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Special report of the Organisation for European Economic Co-operation on the Strasbourg Plan

Report

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1. INTRODUCTION

1.1. I

1. The Council of the O.E.E.C. notes with satisfaction that the aims laid down in the Strasbourg Plan by the Consultative Assembly of the Council of Europe largely agree with those of the member countries of the Organization.

2. It is clear, both from the terms of Recommendation 26 of the Consultative Assembly[1] and from the report of the Group of Experts entitled "A Study of Methods for Achieving Closer Co-ordination Between the Economies of Member States of the Council of Europe and those of Overseas Countries having Constitutional Links .with them ", that this co-ordination is designed to attain three major objectives :

a. a steady increase in production both in member countries of the Council of Europe and in the overseas countries with which they have constitutional links ;

b. the expansion of trade between these countries ;

c. the solution of the dollar payments difficulties which are still being experienced by most countries to a greater or lesser degree.A further advantage to be derived from the co-ordination of national policies might be to reduce excessive fluctuations in economic activity.

1. Referred to hereunder as the Assembly.

3. Today, therefore, such a co-ordination seems essential to increase the well-being of each nation, and under the Charter of the Organization (the Convention for European Economic Co-operation of 16th April, 1948) Member Governments have undertaken " both individually and collectively to promote with vigour the development of production, through efficient use of the resources at their command, whether in their metropolitan or overseas territories " (Article 2), to "develop in mutual co-operation the maximum possible interchange of goods and services " (Article 4), and to " correct or avoid excessive disequilibrium in their financial and economic relations, both amongst themselves and with non-participating countries ". (Article 4).

4. In relation to these three objectives there can be no doubt of the community of interests which exists between member countries and the overseas countries covered by the Strasbourg Plan, especially in view of the importance of their mutual trade. The Governments of member countries are therefore in full agreement with these objectives and desire to co-ordinate the economic policies of their countries to the fullest possible extent. The Strasbourg Plan rightly insists on the importance of economic cooperation between all member countries and the overseas territories dependent on certain of them. The member countries recognise the importance of continuing progress in this direction, talcing account of the need to consult fully with the territories concerned so that local interests are properly safeguarded. - Although the United Kingdom Government cannot speak for the independent members of the Commonwealth which are not members of the O.E.E.C.[2] this does not rule out the possibility of setting up some form of economic co-operation, including the independent members of the Commonwealth, should the need arise.

1.2. II

5. The Strasbourg Plan, as outlined in the proposals of Recommendation 26 and its Preamble, is a regional programme of action to be put into effect unilaterally by member countries and the overseas territories. Regional action is, of course, essential, and the O.E.E.C. devotes the greater part of its activity to it. But this method alone cannot solve Europe's economic problems which, like the problem of international trade and the dollar imbalance, are closely affected by the position in the United States and action taken b}r that country. However important it may be to tighten the links between all the member countries, the overseas territories and the Commonwealth countries, links with North America are also essential. It is only through co-operation extending to the United States and Canada that it will be possible for member countries and the overseas countries associated with them to develop their economies to the full.

6. It is true that when the O.E.E.C. was established in 1948 —• at a time when European reconstruction needs were substantial and were being met on a very wide and generous scale by the Marshall Plan — the Organization was mainly concerned with solving the special problems of member countries and its action, covering widely different fields, has invariably been directed to those countries alone. Under Article 5 of the Convention for European Economic Co-operation the Organization is empowered to continue the study of customs unions or analogous arrangements, such as free , trade areas, which are essentially regional forms of co-operation. Trade liberalisation has also been applied on a regional basis. The European Payments Union, which forms an integral part of the Organization-and, covers .transactions between member countries and their associated monetary areas, including the whole sterling area, is so far the only regional institution operating in the exact geographical area defined in the Strasbourg Plan. Furthermore, the Fourth Report of the Organization calls on member countries to " take a fresh step forward towards the development of a common market "and" not only to adopt a common policy for further elimination of quantitative restrictions on intra-European trade, but also to make an attack on tariff barriers "[3].

7. However, although the member countries of the O.E.E.C. are convinced of the importance of regional co-operation in its various-forms, they have always declared their intention of promoting a system of economic co-operation covering the whole Western world, regional solutions being regarded as technical and transitional measures towards the gradual attainment of this Objective. Although regional in the geographical sense of the term, the activities of the O.E.E.C. are by means based on principles of self-sufficiency. They are not designed to oppose or to replace solutions at world level but to pave the way for such solutions. The European Payments Union, in particular, was expressly created to facilitate the transition to a wider system of payments. It should also be recalled that its establishment was made possible by an initial grant from the United States Government.

8. The above examples of O.E.E.C. action show that there is not necessarily any conflict betwen regional institutions and solutions on the one hand and action at the world level on the other. Since the Report of the Experts[4] has stated clearly that the policy outlined is in no way designed to create a " closed shop " and does

2. Canada is an associate- member of tho Organization.
3. Fourth Report, paragraph 38.

not aim at self-sufficiency but rather at creating the necessary conditions for the integration of the economy of member countries and the overseas territories into a world system, there is, on this fundamental point, a community of view between Member Governments and the authors of the Strasbourg Plan. It remains to consider whether some of the solutions suggested in the Recommendation may not lead member countries further away from this common objective.

