SIR ALEC CAIRNCROSS

Post-War Planning in Europe, 1945-47

Two years elapsed between the end of the war in Europe and General Marshall's speech in Harvard heralding the Marshall Plan. What happened in those two years? What problems did European reconstruction raise? How were those problems seen and by what strategies was it proposed to overcome them?

These are not questions that can be answered briefly. Moreover the answers to them did not remain the same from year to year. There was no single set of problems unaffected by events; some problems disappeared as recovery proceeded while others, often unforeseen, took their place. As the problems changed so, too, did the ideas in vogue. The strategies proposed in 1945 had lost favour by 1947 when a new set of remedies had to be put together to meet a new situation. After two years of rapid recovery in nearly all European countries (Germany excepted) the economic situation was judged, paradoxically, more alarming than it had appeared in 1945. There is thus yet another question to be answered: why this alarm in the midst of growing prosperity?

I shall say little about the course of events or about the domestic problems they raised and try to concentrate on ideas and strategies.

1. Events

In spite of the enormous amount of damage, destruction and dislocation caused by the war, industrial production in Western Europe, if one leaves out Germany, had recovered to the pre-war level by 1947. But if one looks more closely, this was true only of the United Kingdom, Scandinavia, Belgium and one or two of the less industrialised countries, not yet of France or Italy, still less of Germany.

Nearly everywhere Europe in the spring of 1947, was in a state of boom, with high levels of employment and investment, a shortage of labour and rising prices. Unemployment, except in Germany and Italy, was far below pre-war levels. There was intense pressure of demand and ample finance. Production, on the other hand, was held back by bottlenecks in coal and other forms of energy, in raw materials of all kinds, and in transport (which had been badly disrupted by the war). Stocks were low and in many cases falling. The shortages which reduced productivity were intensified by the unusually severe winter of 1946/47 and the drought that followed in the summer of 1947. Agricultural production was already lagging well below the pre-war level, and recovery was further delayed by a poor grain harvest. Industrial production also suffered. There was a particularly acute setback in the United Kingdom where the fuel crisis in February and March led to the closure og many factories and the suspension of the limited exports of hard coal previously available from this source. But, as later became apparent, the underlying trend in production remained steeply upwards.

2. Problems

The really acute problems were not the bottlenecks and shortages that delayed industrial recovery, nor indeed any of the difficulties of domestic economic management: the budget deficits, labour market problems, inflation and so on, that all European countries experienced. They lay instead in a mixture of balance of payments difficulties, relations with other countries, and political fears. On the one hand, Europe's recovery had outrun her command of foreign exchange: the really serious shortage was of dollars, not of the various inputs that could be purchased for dollars. This posed difficult problems of commercial and financial policy in dealings between neighbouring European countries where there was no agreed basis of settlement. These problems were further complicated by the absence of Germany from her established place as the centre of the European economy and by the cessation of the pre-war inflow of foodstuffs from Eastern Europe. Europe was also vulnerable to political upsets if economic recovery was halted as it might be through a lack of foreign exchange: in some of the key countries the Communist Party might come to power and open the door to Soviet influence and eventual control.

Thus the situation in the spring of 1947 was not that economic recovery in Europe was grinding to a halt but that an imbalance had developed between North America and Western Europe that threatened to precipitate a liquidity crisis. The imbalance was already apparent in mid-1946 by which time the pattern of increased dependence on imports from America was already well-established. The scale of the imbalance was at that stage difficult to judge; it was only after the figures for the first quarter of 1947 became available, with their evidence of a sudden aggravation, that the alarm belles began to ring. By the middle of 1947 nearly all the future members of OEEC had become aware of a sharp deterioration in their balance of payments and many of them were deeply concerned by the prospects confronting them. Until the Marshall Plan countries met in Paris in July 1947, however, there had been no international review of those prospects. Up to that point, virtually all exchanges between European countries on economic policy had been on a bilateral footing.

