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## Reply to be given to the Supplementary Report from O.E.E.C.

### Report

Committee on Economic Affairs and Development

Rapporteur: Lord Walter Thomas LAYTON, United Kingdom

### 1. Draft Reply - to the Second Report of the Organisation for European Economic Cooperation

The Assembly notes with satisfaction the closer relations that have been established during the past year with the O. E. E. C. and it expresses its thanks to the Minister who presented the Report to the Assembly for his courtesy in discussing a number of matters with its Committee on Economic Questions.

The Assembly also acknowledges with appreciation the assistance of the O. E. E. C. in briefing its delegation which recently met a delegation from the American Congress.

### 2. Relations between the two Organisations

These are very promising forms of collaboration which will be most helpful to both the O. E. E. C. and to the Assembly in the great tasks they have in common.

The Assembly is, however, strongly of the opinion that neither organisation will obtain the full benefit of their association until they are brought together in a common institution. The Assembly expressed its opinion on this question in Recommendation 18 of 8th August, 1950. But the Committee of Ministers stated in its reply that the matter is not at the moment being pursued by the Ministers, as a Committee of O. E. E. C. has already been appointed on the proposal of the Swedish Government to consider this question. It hopes that the discussion will not be unduly prolonged and that the Committee of Ministers will use its influence to bring about the fusion of the two governing bodies which the Assembly has recommended.

### 3. Declaration of 29th August, 1951

In May last the Assembly expressed the hope that the O. E. E. C. would be able to deal fully in its Supplementary Report with the economic effects of rearmament. But it is not possible for it to do this, except in general terms, until the Committee of N. A. T. O. which is examining the rearmament programmes and their relation to the capacity of production and the general economy of the various Member countries, has disclosed and analysed the facts.

It notes with interest, however, that the Council of the O. E. E. C. in the declaration of the 29th August, 1951 expressed the opinion that, if the total production in Western Europe can be expended by 25 % over the next five years, an improvement in living standards and further social progress can be achieved in addition to meeting the requirements of defence.

This is an encouraging statement. But it certainly gives no ground for complacency — particularly as the increase of production of Western Europe is for a number of reasons slowing down. Unless the causes of this check to the rate of recovery are widely understood there is real danger of its being taken for granted that, though we may have to wait a little longer, expanding production will in due course meet all our needs. It is



important that the people of Western Europe should realise that a 25 % increase can only be reached by most strenuous efforts on their part and that very exceptional measures will be needed to remove the basic causes that are likely to limit the expansion of production which the O. E. E. C is calling upon Europe to make.

The most serious of these limitations is insufficient sources of power and, in particular, inadequate coal production. The situation is clearly serious when we see countries like Great Britain and Germany, who normally export coal, buying coal for dollars on a very large scale. It may also be asked if there is not a way out of the economic, financial and political difficulties which at the moment are responsible for the fact that Britain is importing semifinished steel from the United States, while Belgium and Germany are sending steel to that country, and the fact that German steel production is still limited and some of her best situated factories inactive.

If these and other obstacles are to be overcome, the working population must be given a clearer indication of what is needed. Past experience shows that statistical targets of this type are often very wide of the mark, and in any case a target which is expressed in general terms means A'ery little to the worker in the factory or on the farm. It would help to attain the desired objective if the O . E. E. C. should proceed as quickly as possible to establish separate production targets for the major sectors of industry and for the chief countries concerned. In this connection the Assembly is of the opinion that representatives of the industries concerned should participate in the discussion and the determination of those targets.

#### **4. Raw Materials**

Europe's effort during the past year has also been seriously handicapped by the scarcity of raw materials which come to her from overseas, and by the excessive rise in their prices. The Assembly drew special attention to this problem in May last when it proposed the establishment of a Raw Materials Resources and Purchasing Board for the two aims " o f bringing down prices and stabilising commodity markets by all appropriate measures and of ensuring that allocations are made to its Members both for stockpiling and for current use on the basis of fair shares and common strategy".

This spring, however, an International Materials Conference was set up in Washington to carry out some of these aims, and the Committee of Ministers informed the Assembly that the O. E. E. C. would report on the success of this conference in doing so. It is recorded in the present report that action taken to limit stockpiling early this year did, in fact, result in a substantial fall of prices, though they are still far from normal. While successful action has been taken by the International Materials Conference in specific instances, it has not been organised in such a way as to bring about a general co-ordination of stockpiling or of purchasing policy generally. The Assembly is of opinion that more general action should be taken at an international level to prevent a further series of price rises brought about by competitive buying.

It expresses the hope that the O. E. E. C. will be given the opportunity of representing the common interests of the European nations in a more effective manner than hitherto in the I. M. C.