1.3. III

9. The need to strengthen the links between the countries covered by the Strasbourg Plan on the one hand and the United States and Canada on the other, becomes increasingly apparent as the European economies complete their recovery. This view is shared on both sides of the Atlantic and finds its main expression In the association of the United States and Canada with the O.E.E.C. The importance of this cooperation has been repeatedly proclaimed by the Council of the O.E.E.C. As early as the Second Animal Report of the O.E.E.C, the member countries expressed the view that continued prosperity and economic independence could be achieved only within a multilateral international trading system, and expressed their resolve to help restore such a system[5]. The Fourth Report was even more explicit[6]: "This policy (of solvency and economic progress) calls for simultaneous and co-ordinated action on a broad scale by Western Europe and its associated monetary areas and by the United States and Canada.. " "... The co-operation of the economically stronger Members of the Western Community, namely the United States and Canada, is indispensable to a solution. This follows from the fact that' the dollar deficit of the rest of the world is. likewise an export surplus of the United States with most areas of the world, and from the fact that economic progress in the Western world is conditioned by continuing and stable expansion in the United States." Many other extracts, including some from very recent documents[7], could be given to demonstrate the continuity of this policy, which is primarily based on the realities of the international situation and the particular interests of member countries and the overseas countries.

10. The dollar imbalance of Europe and the associated monetary areas has not yet been eliminated. It is desirable that equilibrium should be established at a level of trade as high as possible without being supported by restrictions, in order to raise the standard of living in the member countries and the overseas countries. The United States has, however, an important part to. play in enabling the other countries to increase their current dollar earnings and in providing capital. In addition, the North American economy has an important influence on the activity of the rest of the world. Its fluctuations should be minimised, and, even more important, the possible unfavourable effects of these fluctuations on the activity of other countries and the balance of payments attenuated ; it is most necessary that greater stability should be achieved on the raw materials markets, where the most important. pro-duets are imported or exported in large quantities by the North American continent. Finally, the maintenance of balanced dollar payments, more especially under a. freer payments system and possibly with convertible currencies, will only be possible if certain financial arrangements, producing, for example, increased reserves and international credit facilities, are made. The assistance of the United States is essential for this purpose.

11. In declaring themselves in favour of a policy which presupposes economic unity of the Western world, member countries are not unmindful of the fact that the success of this policy depends on a number of conditions. The fulfilment of some these conditions depends on member countries, and they need not be specified here. The fulfilment of others which are summarised under four heads in the Fourth Report, depends on the United States[8] :

a. the maintenance of economic stability ;

b. the stabilisation of world prices for raw materials ;

c. a liberal trade policy ;

d. foreign investment.

12. The difficulties which must be overcome in all these sectors are considerable. It seems, however, that substantial progress has already been achieved. The views of the Organization have already found support in the United States, .as is shown by the Report of the Randall Commission, whose conclusions on customs

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4. Cf. The Strasbourg Plan published by tho Secretavy- Genoralof tho Council of Europe Strasbourg, 1952. Part I. Report of Working Party.
5. Cf. paragraph 732.
6. Cf. paragraphs 14 and 15.
7. Cf. especially the Fifth Annual Report, January 1934, paragraphs 36, 38, 43 and 45.
8. Of. Fourth Report — paragraphs 43 - 56.

regulations are encouraging even if their application is not likely to provide a rapid solution of the dollar problem. The member countries of the Organization consider that they must do everything in their power to foster the liberal tendencies which have influenced the conclusions of the Commission and a large section of American public opinion.

13. This preference for methods which aim at a progressive move towards freedom and multilateral expansion of trade and payments and towards economic unity is also indicative of a resolve to maintain and strengthen the Western world. On this point member countries are in full .agreement with the representatives of the Commonwealth, who in recent years have repeatedly[9] given their support to a policy based on the economic unity of the Western world, with the fullest possible co-operation with the United States of America.

14. While there is not necessarily any conflict of principle between regional co-operation, whether within the present geographical framework of the O.E.E.C. or any other, and the final objective of the economic unity of the Western world, certain fundamental divergences may appear when principles are converted into action. In this connection, the member countries of the Organization consider that Recommendation 2 c of the Strasbourg Plan concerning the introduction of secondary preferences would lead to the formation of a discriminatory bloc against the dollar area. If this system is regarded as a technical procedure the difference is simply one of method ; but if, on the contrary, it is to be the cornerstone of an economic system to be constructed alongside, and, if necessary, in opposition to, the dollar area the difference is a basic one. Whatever the safeguards offered and however the system is operated, the member countries feel that the technical and psychological effects of such a system would be to increase and not reduce the obstacles to international trade.

15. The other Recommendations of the Assembly have also been given very careful consideration. A large number of them have already been incorporated in Government programmes either at national level or collectively within the O.E.E.C. In its reply to the Assembly the Organization has endeavoured to explain what Governments bave already accomplished along the lines of the various Recommendations, what further action they consider could be taken, and also the limits to their action which circumstances dictate. The Organization's periodic reports to the Council of Europe will keep it informed of the work undertaken in the fields covered by the Strasbourg Plan, the results obtained and any difficulties that may be encountered.

16. Of the various measures covered by Recommendation 26, the introduction of a preferential system (Section 2 (c) and the establishment of a European Bank for the development of the overseas territories (Section 2 (a) occupy a special position because Governments axe invited " to initiate negotiations " to give these Recommendations practical effect. These two recommendations will therefore be considered first. Section 2 (b) relating to the conclusion of long-term contracts and international agreements on basic products will be discussed together with other measures designed to increase production of raw materials and expand trade, on which Governments are invited to base their policy (Section 1 (a) - (g).

Note :

The following definitions cover the geographical areas most frequently mentioned in this document :

– Countries covered by the Strasbourg Plan : all Member countries of the OEEC, overseas territories (as defined below) and the self-governing members of the Commonwealth.
– Overseas countries : overseas territories (as defined below) and the self-governing members of the Commonwealth.
– Overseas territories : Member countries' dependent overseas territories, and areas associated under various legal forms (protectorates, trust territories, etc.).
– The legal distinctions between these different groupings aro not absolutely rigid and are liablo to vary according to tho naturo of the problems under discussion.