3. Ideas and Strategies

Since the United States was in a dominant position at the end of the war it was inevitable that American views on the post-war world should have great weight. It was American ideas, rather than those of any other country that governed the initial approach to post-war problems. Of the European countries only the United Kingdom was in a position to exert comparable influence and it was an influence that diminished progressively. Germany and Italy, as ex-enemy countries, took no part. On the other hand, France although excluded from the war-time conferences and even from Potsdam, was fundamentally in a strong bargaining position since without France no grouping of Western European countries to contain German militarism made any sense. In war-time the refugee governments of Scandinavia and Benelux had taken part in international discussions in London and Washington to some effect but none of them was strong enough to give a lead to the rest of Europe.

Thinking in war-time and immediately after the war concentrated on the framing of international arrangements and institutions that would facilitate a re-building of international trade under agreed rules and prevent a recurrence of the beggar-my-neighbour policies of the 1930's. This thinking found expression in the Bretton Woods Agreement, in the establishment of the IMF and the World Bank, and in the negotiations that were in progress in 1947 for an International Trade Organisation. The aim from Bretton Woods onwards was to encourage an expansion of international trade on the basis of stable rates of exchange and to ensure that after a period of transition trade was multilateral and currencies convertible, or at least convertible in respect of current transactions. In the Loan Agreement between the United States and the United Kingdom these ideas were given more peremptory expression. The United Kingdom was required to make sterling convertible within a year in consideration of a loan amounting to \$3.75 billion and to refrain thereafter from trade discrimination except in relation to imports from »war-shattered economies«. It was taken for granted that any immediate imbalance after the war would gradually diminish and would be looked after through the use of countries' holdings of gold and dollars, supplemented by the outflow of dollar loans and credits through UNRAA, the Export-Import Bank, the loan to the United Kingdom, and so on. Thereafter balance would be preserved through the operations of the new international institutions and bilateral credits.

In fact, none of the new international institutions was in place in time to engage in large-scale lending operations by the spring of 1947; the international imbalance had increased not diminished; and it was concentrated almost entirely on the United States. Moreover, the scarce currency clause which was intented to provide a safeguard against such an imbalance proved to be inoperable. A further problem was that all the arrangements deriving from war-time discussions were global in scope and made no provision for regional collaboration. In 1945-46 it was world recovery, not just European recovery, that was the target: until the Marshall Plan, action on a European scale had not been envisaged.

It was of course well recognised that after the war some countries would have serious balance of payments difficulties and that there would have to be a period of transition before these difficulties were overcome: a period put by some at three years and by others, including Keynes, at five. What was not fully realised was how serious and prolonged the balance of payments difficulties would be and how much they would be concentrated on dealings with the United States. The size of Europe's post-war balance of payments deficits far exceeded expectations. They reflected a combination of several factors: the expansion in demand associated with the move to full employment and an industrial boom; the lag in agricultural recovery and the shortfall in coal production; the suspension of supplies from Eastern Europe and the slow revival of supplies of primary produce from the Far East; the absence of Germany from normal trade; and the rise in the price of imports especially after the removal of price control in the United States. The resulting shortages could be relieved only by a deflation of demand or by drawing more imports from the Western Hemisphere and particularly from the United States. Even in the Western Hemisphere there was a general shortage of dollars. The United States, the residual source of supplies of all kinds, was in surplus with virtually every other country.

There had always been those who took

a sceptical view of Bretton Woods and the Loan Agreement. Within the British Treasury, for example, there were those in 1945 who argued that it might be wiser for the United Kingdom to join forces with continental Europe and form some kind of Western European bloc by enlarging the sterling area: a proposal derided by Keynes as likely to leave still less for the United Kingdom in the dollar pool. No one doubted that it would be necessary to be sparing in the purchase of dollar imports, all the more so if, as many expected, an American depression was in the offing. What was not grasped was that there might be no alternative to drawing on reserves of gold and dollars if a high level of economic activity was to be maintained, and that in the absence of dollar aid or credits, the reserves were likely to prove quite inadequate.