There is also little hope of reaching the desired target unless full use is made of Europe's manpower. To this matter the O. E. E. C. report makes only a passing reference. It is, however, a matter of great importance'. In one of the principal articles in the Convention setting up the O. E. E. C. the Contracting Parties undertake to make "the fullest and most effective use of their available manpopower", and for this purpose they will " c o operate in the progressive reduction of obstacles to the free movement of persons". Unless greater progress is made in this direction the aim which the O . E. E. C. has set before Europe cannot be achieved.

Finally, if there is to be a 25 % expansion of European production it must include an appropriate increase in the means of transport. As in other fields this can be greatly facilitated by joint action, such as the setting up by stages of a pool of rolling stock and the co-ordination of investment based on technical potentialities and the most economical kind of transport.

#### **5. Liberalisation of Trade**

The greatest contribution which the O. E. E. C. is making towards the recovery of Europe and the further expansion of its production lies in the fields of trade and finance.

As a first step a considerable advance has made b y the freeing of a large part of intra-European trade on private account from quotas and other quantitative restrictions, several countries having reached the target of 75 % liberalisation. But further progress in this matter will only be made if the "common list" of commodities freed contains a substantial number of items in which the European economies are competing no less than those in which they are complementary.

In this work of liberalisation the O. E. E. C. must be given vigorous support from public opinion in preventing any tendency to slip back and re-impose restrictions. Such a step may be inevitable in cases of extreme need. But to renew embargoes does not automatically improve a country's trade balance by the amount of the restriction. A cut in imports reduces the exports of the selling countries and reduces to that extent their power to buy abroad, thus tending to set in motion a general fall in the volume of trade.

It is of the utmost importance in present circumstances to avoid starting a series of import cuts. Under the Liberalisation Code to which they are all party any failure to maintain the agreed level of the liberalisation has to be reported to, and approved by, the O. E. E. C. The undertaking to accept the common judgment is certainly a safeguard, but it is important that Governments should consider all the repercussions on other Member States before taking such action.

The Consultative Assembly furthermore desires to point to the danger that the effects of the reduction of quantitative restrictions may be nullified by high customs duties : and it therefore re-emphasises the principles of its Recommendation 11 of December, 1951 on the establishment of a " Low Tariff Club " in Europe.

The Consultative Assembly would regard such a Club, open to all who wish to join it and abide by its rules, as a first step towards an even wider area of freer trade. Since Europe is far from being a self-sufficient economic unit, but is dependent in large measure on the complementary economies of overseas primary producers, the possibility of closer and more flexible links between the Member States of the Council of Europe and their associated overseas territories — including an extension of the preference system — merits a closer examination.

The Consultative Assembly wishes to re-emphasise the importance of intra-European trade and of progress towards an effective European division of labour for the achievement of higher production levels, the reduction of the European dollar deficit, and the fight against inflation.

## **6. Monetary Policy**

Experience has shown that the difficulties in the way of any attempts to combat inflation are very great. It is caused, to a large extent by forces beyond the control of the countries which are members of E. P. U., such as the sharp rise of prices of raw materials purchased from abroad. At the same time it is well to remember that effective counter-inflationary measures can be taken by means of vigorous concerted action on the part of all concerned. Such measures might well include 1) the coordination, so far as is practicable, of national monetary, fiscal and employment policies; 2) the establishment of a more flexible currency system, which would enable exchange rates to be more easily adjusted to meet the requirements of economic conditions that are constantly changing; and 3) effective international action designed to stabilise raw material prices by the avoidance of competitive purchases for stockpiling purposes.

There is, in addition, an obligation on countries with favourable balances to pursue an economic policy of expansion, insofar as this does not involve internal inflation; and on countries with an adverse balance, especially those with over-full employment, to pursue a policy of deliberate disinflation.

Last but not least, the absence of short-term commercial credit facilities is a factor which adversely effects the expansion of international trade and throws upon the clearing system the impact of seasonal and other temporary fluctuations which were normally financed by such credits. This could be countered to some extent by a more flexible use of credit facilities than has hitherto been made and by an increase of the fund of convertible assets. Owing to the great increase in prices, and to the fact that rearmament has swollen the volume of foreign trade, a greater reserve is needed than one which was adequate a year ago. Some of the difficulties confronting E. P. U. arise from the fact that the trading area for which it acts as a clearing-house is too limited, and might be mitigated (if not resolved) if the system of compensation were extended beyond the present Member States. In this connection, the Assembly is of the opinion that the financial and monetary relationship between the economic areas represented by the E. P. U., on the one hand, and their overseas territories and the Sterling Area, on the other, is deserving of the most careful study.