2. I

The system of secondary preferences - (Section 2 (c) of Recommendation 26 of the Assembly)

17. The Consultative Assembly recommended the Committee of Ministers to invite the Governments concerned to initiate negotiations with .a view to attaining certain objectives defined in the Experts' Report, in particular by: - " The introduction of a preferential system, founded on the general principles enunciated in the

9. Gf. communiqués of the London and Sydney Economic Conferences.

Secretary-General's Report, and on a basis of reciprocity between the Commonwealth and dependent territories, on the one hand, and the other countries in the area under consideration, on the other ". (Section 2 (c) of the Recommendation).

18. The preferential system referred to in this Assembly Recommendation is outlined in Chapter II of the Experts' Report and amplified in Annex B to that Report. It should be noted that in this outline certain aspects of the plan which might considerably modify its character, according to the solution adopted, remain somewhat obscure.

19. It bas already been pointed out in the Introduction, that the preferential system recommended by the Assembly seems incompatible with the efforts at present being made by the Organization to extend the liberalisation of trade and payments to as wide an area as possible. In the view of the Organization, the upshot of this system might well be the formation of a solid bloc isolated from the dollar area and a recrudescence of protectionism. In addition, the system runs counter to the policy of most of the countries whose participation would be essential and therefore lacks any concrete or realistic basis.

20. The practical effect of the preferential system described in Section 2 (c) would be to exclude the United States, if not the whole dollar area, although the Experts' plan has been given ilie form of a legal agreement open to any country ready to offer " commensurate concessions " in order to benefit by the intermediate tariff between the general tariff and the Commonwealth preferential duties. In fact, the Experts themselves think it improbable that the United States would join in the plan, and, in order to show the advantages expected from it, they assume that the United States would remain outside the preferential area. Nor is there any reference made to the special situation of Canada, and yet the creation of a preferential area excluding the dollar area, to which Canada belongs, would split the Commonwealth in a way which would be unacceptable to the United Kingdom and Canada.

21. It is to be feared that the effects of the system would not be confined merely to setting up a customs barrier between the countries covered by the Strasbourg Plan and the United States, if not the whole dollar area ; similar arguments to those advanced in favour of the system of secondary preferences have been and could be produced in favour of strengthening discrimination by means of direct restrictions on trade and payments. Such a trend would conflict with the efforts made by the Organization to achieve the expansion of world trade on the freest and most multilateral basis possible. To mention only the most recent declarations of the O.E.E.C. on this question, the Resolution of the Council of Ministers of 25th March, 1953. [C(53)88] states : - " Bein g agreed that co-operation among member and associated countries, and the other countries of the Commonwealth of Nations, would be required in order to create conditions for the establishment of freer trade and payments over as wide an area of the world as possible, and to provide the framework for expanding production and trade..., - ... [the Council] Instructs the Executive Committee... to study how and under what conditions an orderly transition from the present form of the European Payments Union to a wider multilateral system of trade, payments and credit can be achieved. " - In the Resolution of the Council of Ministers of 30th October, 1953 [C(53)278] it is stated : - In the Resolution of the Council of Ministers of 30th October, 1953 [C(53)278] it is stated : - " [The Council] Reaffirms the objective of proceeding, as part of the general process of freeing trade on a world-wide basis, to the complete abolition of quantitative import restrictions between member countries... "

22. The O.E.E.C. is at present considering ways and means of speeding up the reduction of quantitative restrictions on dollar imports. These discriminatory measures were introduced as a temporary remedy for the dollar imbalance. They should, disappear as the dollar payments position improves, but their final abolition depends on the establishment of a stable and balanced system of payments between all the currency areas concerned. There is thus a fundamental difference between the present restrictions on dollar imports and the Customs discrimination resulting from a preferential system intended as a permanent measure.

23. In the absence of detailed information about preference levels, of a clear definition of " commensurate concessions " and of the conditions which the G.A.T.T. might impose on the adoption of such a system[10], it is difficult to assess the effects of the secondary preferences scheme on the G.A.T.T. and the efforts to bring about a. general lowering of customs barriers. It may be asked whether the preferential system would not lead in practice to a general strengthening of protection. Clearly, the Experts intend that preferences should be created only by .a; relative reduction of customs duties. But the Plan does not consider what precautions should be taken against the contrary possibility. In view of the strength of protectionist trends it is to be feared that the raising of duties against countries outside the preferential system might often be the easiest way of establishing preferences.

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10. Tho Experts admit that the introduction of a system of secondary preferences would necessitate a derogation from the G.A.T.T., cf. Strasbourg Plan, Annex B, pages 107 to 109.

24. The preferential system of the Strasbourg Plan conflicts with the conception of a one-world system adopted not only by the Organization but also by the Commonwealth. The communiqués of the Commonwealth Conferences of London and Sydney are most explicit on this point[11]. On 4th February last the Chancellor of the Exchequer stated in the House of Commons : " The best line for our.country and the sterling area is the one we adopted a. year ago in the London Conference, namely, the collective approach of the Commonwealth, together with the EPU countries in Europe, towards a freer trade and payments system... " It is, therefore, doubtful, to say the least, whether the United Kingdom would adopt the preference system and a fortiori take the initiative of proposing a study of the question of preferential customs tariffs as suggested by the Experts (cf. Strasbourg- Plan, Summary and Conclusions, page 62, paragraph 8).

25. While rejecting preferential system proposed in Section 2 (c) of the Recommendation, the Organization declares itself in agreement with the principal objectives assigned by the Experts for that system. These objectives are :

25.1. to help to restore dollar equilibrium ;

25.2. to expand the markets for industrial products and raw materials within the area covered by the Strasbourg Plan ;

25.3. to attenuate fluctuations in economic activity.