What if the level of economic activity was not an overriding consideration? The external deficit could be represented as the inevitable product of inflation and over-ambitious investment plans in European countries combined with a set of overvalued currencies. Those who were anxious to see covertibility of currencies, whether Americans or Belgians, were inclined to argue for tighter monetary policies and, if necessary, devaluation against the dollar as the classical way of restoring external balance and so paving the way to convertibility. such a view presumed a large response in the balance of payments to a small reduction in the pressure of demand and curtailment of credit. But under post-war conditions the disorganisation of supply made it more likely that deflation would have to go a long way before imports fell sufficiently and there was a danger that wages and prices would go out of control in the process. The strategy of using controls to thin out the use of imports and promote exports ran no such risks and helped to sustain production when the alternative policy would have seriously diminished it.

It was of course realised that there was an overwhelming need to expand the volume of exports over the fransition period if balance of payments equilibrium was to be restored at a tolerable level of imports. The United Kingdom aimed at a 50 per cent increase in order to cover the cost of imports and a 75 per cent increase or more if other requirements were to be met. France started by postulating a 10 per cent increase above the level reached at the peak in 1929. This assumed that the United States would make a reconstruction loan similar in size to that made to Britain; when this assumption had to be abandoned a much greater increase was aimed at. West Germany, with exports in 1947 only one-twelfth of the pre-war level, was under even greater pressure to increase her exports. But whether these plans and aspirations were consistent with one another or with the importing power of non-dollar markets, no one knew. They could be successful only if they contributed to the removal of the fundamental imbalance between the United States and the rest of the world.

For this reason the United Kingdom favoured a direct assault on the American market. But when exports from Europe to the United States were less than one-sixth of imports from the United States and even a doubling of exports would have brought in only an extra $1 billion per annum, this hardly seemed a very promising route, especially when European currencies were over-valued and the American market was the most competitive in the world. The more promising route, and one that chimed with the general feeling of over-dependence on the United States, was to find other sources for the goods currently imported for dollars. But it would take time, and probably heavy investment, to revive and expand supplies from Asia, Australasia and Africa or to engage in import substitution on the necessary scale in Europe itself: the more so because political obstacles stood in the way of procuring more grain and other foodstuffs from Eastern Europe or of allowing Germany to regain a dominant position in the supply to her neighbours of capital equipment and other manufactures. No doubt it would be possible eventually to find alternative supplies; but in the meantime it was only by carrying austerity in the use of dollar imports to unprecendented limits, or by massive deflation, that the accounts could be balanced in the absence of aid.

This brings us to the politics of the matter. More austerity or massive deflation in 1947 would have been playing with fire. In France and Italy the colour of the regime would have been a risk. Even before the dollar crisis the danger that Western Germany might embrace Communism had helped to persuade the Americans to continue the provision of aid not only to their own zone but in support of the British zone as well. There may have been no international conferences on the dollar problem; but there had been plenty on the German problem. The future of Germany and of German industry was the subject of constant debate between the occupying powers. It was this that brought General Marshall to Moscow in the spring of 1947 and it was the perceptions he formed of the European situation during his visit that lay behind his Harvard speech. The threat that Communism would spread from an impoverished Germany to politically divided countries like France and Italy was more powerful even that the threat of a liquidity crisis.

The two things were inter-related. If Germany was to be divided and Western Germany »saved« from Communism, some hope had to be held out to the German population of economic recovery and political independence. Earlier plans for limiting industrial production and removing or destroying large quantities of plant would have to be abandoned. This, however, was anathema to the French who wanted to take no chances with Germany and looked forward to building their steel industry (and others as well) on the ruins of Germany's. In the post-war struggle for Germany, both the United States and the USSR were forced to recognise that the higher they bid for Germany the greater the risk of losing France.

Politics and economics were mixed in other ways. There were economic as well as political reasons for encouraging German industrial recovery. As we shall see, imports of machinery and coal contributed heavily to the post-war growth in imports from the United States into Western Europe. In pre-war days these and other imports would probably have been obtained from Germany; if they could again be imported from Germany the dollar problem would be correspondingly reduced in scale.

What were the imports that Europe so desperately needed from the United States? We can pass over 1946 when imports were still affected by special arrangements to help war-ravaged countries through UNRAA and in other ways. In 1947, which proved to be the peak year for imports from the United States, these imports were running at over twice the prewar rate in volume. The mose conspicious increases were in grain and cereals, dairy products and fats and oils, machinery and vehicles, and coal. These items together accounted for about 72 per cent of the increase in the volume of imports between 1938 and 1947. The rest of the increase was scattered over miscellaneous items, chemicals and steel mill products accounting for a further 11 per cent.[1)].

