarded as disaclvantageous by those iri which a contraction of output is thought likely to cause unemployment or a serious loss of income for the producers concerned.

c. Co-ordination of investment may call for the rejection of plans for (say) a new steelworks which the country concerned thinks advantageous.

d. All proposals for allocating scarce products imply a clash of interest over the division, even though the elimination of an unrestrained scramble is to everyone's advantage.

106. The existence of these divergent interests on particular issues raises a very difficult point of procedure. If a proposal is considered separately it may be clear that it benefits Members as a whole, but harms a particular one, and agreement may not be obtained. If, however, several proposals are considered together, it may be clear that the gains exceed the losses for each country, but there is great scope for argument over the details of such a series of inter-locked proposals, which will affect the relative gains of the various countries. On the whole, it is undesirable to link together proposals which have relatively little in common, merely to provide scope for mutual adjustments; but where proposals really represent a series of items in a single programme Member countries should consider the combined effects of all agreements in that sphere, and not concentrate on the disadvantages to them of a particular one. A general willingness to do this and to rely on one another's sense of fairness is perhaps the most necessary pre-requisite for successful cooperation. Whatever the method adopted, however, the fundamental task of the Organisation as such is to help to reconcile these divergent interests by means of negotiation.

107. For successful co-operation to be achie--ved it is not sufficient to reconcile these divergent objectives ; the agreement must fit in with the administrative arrangements of the Member countries. Here there is always likely to be some resistance to overcome, since the administrator's task will usually be made more complicated if he has to take account of international aspects as well as national : thus it may be very difficult to adapt the national system of price control so as to prevent it from inadvertently having undesired repercussions on international trade, or it may be hard for a nation to collect statistics in a way which will make them internationally comparable without destroying their internal continuity.

108. This question widens out into the broader issue of the different methods adopted by Member countries in running their economies. If one country uses a lot of detailed controls on investment and raw materials, for example, whilst another relies mainly on general measures of fiscal and credit control, then it may be difficult to arrive at an agreement which can be applied indifferently to each, even though the basic objective—an attack on inflation, the co-ordination of investment, or economy in the use of non-ferrous metals—may be thoroughly agreed.

109. Perhaps one should also include as one of the difficulties in reaching agreements the inevitable lack of knowledge. Even about the past and the present, knowledge can never be complete or absolutely accurate : when it comes to the future, to which the agreements will in fact relate, uncertainty inevitably prevails, and makes the effect of any proposals correspondingly uncertain. Theoretically, this might encourage the making of agreements, if only as a sort of insurance policy, but in practice it probably has the reverse effect.

110. 0. E. E. C. has often tried to meet these three groups of " technical " difficulties by securing agreement on an objective or a policy, whilst leaving the details of its execution to be settled by the Members in the light of their own circumstances; if an adequate test of successful achievement can be devised this is clearly sufficient, and in any case it is better than abandoning the attempt at co-operation. A further device has been to leave the details of the agreement rather incomplete, but to provide for " appeals " by a country which considers itself injured by the actions of another; these could then be considered by the other Members according to their general sense of equity, without precise tests having to be prescribed in advance of the agreement. Similarly, the " appeal " procedure could be adopted by a country which found that, as things turned out, the agreement would impose an undue strain on its economy, so that the deterrent of uncertainty

about the future is much reduced. An attempt to reduce the inevitable lack of knowledge has been made by setting up a statistical service including a special unit to produce national income statistics on as comparable a basis as possible.

The Rule of Unanimity

111. The Convention of the O. E. E. C. provides that decisions are to be taken by mutual agreement of all Members unless otherwise decided for special cases. Whenever a Member declares himself not to be interested in a question, his abstention does not invalidate decisions which are binding for other Members.

112. In undertaking to conform to the unanimity rule Members of the 0. E. E. C. were aware that they ran the risk of being unable to take decisions if they did not tackle the difficulties with which they are faced in a spirit of co-operation and in the knowledge of their close inter-dependence.

113. Although the necessity for reaching unanimous decisions has in certain cases slowed down the action of the 0. E. E. C. or restricted the field of its work, experience has shown that, taking into account the special tasks of the Organisation, the observance of the unanimity rule has had the advantage of creating an atmosphere of reciprocal confidence which has helped to reconcile different points of view. The division of Marshall Aid, liberalisation, and the European Payments Union, provide examples of how unanimous solutions have been achieved in very complicated matters.

114. The Organisation has found it desirable on many occasions to use the procedure of a small steering group to make proposals to settle the difficult problems which have arisen. This technique involves the concentration of initiative, and therefore of responsibility, but leaves the final power of decision with the Organisation; it has on many occasions provided the basis on which unanimous decisions have been possible. When the European Payments Union was created it was found desirable to make provisions for such a body on a permanent basis and the experience to-date on the work of the Managing Board of the European Payments Union has demonstrated the wisdom of this action.

115. The rule of unanimity does not of course preclude Members of 0. E. E. C. from agreeing among themselves to delegate authority in specifically defined fields. Thus it has been found desirable to give certain powers of decision to the Managing Board of the European Payments Union and to the Mediation Group mentioned in paragraph 59.

World Problems and wider forms of Co-operation

116. However successful a limited group of countries may be at reaching agreements amongst themselves, they may find that they are up against a world problem. In such cases the rôle of 0. E. E. C. need not be a passive one, even though it may not seem adequately equipped to tackle the whole problem. It has of course always had very close relationships with the United States, through the Economic Co-operation Administration, and this has added greatly to its strength. To improve the position further, on 2nd June, 1950, the Council invited the Governments of Canada and the United States of America to associate themselves with the work of the Organisation relating to the study of economic problems, of common interest to the countries of Western Europe and North America. This invitation was accepted and has led to very close co-operation on a practical basis.

117. Even with this assistance, however, the Organisation may feel, as it did with the problem of raw materials, that part of its contribution should be to try to secure international co-operation on a still wider scale. If, on the other hand, a wider body is formed, 0. E. E. C. can almost certainly help to make it work by taking part of the load off it - e. g. by dealing with those materials, such as coal, which are mainly European in nature. If, on the other hand, the attempt to secure a wider body fails, 0. E. E. C. not only can undertake this work but' can also extend its endeavours to secure some alleviation of the general problem by a common policy between its Members - e. g. on foreign purchases, or stockpiling, or restrictions on non-essential consumption of scarce materials.

118. As in so much of its work, 0. E. E. C. has had to settle its course of action in this field empirically. The terms of reference set out in its Convention call on it to tackle a very wide range of economic problems, and give it great freedom to choose whatever method seems to fit the case. It does not refuse to tackle a problem because it could not hope to provide a complete solution, and these partial treatments can produce valuable results. It must, however, be emphasised that many of the problems now confronting Members are not simply European problems and can only be completely solved by world-wide action, the general inflationary trend, the scarcity of raw materials, the lack of general convertibility of currencies, the problems of tariffs, the uneven

distribution of manpower. Many of these problem provide an opening for partial solutions in the European framework, and these the Organisation will seek to find : but any lasting and complete economic prosperity in Europe, as elsewhere, must depend on the co-operation of the whole free world.