26. But the O.E.E.C. considers that these objectives can be more surely and more effectively attained by other methods. Each case raises complex problems, and a system of secondary preferences could only provide a very partial and in some eases even a dubious contribution towards their solution. The alternative proposed by the O.E.E.C. is to tackle each of the three problems indicated above by taking appropriate action corresponding to their importance and changing characteristics. In the absence of a detailed statement of O.E.E.C. policy in these fields for which reference should be made to the 4th and 5th Annual Reports of the Organization and to its reports for the Council of Europe, the following paragraphs give some idea of the lines on which solutions are being or might be sought and the reasons for which the system of secondary preferences provides only inadequate or inappropriate solutions.

2.1. The restoration of dollar equilibrium

On page 32 of the Strasbourg Plan (4th paragraph) it is stated :

" During the post-war years quota systems have been accepted for balance-of-pay-ments reasons. The same attitude may very well be taken regarding tariffs, the more traditional instrument of long-term trade policy. The door should be left open for secondary preferences between Western Europe and the Commonwealth in the field of import licensing."

In other words dollar equilibrium should be restored through restriction of European imports, tariffs replacing quotas as a restrictive weapon. The member countries prefer to see equilibrium restored at a high level of trade by increased European exports, lower American barriers to imports and expanding American foreign investments. Employment and real income will clearly be very much higher when trade is at a high level in all countries engaged in such trade.

The success of the policy outlined above depends on the individual action of member countries, on parallel action by the United States, and also on factors outside the control of member and associated countries. As long as the dollar problem remains, member countries will have to maintain some restrictions on dollar expenditure. But these restrictions must be regarded as temporary expedients.

2.2. The expansion of markets

On page 32 (second paragraph) it is stated :

"...preferential arrangements, may enable larger regions which are under-developed — at least in comparison with the United States — to catch up with the productive capacity, due largely to its huge home market, of that country. "

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11. Cf. Final Communiqué of the Sydney Conference : " The Commonwealth countries rejected then [at the Conference of London], and we reject now, the view that any solution of our problems can be found in the creation of a closed system of discriminatory arrangements which could lead only to chronic restrictions and recurring crises. "

Without embarking on an economic argument concerning the increases in productivity and real income which might result from the expansion of the market in a given area by lowering the customs duties within that area, it may be observed that; when such increases are possible, they are the result of the more efficient division of labour achieved by removing trade barriers and that, generally, the larger the free trade area and the more completely obstacles to trade are removed, the greater those increases wil be. The methods adopted for reducing tariffs should, therefore, be those which are most universal in scope and most radical in application. From this point of view, the system of secondary preferences seems to have two defects : (a) it does not include the dollar area, and (b) it limits its field of action to the existing margin in the so-called imperial preferences. In these two respects, therefore, it is more timid than the plans for a general reduction of tariffs now being studied by the G.A.T.T.

2.3. The reduction of fluctuations in eco-mic activity

"... preferential, tariffs will still have a role to play in stabilising trade relations within the area under study and making this area a little less dependent on possible future fluctuations in the trade of the dollar countries." (Page 31, fourth paragraph).

Owing to the large number of factors governing cyclical fluctuations in activity and their transmission from one country to another, it is doubtful, to say the least of it, whether a preferential system could effectively exercise a moderating influence by simple variations in the prices of the commodities entering into international trade. The problem is of major importance, but the remedy is inadequate. Solutions should be sought, among other measures, by checking fluctuations in activity at their source, reducing the international repercussions of acceleration or contraction in the demand for raw materials in the industrial countries during economic cycles and using international monetary reserves and credits to eliminate temporary payments difficulties ; above all, it is essential to avoid resorting to trade restrictions and dumping, which ultimately lead to the export of unemployment and might produce chain reactions.

27. In discussing the difficulties inherent in a secondary preferences system, the Organization has tried to show where positive solutions might be found for certain very important objectives which are common to the Strasbourg Plan and to its own programme.

3. II

Proposed European Bank for the Development of the Overseas Territories

28. Projects for European financial institutions similar to those referred to in Section 2(a) of the Recommendation have for more than a year formed the subject of detailed discussion in the O.E.E.C. In the course of these discussions, no common ground for agreement has emerged between the principal Governments whose participation would be essential ; some were in favour of proposals of this kind but most were not. Although the discussions centred on the establishment of a European Bank, the possibility of an extension of the Bank's activities to cover the financing of overseas territories was not ruled out, and in view of the nature of the objections raised the chances of reaching agreement on a. specialised bank of the kind referred to in Section 2(a) would be no greater than for a.bank whose activities were limited to Europe. However, a more limited project has been studied for a " European Advisory Investment Board "[12], though the Council of the O.E.E.C. has not yet come to any decision on this question.

29. Although at first sight the idea of a European Bank for the development of overseas territories[13]appears simple and attractive, extremely complex financial, economic and political problems are involved. The differences of opinion concerning the advisability of a European financial institution has its origin in widely conflicting views as to the comparative roles to be assigned to private investors and. public institutions in the development of international movements of capital. Any assessment of the role which a European public institution might play is further complicated by the existence of a world institution, the International Bank for Reconstruction and Development. Admittedly, it is possible to make use of a combination of financial techniques based on liberalism and a policy of controls —• this method is used by all countries at internal level — to provide appropriate machinery for the international movement of capital needed to finance the present demand for investment capital in the overseas territories. The O.E.E.C. takes no sides in the choice of such techniques. In this reply, its aim, is to inform the Committee of Ministers of the fact that the negotiations

12. Outlined under the name of " European Advisory Investment Board" in the Fifth Survey prepared by the O.E.E.C. for the Council of Europe (published September, 1953) paragraphs 48 to 60.
13. Hereinafter referred to es the " European Bank ".

recommended by the Assembly in Section 2 (a) of the Recommendation have taken place, of the reasons why no successful conclusion. was reached and of the possibilities which still remain for solving in other ways the problems of the international financing of the overseas territories. It is for this reason that the arguments against the project for a European Bank will be developed in greater detail than the arguments in its favour, which are assumed to be familiar to the Assembly. In addition, by concentrating discussion here on the place which a European Bank would be likely to hold in the international financing of investment in the overseas territories, certain highly important related questions have to be left on one side ; these will be discussed in Part III, Section 1 (" Investments ") in connection with the recommendations of the Assembly concerning the economic aspects of these investments.

