

## 'British Industry and the Schuman Plan' from The Banker (July 1950)

**Caption:** In July 1950, the British periodical The Banker outlines the scope of the Schuman Plan and describes the likely impact of the plan on the UK's industrial sector.

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## British Industry and the Schuman Plan

*Much has been heard in the past month about the political aspects of the Schuman project for pooling European steel and coal industries; and this debate has shown wide disagreement about what the project is and what it ought to be.*

*While discussion remains at this level, little has been heard of the reactions of the British industries most closely concerned. THE BANKER, which made its own attitude clear in an editorial note last month, is therefore glad to publish an article by a special correspondent who considers the proposal from the angle of the British steelmaker and in the light of pre-war experience in the steel industry. — Ed.*

### By A Special Correspondent

TWO points need to be grasped at the very outset of any discussion of the initial reactions of British industry to the still nebulous Schuman Plan for the pooling of the steel and coal industries of Western Europe. The first is that, whether Britain joins in the proposed pool or not, British heavy industry is bound to be affected by most of the influences — and all the major ones — that affect heavy industry on the Continent. To believe — as the Labour Executive's memorandum on "European Unity" appeared to imply — that a fall in industrial activity on the Continent can be insulated from Britain is to behave like an ostrich and bury one's head in the sands of complacency. The maintenance of full employment here does not depend on the degree to which Britain's planners can keep aloof from the continental influences, whether of *laissez-faire* or "supra-national" planning; it depends on the maintenance of a high level of world demand — and, for the moment, on dollar aid.

The second point that must be grasped if the issue is to be faced realistically is that the problems facing heavy industry in the modern world economy are not capable of easy solution. All experience since the first world war has bred in the British industries concerned a conviction that no long-term solution — satisfactory either to consumers or to those engaged in heavy industry — can be found by the route of unbridled free competition. The problems of these industries must be tackled with foresight, co-operation and common regard for the necessity of maintaining reasonable stability of production and prices; in other words, they must be tackled by a co-ordinating authority of one kind or another. The great virtue of the Schuman Plan proposal is that it has given a new impetus to the solution of these problems and has provided a political climate in which the continental countries can again search for a way out of the difficulties that they now face.

These difficulties, which are inseparable from the operation of any heavy industry, have been aggravated in Europe by the incidence and the after-effects of two world wars. The division of Europe into small national units after the first world war, with so-called ethnic rather than economic boundaries, had devastating repercussions on steel and coal production in Europe. Luxembourg, Lorraine and the Saar were cut off at one stroke from direct access to Ruhr coke. Germany was separated from Lorraine as an ore supplier. On top of these difficulties of supply, chaotic conditions were created in the market for steel products. The European steel cartel, which was set up in 1926, tried to restore order in this confusion, and it achieved some measure of success. It has been blamed for restrictionism and high prices; but in the early years it did make investment in the continental steel industries a reasonable risk and so encouraged the modernization of plant, whereas in Britain the industry was so undermined by foreign competition that by the thirties it found itself ill-equipped, uncompetitive and on the verge of collapse. Later, the threat of high British tariffs enabled the British steel industry to negotiate a working agreement with the cartel, and thus to create the conditions under which it was once again possible to secure investment in the steel industry in the United Kingdom, and under which the first part of the development plan that is now showing fruit was put in hand. British steelmakers therefore believe that the lessons to be learnt from the 1930s by those who are preparing the details of the Schuman Plan are, first, that it is essential in an industry such as steel to maintain stable levels of production and of prices; secondly, that prices must give an adequate and fair return on investment, while leaving reasonable scope for competition, in order to obtain a rationalized and efficient industry adequate for European requirements.