The increase in imports of foodstuffs, which persisted into 1948, reflected the lag in the recovery of European agriculture and the poor harvest in 1947. Agricultural production in 1946/47, and again in 1947/48, was about 20 per cent below the pre-war level even if Germany is excluded. The shortfall was particularly heavy in grain production and coincided in 1946 with a world shortage of grain. Nearly all the increase in imports of grain from the United States, however, can be accounted for by relief and assistance to Germany and Austria on the one hand and Greece and Turkey on the other. In the case of other European countries the main increase was in machinery and vehicles, steel mill products and coal. For France, Benelux, Switzerland and the four Scandinavian countries, these three groups account for about 60 per cent of the increase in the volume of imports from the United States between 1938 and 1947.

If we now ask how it was possible for Europe to finance such a large deficit from 1945 to 1947, the question is largely one of settlements with the United States. The development of the crisis in 1947 is in fact easiest to trace in the international accounts of the United States. Her current account surplus had remained roughly within the limits of \$7 billion and \$9 billion a year in successive quarters in 1946 but increased sharply to nearly \$12 billion a year in the first half of 1947 and not much less in the second half before subsiding to \$6.5 billion in 1948. American exports in 1947 were nearly three times American imports. This was possible only because of the flow of American dollars in loans and credits to foreign countries. But in the course of 1946 some elements in the flow were drying up. The activities of UNRAA were coming to an end and the Export-Import Bank had reached the limit of its authorisations by the middle of the year. The World Bank made no loans until May 1947. Thus the increase in the U.S. surplus in the first half of 1947 coincided with a falling-off in the flow of credits extended by the United States. The one large American loan surviving from 1946 helped to bridge the gap but by August very little was left.

In 1946 Europe had been able to cover a current account deficit estimated at \$5.8 billion (of which \$4.2 billion was with the United States) from three main sources. About \$2.3 billion came from UNRAA aid and other contributions to European relief, a further \$2.5 billion in loans and credits from abroad, and about 1 billion in drawings on reserves of gold and dollars and the liquidation of other assets.[1] Even with such a large deficit, imports trailed well below the pre-war level. In 1946 there were still about one-third below, much the biggest drop being in imports into Germany. In 1947 when the external deficit had risen to \$7.5 billion imports were rather higher but still about one-fifth below the 1938 level. Over two-thirds of the deficit in both years was with the United States from which came 27 per cent of total imports, compared with only 11 per cent in 1938.[1)]

To pay for their 1947 imports, which were both larger in volume and higher in price, European countries had to part with \$1½ billion in gold to the United States and to raise a further \$1 billion by the liquidation of dollar balances and investments. The United States also made available nearly $5 billion in donations and long-term loans (mainly from the U.S. loan to the United Kingdom). International institutions (including UNRAA, the IMF and the IBRD) provided a further $1.2 billion, most of which came directly or indirectly from dollar funds supplied by the United States. Thus European countries made use in 1947 of a total of about $8.6 billion. This more than covered their current account deficit and was nearly $3 billion more than their deficit with the United States, the excess reflecting deficits with other overseas countries and (to a much greater extent) capital flows from Europe to other countries.[2]

There was no chance that Europe could continue to pour out dollars on this scale. One need only compare the dollar deficits incurred in 1947 with the reserves remaining at the end of the year to appreciate the seriousness of the problem. In the case of the United Kingdom the dollar drain in 1947 was twice the size of the reserves left to cover future deficits including those of the sterling area. In the case of France and the Netherlands, the ratio was about one-third and in that of Italy no more than about one-tenth.[3]

I turn now to look at the views of the principal countries concerned as the crisis approached. I will deal briefly with the United States and concentrate on the two European countries that seemed in a position to give a lead to the rest of Europe: the United Kingdom and France. This is not to imply that smaller countries exercised nu influence: Belgium in particular gave powerful expression to her own ideas.