30. The reasons usually adduced in favour of a European Bank for the development of the overseas territories, including those put forward in the report of the Experts, fall under three main heads :

30.1. to allow for a larger volume of investment in the overseas territories ;

30.2. to ensure that European countries with no overseas possessions or political links with overseas countries are given more opportunity for taking part in such investments ;

30.3. to improve the co-ordination of investments in the overseas territories.

31. As regards the opposite view, several Governments arc generally doubtful whether a public European financial institution is necessary to achieve these ends, and whether it would be more capable of doing so than certain existing institutions such as the I.B.R.D. or private enterprise backed by Government action within the framework of European co-operation along the lines laid down, for example, in a number of other recommendations by the Consultative Assembly.

32. As regards the first function of the European Bank, that of increasing investments in overseas territories, the crux of the problem of financing is either to raise additional savings in member countries for overseas investment or to divert a. portion of existing savings from their present uses towards investment overseas. In both cases, the main difficulty lies in the inadequate level of savings in most member countries, having regard to their own investment requirements and their present commitments abroad. - Those in favour of the Bank take the view that it would be capable of mobilising additional savings as well as ensuring a better distribution of financial resources as between Europe and the overseas territories. Some of them also think that it might help to attract American capital. - Those against the project argue as follows : - The establishment of an International Bank would not necessarily conjure up new savings. On the contrary, it might entail, a certain dispersion of Europe's financial resources. - As regards American capital, a new institution would more or less duplicate the I.B.E.D. and would not prove any more successful in attracting American, capital to Europe and the overseas territories. - As regards the choice between internal investments in member countries and investments in the overseas territories, some Governments object to the project on the grounds that a choice of this kind should not be imposed by a public institution, even at international level, but should be left to the private investor to decide in the light of the terms and opportunities, offered on the various markets. - Finally, any increase in capital investment in the overseas territories would involve the latter in serious problems on which a European 'Biank would, it is claimed, give little help. These problems derive from the factors other than the supply of foreign capital which limit the rate of expansion and therefore the effective capacity to absorb capital seeking profitable openings. Such factors include the stage of social development of local populations, the level of local savings and the export prospects. .Unless it was prepared to make loans without security, a European Bank would find the scope of its activities limited by these factors and at the same time.be unable to do anything to help.

33. The second function of a European Bank, according to its sponsors, would be to encourage member countries without overseas territories to share in the development of such territories. This is the main argument put forward in the Report of the Experts of the Strasbourg Plan. In their view there would be many advantages in such a. scheme. More capital would be available, and all member countries would share both the' burdens of development, in so far as the Bank provided funds for infrastructure projects showing only a limited or a delayed return, and the advantages accruing in the form of increased exports of capital goods, the' employment of technicians and facilities for the establishment of new undertakings. The Experts, feeling that there would .be certain political obstacles to the participation of foreign capital, expect the European Bank to be able, as it were, to " denationalise " the capital and thus " remove any political objections on the part of the countries which are to use it"[14]. - The critics of this proposal consider that there is a marked tendency to exaggerate the influence which a financial institution acting alone could exert in such matters. Trade policy, exchange controls, manpower movements, etc., would all bo involved and the cooperation of both local and

14. See Strasbourg Plan, p. 56.

metropolitan Governments would be needed. - Although no agreement could be reached on the principle of establishing a European Bank, all the member Governments realise the advantages of wider and freer participation by everyone, including the United States and Canada, in providing capital for the overseas territories. Any such development should take place gradually, and the methods employed should be flexible.

34. Finally, some people believe that the European Bank might co-ordinate investments between the various overseas territories in a number of basic sectors. - Here the main criticism is that the Biank would be unable to exert any specific influence on the use of capital unless it were associated with a general policy for the detailed control of investments, which most of the governments concerned regard as undesirable. - Member countries, however, are in favour of co-ordinating the development plans for the overseas territories when the need arises. Co-ordination of this kind is already an accomplished fact in certain sectors (particularly as between neighbouring territories) such as transport and electrification schemes. The Commission for Technical Co-operation in Africa South of the Sahara (C.C.T.A.), founded in 1950, deals with technical matters such as the control of animal diseases, scientific research and transport. The Colombo Plan is an important practical application of the principle of co-ordination. Within the O.E.E.C. a first step in this direction has also been taken by exchanging information and experience on the development plans of the territories.

35. To sum up, the Organization concludes that the formation of a European Bank for the development of the overseas territories, as proposed in Section (a) of the Recommendation does not at present come within the realm of practical politics because of the divergent views of the governments concerned. It is even proving a difficult matter to create a body with more limited aims and with essentially advisory functions; such a proposal is at present being considered by the auhorities of the O.E.E.C. But, whatever the form finally adopted, no financial machinery can by itself solve the extremely difficult and far-reaching problems connected with investment in the overseas territories covered by the Strasbourg Plan. From the point of view of securing finance, the Organization considers that action should be developed simultaneously :

– to increase savings in member countries likely to be interested in overseas projects ;

– to create conditions propitious for the movement of private capital from member countries and the United States to the overseas territories ;

– to co-operate with existing international financial institutions and particularly with the International Bank.