The conditions seem to be looming when these lessons will have to be put to the test. In the immediate post-war years, when world and national markets were governed by high demands and exchange difficulties, the long-term problems of these industries remained discreetly hidden. They hide no longer. The Rollman Report, which estimated a surplus West European capacity of 8 million tons by 1953, gave precision to symptoms that had already been appearing here and there for several months. As early as the autumn of 1948 Belgium and Luxembourg steel producers were finding difficulties in selling their products. Germany, with rising production — “barred” from eastern markets — is now looking to other export markets. France is worrying about a home market that is fading and an export market that gets more difficult to expand every day, in spite of the softness of French francs.

The market outlook has thus again become of vital importance, and marketing problems are demanding the attention both of industries and of countries. The recent removal of control of steel distribution in Britain is but another symptom of the same general condition, namely, that a still rising production has caught up with demand — and demand cannot be hurriedly expanded. The Rollman Report was probably pessimistic; results in the export markets in 1949 indicate that the estimated surplus may not be so large as expected; but British steelmakers feel that the conclusions of that report still point unmistakably to the importance of tackling the marketing problem now, and of pressing forward with market research and development.

Granted, then, that the problem exists, the question remains whether the Schuman pool would provide the right machinery for resolving it. It must be emphasized that the pre-war experience of international competition, price cutting and dumping, and even of international agreement, makes the British steelmaker look carefully at any proposals that take away the weapons that, with governmental help, he can count upon at present. He wants to know, naturally enough, what he is expected to sacrifice, what there is in it to be gained, and what guarantees there are that the new proposals do not mean a return to the ruinous conditions of the 1920s. With the past in mind, he is certain that some international organization is necessary but there are many questions he is bound to ask. Can the Schuman Plan be worked out in such a way as to maintain the competitive element in some measure and yet compel all concerned to abide by fair practices in trade? Can it maintain reasonable prices without too great an interference in the operations of the individual producers? Or does it involve a rigid plan for development in which the steelmaker himself will be allowed to play only a minor rôle?

Long-term development plans require much careful study and research, and most steelmakers believe that these plans are best prepared by those on the ground — with knowledge of the market, with technical experience, and an appreciation of the business risks involved. These are no doubt the right criteria for the preparation of plans, and steelmakers believe that, provided reasonable stability could be given to the market under a European Authority, plans could spontaneously be produced that would go a long way towards assuring that rationalization of the industry that is essential for the wellbeing of the whole community. Outsiders may well ask, in the light of past experience, whether it is sufficient merely to assure stability to the market, and whether it is possible for an international authority to lay down conditions that will encourage spontaneous development and relocation of the industries concerned without either under-investment or over-expansion. No doubt they may consider that in the transition period some powers must be given the authority to guide development compulsorily.

When discussing the possibilities of any guiding of development by an international authority, it should be remembered that, since the war, the O.E.E.C. has attempted to deal with precisely this problem — but with singularly little success. This lack of success is usually blamed on the nature of the O.E.E.C., and its machinery. It would be as well, however, before laying such blame, to consider the difficulties of the task that the O.E.E.C. has tried to tackle. Several attempts have been made to estimate the future demand for steel in Western Europe, one of the best known being the E.C.E. Report by M. Rollman already mentioned. An examination of that report, of subsequent performance in exports and of recent developments in European home markets serves to show how tentative such estimates must be and how difficult it is to set a quantitative target for the capacity of the steel industry over such a wide area. Given an overall target of capacity, the amount of development planned will still depend on how much plant is to be supplanted and to be scrapped as obsolete. Such estimations involve complex cost studies, and final elimination of plant involves many social problems without whose solution the best-laid programmes break down. The Schuman

proposals undoubtedly recognize some of these factors and offer means to help meet the problems that rationalization involves. But it is still the opinion of most steelmakers that the most important task that any international organization can perform is to try to stabilize the conditions under which steel is sold and to ensure, thereby and in other ways, the necessary incentives to encourage producers to modernize their plant, set up new plants in the best locations, and to produce sufficient steel. Capital projects in the steel industry are large and costly projects, and must be planned on a long-term basis. The conditions that encourage such investment must include a degree of stability in demand and a price policy that ensures an adequate return on the costs of an efficient plant and an incentive to reduce these costs. It may be argued that some marketing schemes have not provided such an incentive, but this is a problem that the authority must tackle.