1. The United States

While the U.S. Treasury continued to insist on the need for multilateralism and convertibility long after Marshall's speech at Harvard - indeed, after the convertibility crisis had discredited those aims of policy as immediate goals - the State Department took a different line. It was particularly anxious to find a solution to the German problem and to make sure that there was no turning back on the road to European recovery. But it naturally looked for ways of achieving its objectives at low cost. Just a Morgenthau had hoped to solve Britain's problems for her by »pastoralising« her German competitor and so making a dollar loan less necessary, so the State Department may have regarded European economic integration as a means of reducing the cost of the Marshall Plan.

2. The United Kingdom

Among the countries of Europe the United Kingdom carried great weight. In 1947 her exports were nearly five times those of France and were equal to those of France, Germany, Italy, Benelux, Norway and Denmark combined. As late as 1951, her industrial production was still as great as that of France and Germany combined and equal to one-third of the total for all OEEC countries taken together.[1] The United Kingdom was also in a powerful position as a creditor vis-á-vis Europe. By 1948 she had balanced her current account and was in surplus with most European countries while nearly every other member of OEEC remained in continuous deficit until 1951. The United Kingdom had provided leadership in war and her neighbours looked forward to her leadership in peace.

It was not a responsibility that the United Kingdom felt anxious to discharge. She was conscious of her own weakness and of the struggle that lay ahead to balance her international accounts. Alone of the belligerents she had emerged from the war with heavy external debts - heavier than any country had ever contracted. She still carried a great weight of economic and military obligations, feeling compelled to maintain a military presence in many foreign countries, to feed the population of the Ruhr, and to meet at least some of the urgent capital requirements of the Commonwealth. Although there were times when Treasury officials were attracted by the idea of forming a common economic bloc with Western Europe, it was not an idea that found much support. In the immediate post-war years, joining forces with a Europe that was in chronic deficit would have aggravated, not relieved, the balance of payments difficulties that obsessed the United Kingdom. It seemed only too likely that for some years to come a close link with Europe would add to Britain's burdens and that if the overwhelming need was to find sources of imports to replace dollar supplies they would be more likely to be found within the Commonwealth than on the Continent.

Nevertheless the United Kingdom did make available to European countries a total grants and credits of some £700 million before April 1947. A substantial part of this total represents UNRAA contributions, military relief and the sale of war surpluses. But it also includes £140 million in assistance to the German economy, £100 million lent to France, a loan to Holland which, together with miltiary equipment and surpluses, was put at £60 million, and some assistance to Austria, Greece and Italy.[1] In addition to these credits the United Kingdom sought to contribute to the recovery of trade through monetary and payments agreements with European countries. These were intended to facilitate the growth of trade between Britain and Continental countries, to bring these countries more closely together and to provide a framework for de development of multilateral trading relationships within the non-dollar world. They helped in a modest way to get goods moving again between countries that were short of convertible currencies and as the BIS put it, »to establish a uniform and smoothly working payments mechanism with a series of reasonable and consistent exchange rates«. From the British point of view they helped to diminish the need to pay out dollars and to encourage the use of sterling as an international currency. Even when it was necessary to re-vamp the agreements in order to give effect to convertibility, they still provided for the use of transferable sterling in settlements beyond the agreed credit limits. What was more difficult to arrange was that existing sterling balances should not be drawn upon in one way or another in the settlements.

The influence of the United Kingdom was also felt through the transmission of ideas on economic management, in particular the idea of full employment. This was coupled with what amounted to a statistical revolution in the form of national income accounting and the collection or estimation of figures for the major components of national income and expenditure. Like many other countries the United Kingdom also carried over from wartime a predisposition in favour of some form of economic planning, a reluctance to allow free play to market forces, and a great many more controls than were later found to be necessary or desirable. There was, however, a conflict, more or less from the start, between those who, like Hugh Dalton, saw virtue in physical controls as planning instruments and those like James Meade who looked forward to controlling the economy through demand management, relying for this purpose on three primary weapons: the budget, monetary policy, and the exchange rate. By the time he left in 1947 Meade had made little headway although his ideas prevailed later. It was felt that budgetary changes would be insufficient to quench excess demand, that it would be wrong to disturb expectations by allowing interest rates to rise and that when imports were tightly controlled and exports needed time to grow, a fall in the exchange rate would merely add to import costs.