4. III

Harmonisation of the development of the overseas countries and the member countries

36. The development of the economies of the overseas countries in harmony with the economies of member countries — a theme which is common to Section 1 (a) - (g) of the Recommendation and Section 2 (b) merits the closest attention of the governments of member countries of the O.E.E.C. These Governments are in full agreement with the main objective of the recommendations already cited and are glad to find that they share the views expressed on this subject in the Preamble to Recommendation 26.

37. Like the Experts, the O.E.E.C. desires to emphasise that any programme to strengthen the links between the economies of the industrialised countries and the expanding economies of the overseas territories must take the fullest account of the latter's own interests. Moreover, many of the latter now enjoy either full independence or increasing autonomy and no measures for giving effect to the above principles can be applied 'without their agreement and active co-operation.

38. The harmonisation of the development of the overseas countries and the member countries presupposes the co-ordination of the policies of all countries in the Western world, including the United States, in three principal fields :

a. investment ;

b. trade ;

c. the monetary field.

39. Recommendations 1 a to 1 e and 1 g will be considered in relation to investment policy and recommendations 1 f and 2 b under the heading " tirade ".

4.1. SECTION 1

Investment policy

40. Emphasis has already been laid, in connection with the special type of co-operation represented by the proposed European Bank, on the fact that the orderly expansion of the overseas territories would involve a series of economies of the measures of much wider scope than financial policy alone. Recommendation 1 b, 1 c, 1 d and 1 g refer specifically to this type of policy.

41. The scope of this reply does not extend to a detailed description of actual achievements, difficulties encountered, and the progress to be desired in developing the overseas countries constitutionally linked with Member States, in view of the extreme diversity of conditions in those countries. Nevertheless, some general information can be given on three main aspects of the problem with which the Assembly and Member Governments are very rightly mainly concerned. These three aspects are :

a. the actual rate of economic progress in the overseas countries ;

b. joint participation by all member countries in the drive to develop these territories ;

c. the organization of production with a view to balancing dollar payments.

Rate of economic progress in the overseas countries

42. Great efforts have been made since the war, both in the overseas territories and in the independent countries of. the Commonwealth, to accelerate their economic and social progress. These efforts have been rightly recognised by the Experts in Strasbourg. In the overseas territories measures for development have been substantially assisted by the metropolitan countries. Development plans have been drawn up to combine and coordinate the activities in the private sector and the efforts of the local and metropolitan authorities. Such plans exist for the Netherlands, Portuguese and British territories, the Belgian Congo, and for the French Union, including the North African Protectorates. France is now preparing a second four-year plan for the development of her overseas territories. So far as the independent members of the Commonwealth are concerned, the more frequent convening of economic conferences is a sign of the closer coordination of the policies of these countries. Mention should also be made here of the Colombo Plan, which is now entering an active phase.

43. The assistance given by the metropolitan countries to this development effort entails various kinds of financial burdens. In some cases, the metropolitan countries directly subsidise the territories' budgets or take over more or less directly some of their current public expenditures. In other cases, the metropolitan countries finance some of the infrastructure costs on exceptionally favourable terms, more particularly those which are not likely to show a profit. In certain cases the market guarantees given to the products of the territories are also borne by the metropolitan consumer or taxpayer.

44. From the point of view of the expansion of production in the overseas territories, the greatest difficulties have been encountered in the agricultural sector, more particularly in the case of food products cultivated and consumed by the local population. The problem of expanding food production is particularly acute in Africa owing to physical, social and economic conditions which cannot easily be changed by heavy capital investment. In this as in many other sectors, the main obstacles to progress are human factors, such as the shortage of both local and European skilled workers rather than a lack of capital.

45. On the other hand, the mining, quarrying and processing industries are making rapid progress in many areas. In the Belgian Congo the index of industrial production almost doubled between 1947-48 and 1952 and is now more than six times as great as before the war. Apart from the independent countries of the Commonwealth, where impressive industrial progress has been made, Morocco, Northern Rhodesia and the Netherlands West Indies provide examples of rapid industrialisation in recent years. Section 1 (g) of tho Recommendation, which relates to the industrialisation of the overseas territories, assumes that the industrialised countries will not impose customs or other barriers on imports of part-worked raw materials from the overseas territories, since in many cases the rational course is to begin by establishing in the under-developed countries primary processing industries which are satisfied with unskilled labour and save money on the transport of raw materials. In these countries the policy of developing local industries implies that, however essential protection may be in order to get new forms of production under way, it must not be diverted from this objective to keep industries going which can never possibly meet normal competition from abroad.

Joint participation by all member countries in the drive to develop overseas countries

46. Recommendations 1 (c) and 1 {d) are based on the conviction that in the long run a liberal policy favourable to all foreign investment irrespective of origin is in the common interest of the overseas countries which need human, technical and financial resources and of the member countries which can provide them.

Member Governments share the Assembly's view that the aim should be as liberal a system as possible in this respect. A few general remarks are called for before an account is given of the results achieved and the difficulties encountered.

47. I n the view of Member Governments, the principle of free access implied in the above recommendations should be extended not only to the member countries covered by the Strasbourg Plan, but also to the United States and the other countries of the Western world. The final aim should be the fullest possible measure of freedom for all countries.

48. The overseas countries have complete freedom of decision in these matters in the case of the independent countries of the Commonwealth and an ever-increasing measure of freedom even in the territories linked with a metropolitan country. This freedom, however, frequently takes the form of close consultations with the metropolitan countries and other countries members of the same group, more especially on payments and trade policy.