A steady and expanding demand is closely linked to full employment, and no high or supra-national authority for the coal and steel industries can ensure full employment in Europe any more than the Labour Government can maintain it in the United Kingdom in face of a world recession. A high authority could help, by encouraging investment and modernization at the right time, but such a policy, especially because of its effects upon the employment situation, would have to be taken in concert with joint action in a much wider field by the governments concerned. It is quite clear that measures in the sphere of prices — such as price-cutting below cost in the effort to maintain local employment — cannot of themselves change *substantially* the basic demand for steel. Such measures merely alter the immediate pattern of production without altering the quantity. The demand for steel has a relatively low price-elasticity, but it is highly responsive to changes in the general level of economic prosperity. No planning of steel production as such, whether by cartels or by socialist planners, can sell another ton of steel unless the steel programmes are in line with wider economic policy. The steel industry, arguing along these lines, has long contended that, at all events in the short run, price reductions, instead of expanding demand, simply switch orders from Smith and Co. to Pierre et Cie. In Europe, cartels and employers' associations were the logical outcome of this reasoning, and the mechanism known as "price leadership" was the outcome in the United States. One of the tasks that the high authority will clearly have to undertake is the supervision of any such market arrangements. In several European countries prices are fixed on a cost plus reasonable profit basis, taking either efficient works costs or average costs as the basis. The incentive to produce more efficiently can exist under such fixed price arrangements *provided* the high cost producer is unable to continue in business indefinitely. Plainly, it ought to be a prime duty of any international body to ensure that such conditions are maintained; for to deny that demand for steel has any high elasticity in the short run is very far from being a denial that the efficiency of the industry, and the cheapness of its products, may have profound effects on the general level of economic welfare.

There are other price problems that must be examined before the conditions can be created that the Schuman Plan envisages. One of the most pressing of these will be whether any prices laid down by the authority should be delivered (or "freight-absorbed") prices or whether they should be ex-works prices (so that there should be some element of competition based on differences of freight costs). The French idea of recreating the Ruhr-Lorraine coal and ore arrangements that existed before the first world war, with a view to the most efficient locating of industry, would produce completely different patterns of location if freight charges were absorbed in average prices from those that would obtain if prices were charged ex-works plus freight. Many producers will naturally plead for freight-absorption schemes in order to retain existing customers and to avoid too great an upheaval. It must be remembered, too, that social problems and the movement and rehousing of workers are very important elements in the time taken to rationalize the industries concerned. But the demand by the ultimate consumer for the cheapest and most efficiently-produced product calls for setting up conditions under which in due time all the producers in the chain will be located where costs of production, including freight at all stages, will be the minimum. These conditions can be achieved only if freight-absorption is limited in the initial period and is ultimately to be abolished.

Finally, something must be said about the professed objective of the Schuman scheme: "the supply to all member countries of the basic materials of industrial production on the same terms". This phrase is open to wide interpretation, but it is generally assumed that it signifies primarily the removal of tariffs and such barriers to trade, the abolition of dual pricing, and the equalization of freight rates. Perhaps the best point that can be made here is that many of these discriminatory measures were adopted in their present form at a time of shortage in the supply of materials and will in any case have to be altered soon.

To sum up, coal and steel producers are becoming more and more aware of a period of potential over-supply. They see no solution in setting up a supra-national authority — with the kind of tasks assigned to it that are already being overtaken by events. They realize the need for an international organization in these industries and the difficulties of its task in periods of over-supply. They wonder whether the Schuman Plan will make it possible to solve the problems that confronted the cartel when demand was low. They wonder whether the proposed high authority, without adopting restrictive policies, will be able to maintain the necessary incentives in the industry for its continued modernization, and yet provide adequate protection for the consumer.