British attention had been focussed on the balance of payments long before the war ended and economic policy continued to be dominated by the danger of a foreign exchange crisis throughout the post-war period. With an enormous external debt, greatly diminished foreign assets, limited reserves and a level of exports that would have to be multiplied at least four-fold, the United Kingdom faced a problem in 1945 that had a family resemblance to the problem facing Europe as a whole in 1947. It saw the fundamental problem as one of overcoming the dollar shortage and urged the need for a European crusade for this purpose.

To the British it was a corollary of a drive to overcome the dollar shortage that efforts to expand intra-European trade should be viewed with caution. While it was normally preferable to draw imports from European rather than American sources of supply, this was not so if it was at the expense of an effort to build up exports to the American continent. A Customs Union, for example, might serve only to divert resources to the production of less essential goods for the European market instead of helping to pay for more essential imports from America or to dispense with them.

At the political level although there was also plenty of speech-making in favour of a United Europe, the Labour Government was wary of such proposals. Bevin, the Foreign Minister, did attach importance, however, to closer collaboration with France. At a Cabinet meeting in Januar 1947 he asked for consideration of »some special economic regime falling short of complete customs union between the United Kingdom and France«. He also proposed to Bidault, then Foreign Minister, that the two countries should plan their industry so as to concentrate on complementary lines of production: for example, Britain on heavy steel products, France on light. But nothing came of these or later proposals for planned industrial specialisation.[1)]

In general, British opinion tended to be dominated by what proved to be short-term economic considerations - although it took the Marshall Plan to ensure that they were only short-term - and to attach too little importance to long-run political considerations. Western Europe's powers of recuperation were seriously underestimated; and so, too, in Britan's conviction of the lasting character of the dollar problem were the recuperative powers of other non-dollar sources of supply.

France

French economic thinking as the war ended was dominated by fears of German recovery and renewed aggression. After two world wars, France wished to ensure that Germany would be incapable of launching a third. Although not represented at Potsdam the French government fully subscribed to the clauses in the Agreement calling for reparations, limitations on Germany's industrial production, and the retention in Germany of resources no greater than would be necessary to maintain an average European standard of living. They looked forward particularly to the elimination of much of Germany's capacity to produce steel, machinery and chemicals and hoped to take over from Germany as the main European supplier of some at least of these products.

But in two respects they remained highly dissatisfied. They were strongly against the re-building of central administrative departments in Berlin as calculated to restore a powerful German government and also (although this was not said publicly) as heightening the risk that the whole of Germany would ultimately come under Soviet domination. They were equally opposed to leaving Germany intact within her pre-1938 borders and pressed for dismemberment both of the Saar and of a large Rhineland province to include the Ruhr. The Saar would be under French administration and they would expect to participate in control of Rhenania (as it was proposed to call the new province). Dismemberment would not only weaken Germany but would help to ensure a supply of coal and coke for the French steel industry.

On both scores they came into conflict with the other occupying powers. The British and Americans were increasingly irritated by French opposition to central administrative departments especially as this made it easier for the USSR to resist treating Germany as an economic unit. When the French refused to give way, proposals to amalgamate the British and American zones were advanced in mid-1946 and by the end of the year the merger was a fait accompli. As for dismemberment, this had at one time or another been favoured by all the occupying powers but first the Russians and then the others had changed their minds and at Potsdam no proposals for dismemberment were advanced. The British who had all along been in two minds about dismemberment were opposed to the Rhenania proposals and could hardly be expected to hand over so large a proportion of their zone although Bevin was prepared to consider ways of submitting industry in the Ruhr to international control.