49. Investment and capital movements to overseas countries from European countries with no overseas territories or from the United States have so far been small compared with movements from metropolitan countries. The reasons for this state of affairs are to be found partly in the countries with no overseas territories which, until quite recently, were themselves ' short of capital and partly in the circumstances arising naturally from the closer links which these territories have with the metropolitan countries ; these conditions are strengthened sometimes by measures which may have the effect of precluding the activities of nationals of other countries. Since the war exchange controls have certainly been a powerful factor in isolating currency areas. Furthermore, the sectors most likely to attract foreign capital in the overseas countries are those where the local authorities impose controls for widely differing reasons. For example, land tenure is in many cases subject to regulations designed to protect the rights of the native population or to conserve the natural properties of the soil. Activity in the mines, oilfields and waterways is controlled for reasons of public interest and is also subject to a system of concessions based on a contract between the authorities and the concession holder. These systems of authorisation and1 control are not in themselves an obstacle to foreign activities but can be applied more or less strictly at the discretion of the authorities, according to the origin ,of the capital and the nationality of the promoter.

50. The Organization has on several occasions given its attention to all these factual and legal problems. The problem is to create or encourage an atmosphere such that investments in overseas territories become normal transactions attractive to the nationals and enterprises of all countries. The 1950 report on international investment, and the 1951 report on intra-European investment contained recommendations along the same lines as those adopted by the Assembly. In 1952 the Organization consulted a group of financial experts on ways and means of encouraging private investment in overseas territories and their report has been referred to the competent bodies for consideration. Finally, a working party is at present investigating the legislative and administrative obstacles which may be hampering imports of American capital to member countries and the overseas territories. For this purpose this working party has listened to the views of representatives of American business interested in investing in Europe and the overseas territories, as well as. to representatives of Governments of member countries. A conference on these questions was held at the O.E.E.C. in February 1954. As these obstacles are usually the same as those which hinder capital investment by member countries, the work done by this group will help to clarify the problem raised in Section 1 (c) of the Recommendation and the recommendations which it has a mandate to submit for improving the present position should advance the solution of the general problem of foreign investment.

51. The manpower movements referred to in Section 1 (cZ) of the Recommendation create even more difficult problems in the overseas territories than in member countries, mainly because the races living together in the same country.have reached very different stages of development. There is a free flow of emigrants from member countries to certain independent countries of the Commonwealth, particularly to Canada and Australia. In the overseas territories the propects of immigration or settlement for farmers, for example, are extremely limited ; large-scale immigration is out of the question but an influx of individuals with certain technical qualifications might further the implementation of development programmes and to some extent help to absorp the surplus manpower of certain member countries. These conclusions were arrived at in 1951 in a joint study made by the Overseas Territories and Manpower Committees of the O.E.E.C. They led to the establishment of machinery for international consultation which should facilitate movements of skilled manpower to the dependent overseas territories of O.E.E.C. countries. The procedure falls short of the active poiicy_called for under the recommendation in 1 (d) whereby facilities should be provided for the settlement of nationals from countries having no responsibilities in the overseas territories.

Expansion of production in relation lo the balancing of dollar payments

52. Ever since its foundation, the O.E.E.C. and Member Governments have tried to act along the lines suggested in the Recommenda-tions 1 (a) and (b), that is, they have tried so increase the production of raw materials and basic products which can be used to reduce dollar imports or to obtain dollar exports. Definite successes have already been" gained in this direction, examples being the increased production of grain (1952 index figure 180 as compared with pre-war), cotton (300), chrome (375) and copper (517) in Turkey, cotton in Greece and in the O.T.'s. By 1952 the production indices for the overseas territories were 635 for bauxite, 639 for zinc, 306 for lead, 268 for cobalt, 173 for cotton, 166 for copper and 203 for coffee as compared with the pre-war figures. Recognising that certain elements in the dollar payments problem were of a structural nature, the Organization affirmed in its Fourth Annual Report that special vigorous action must be taken to make Western Europe less dependent on dollar sources of supply and to increase the ability of member countries to earn dollars directly or indirectly. Raw materials have an important part to play in this selective expansion of production and trade since they already, account for a considerable proportion of all trade between the dollar area, the O.E.E.C. countries and .the overseas countries and this proportion is likely to increase still further.

53. In this connection it should be noted that the general expansion programmes undertaken by governments in overseas territories have given a considerable fillip to the production of raw materials in those areas. Action designed more specifically to benefit particular forms of production makes it an extremely complicated matter for governments to intervene. On the one hand, if production is left in private hands, it may remain below the economic potential of the O.E.E.C. area owing to the risks of price and marked fluctuations which characterise most raw materials. On the other hand, a policy of raising the production of certain basic commodities in the OEEC area to an artificially high level by keeping prices systematically above world rates or by paying subsidies is attended by very real dangers. If expansion is necessary, a policy must be fixed for each individual product in the light of the special features of each market and, as far as possible, by agreement between the chief producing and consuming countries both within the dollar area and outside it. At the moment the Organization is engaged in a study covering a fairly large number of products to determine whether production can be expanded in such a way as to save or earn dollars in accordance with tho principles laid down in the recommendations in 1 (a) and 1 (b) but with the additional stipulation that any such expansion should, in principle, only take place if costs are comparable with those of other world producers.

54. The conclusion of long-term contracts and international agreements (Section 2 (&)), may have an important part to play in the policy of selective expansion, particularly in the case of the raw materials covered by the recommendation in 1 (a). The action taken by the Organization is this matter is described in paragraphs 56 to 58.

4.2. SECTION 2

Trade policy

55. The Organization agrees with the Experts that the expansion of trade between member countries and the overseas countries covered by the Strasbourg Plan is one of the most important steps towards the objective of the development of world trade outlined in the Introduction. An analysis of the economic conditions governing such expansion would, be out of place here but something should be said about the work of. the Organization and about the problems bearing on the recommendation in 1 (/) concerning the creation of openings in European countries for overseas products and the recom-endation in 2 (b) relating to the conclusion of long-term contracts.

Obstacles to exports from overseas territories

56. The liberalisation measures introduced by member countries apply automatically to imports from dependent overseas territories. As the restrictions still imposed by member countries rarely affect raw materials, it is fair to say that there are now almost no quotas limiting imports of the chief products exported by the overseas countries to member countries. Furthermore, raw materials are being given a generally preferential customs treatment in the European countries. On the other hand, semi-manufactured products are sometimes subject, in those countries, to duties which are often protectionist in nature. The overseas territories are more likely to be affected by this situation than the industrialised countries and their development may be considerably retarded thereby, since there is an increasing trend in the territories to convert raw materials on the spot and export the processed products. There are also consumption taxes which may fall more heavily on certain overseas products (e.g. coffee) and which help to reduce the consumption of such products in member countries.

57. The exports of overseas territories have grown rapidly in the postwar period ; member countries are taking a fairly stable proportion of these amounting to about 50 per cent. Of the exports to member countries,, the share of the metropolitan countries has fallen from 78 per cent in 1948 to 69 per cent in 1952, whilst that of other member countries has risen from 22 per cent to 31 per cent. This development is partly due to the trade liberalisation applied by member countries. The overseas territories are therefore already finding sizeable and growing markets in member countries. The growth of these outlets depends one liminating the obstacles to European imports mentioned above, but also on the ability of producers overseas to compete on world markets, on publicity campaigns and on the abolition of any export barriers that exist.

Trade liberalisation by the overseas territories

58. The liberalisation of the imports coming from the O.T.'s to member countries is virtually complete, but the same is not true of the imports of certain territories from member countries other than their metropolitan areas. Por the territories as a whole the metropolitan areas provide on an average about 80 per cent of the imports of the territories from member countries, the other 20 per cent coming from member countries other than the metropolitan areas of the territories in question. This metropolitan predominance also varies according to the territory. There has been a slight tendency in general for this preponderance to diminish, the percentage having fallen from 84 in 1948 to 78 in 1951, to rise again to 80 in 1952. The Organisation is currently examining how further progress could be made in trade liberalisation by the overseas territories. Complete liberalisation now exists in the Belgian Congo, and in some other territories a high degree of liberalisation has been introduced.

Long-term contracts

59. The conclusion of long-term contracts or international agreements on basic products which might encourage an expansion of output in certain cases is a matter of trade policy as well as of expansion policy proper. At present, the only multilateral agreement in force is that relating to wheat : this agreement came into force in August, 1949 and was renewed in August, 1953. A multilateral agreement on sugar was signed by 51 producing or consuming countries in August, 1953 but has not yet been ratified. An agreement on tin is ready, and two countries have already signed it. There are bilateral agreements covering a fairly large number of raw materials. The United States, for example, has negotiated a number of contracts with the countries supplying them with tin. At the end of 1952 the United Kingdom was a party to 58 bilateral contracts covering periods of from 2 to 15 years. The most important of these contracts related to supplies of meat and dairy produce. There are also international study groups of various kinds for tea, cotton, rubber, tin, wool and rice. In many cases the activities of these groups are limited to the exchange of information. Some of them, however, are discussing draft international agreements.

60. The effects of such agreements on trade policy vary according to their form and the countries taking part. Most international agreements imply to some extent that the freedom of the market and of private transactions is limited by Government intervention within the terms of those agreements. However, some Governments object in principle to this type of intervention and are at present showing a tendency to drop long-term contracts and to rely increasingly on world market factors to balance supply and demand. One danger of agreements limited to a particular area is that they may keep prices higher in that area than elsewhere in the world and may perpetuate the restrictions on. trade which are always associated with permanent price differences.

61. The Organisation has not so far made a thorough study of the problems created by stabilisation of the prices of basic products. Until such a study has been completed, the Organisation will be unable to reach any definite conclusions on the subject. However, the point was made in the Fourth Report[15]that detailed attention would have to be given to the possibility of framing agreements for the main raw materials involved in international trade. The Council[16] has recently decided that the Organisation should study this question. The results of this study will show how far it is possible to go on the lines of the recommendation in Section 2 (o) of the proposals of the Consultative Assembly.

4.3. SECTION 3

Monetary policy

15. See paragraphs 397, 398 and 399.
16. C(53)175(Final) - 17th July 1953.

62. Although the recommendations of the Consultative Assembly contain no reference to monetary policy, there is a whole chapter on this subject in the Experts' Eeport. This shows the importance which they attach to the results obtained through the European Payments Union and to the need for further progress towards convertibility. The Report states explicitly (p. 46) that " ... undoubtedly, the convertibility of their currencies must be among the most important long-term objectives of the countries of the area ".

63. The Member Governments share this view and think they should emphasise this point in their reply. The fact is that the measures needed to implement the Assembly's Recommendation should be accompanied by steady progress towards the establishement of free and stable relations between the currency systems of member countries and other leading countries throughout the world. The Member Governments consider that the economic unity of the Western world will not be really assured until a greater degree of convertibility than that at present existing has been restored vis-à-vis thé dollar and the other currencies which are already convertible. To facilitate this transition to a better world system of payments it is essential to ensure that the measures taken or envisaged in other fields, and, above all, in the field of trade, do not clash with the trend towards unifying the Western world.

64. From what has been said in the above paragraphs it will be seen that the O.E.E.C. has always devoted the utmost attention to tho problems involved in harmonising the development of the member countries and the overseas countries. The member countries agree that much has still to be done to achieve satisfactory co-ordination between these economic systems and they have frequently stressed the need for it. The O.E.E.C. is still seeking, in all the spheres concerned, ways and means of overcoming the obstacles to such co-ordination.