The French proposals made little headway in 1946 and at the Conference of Foreign Ministers in Moscow in the spring of 1947 they received no support from any of the other three powers. What was worse from the French point of view, the failure of the Conference was a decisive factor in convincing Marshall of the need to turn his back on the provisions of the Potsdam Agreement and revise the Plan agreed to in march 1946 for the limits to be imposed on German industry. The new Level of Industry Plan submitted in the middle of 1947 alarmed the French who saw the higher permitted levels as a threat to European security and resented their exclusion from the discussions leading up to the new plan.[1] Bidault, the Foreign Minister, speaking on the eve of the Conference to consider the Marshall proposals, declared that no French government could consent to a raising of the level of Germany industry and the abandonment of reparations.[2] As he told the American Ambassador,

»We have 180 Communists (in the National Assembly) who say: »The Marshall Plan means Germany first.«...I am not in a position to overcome the simultaneous opposition of General de Gaulle, the Communist Party, and a not negligible fraction of my own friends«.[3]

It required a tripartite conference in London in august 1947 to overcome French fears, win a hesitant acceptance of Anglo-American plans for Germany, and allow the Paris Conference to continue. They were allowed to incorporate the Saar into the French economy and to participate in a new International Ruhr Authority, and given a guarantee of an agreed formula governing German exports of coal to France. That they were unable to win better terms gave a powerful impetus to schemes of a very different kind for linking together French and German industri - ideas that fructified in 1950 in the Schuman Plan.[4)]

Meanwhile France was basing her plans for recovery on an expansion in heavy industry, especially steel. The Monnet Plan, apart from seeking to make French industry more capable of holding its own against German competition, aimed to replace German steel produktion by French. But a large expansion in steel production rested on the availability of adequate coal and coke and these would have to come from Germany. The acquisition of the necessary supplies was an important object of French foreign policy. France wanted to be assured that Germany would make delivery and looked initially for this purpose to direct control over allocations from the Ruhr and the Saar. But French targets for the supply of coal and of coke from Germany proved to be much too ambitious. In the first six months of 1946 half of France's coal imports came from the United States and less than a seventh from the Ruhr. It was two years later before there was any improvement in the level of imports from the Ruhr. As for coke, imports were still under 4 million tons in 1952 when they would have had to reach nearly twice that figure to meet the requirements of the target of 15 million tons set for steel in the Monnet Plan.[1)].

Since French economic recovery was reasonably satisfactory in spite of the shortage of fuel, one may ask whether the importance attached to steel in French plans was not somewhat misplaced. It may be a key raw material, but post-war experience hardly bears out the idea steel produktion dictates the pace of industrial growth.

However that may be, French preoccupation with the future of the steel industry impinged on European economic recovery first through its impact on Germany and then as a threat to the Marshall Plan if French anxieties were ignored. It was only after 1947 that French ideas took shape for European economic integration sector by sector. Even then it was the central problem of Germany that gave direction to these ideas.

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1. OEEC, *General Statistical Bulletin,* November 1951. The figures cover all members of OEEC except Iceland, Portugal, Switzerland and Trieste.
1. Based on Table 79 of the *Economic Survey for Europe in 1948* (ECE, 1949).
1. These estimates are from ECE's *Survey of the Economic Situation and Prospects of Europe* (1948), pp. 54 and 63 and relate to a wider group of european countries than the members of the OEEC. They also relate to the deficit on current acount with *all* non-European countries. The current account deficit with the United States alone is put at $4.2 billion in 1946 and $5.4 billion in 1947 (corrected to $5.7 billion in the *Economic Survey of Europe in 1948,* p. 117). Of this about $350 million is accounted for by non-members of OEEC.
1. *A Survey of the Economic Situation and Prospects of Europe* (ECE, 1948), p. 54; Tables 43 and 46 of the *Economic Survey of Europe in 1948* (ECE, 1949), and network of foreign trade appended to the Report.
2. *Economic Survey of Europe in 1948,* pp. 120-21.
3. Ibid.
1. Cairncross (1985), p. 278.
1. BIS, 17th Annual Report, June 1947, 123, quoting *H.C. Deb.,* 5th Series, vol. 436, Written Answers, cols 223-4, 30 April 1947.
1. Cairncross (1985), pp. 279-80.
1. Cairncross, *The Price of War* (1986), p. 178.
2. Bullock (1983), p. 431.
3. Caffery to Marshall, 18 July 1947, in F.R.U.S., 1947, Vol. II, p. 998.
4. Milward (1984), pp. 141 et seq.
1. *Ibid.,* pp. 130-37.