

Memorandum from the Executive Board of the International Chamber of Commerce (The Hague, 25 February 1948)

Caption: On 25 February 1948, in The Hague, the Executive Board of the International Chamber of Commerce publishes a memorandum in which it describes the economic reconstruction efforts being carried out in postwar Europe.

Source: Internationaal Instituut voor Sociale Geschiedenis, Amsterdam. NVV - J.G. van Wouwe 1945-1973. Stukken betreffende Europese en internationale organisaties. Stukken betreffende de Organisatie van Europees Economische Samenwerking, w.o. het Marshallplan. Met knipsels en documentatie. 1948-1967, 59.

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European recovery — Memorandum from the Executive Board of the International Chamber of Commerce (The Hague, 25 February 1948)

I. Introduction

1. The call to implement the European Recovery Plan should have been answered by a united Europe. Unfortunately, however, only 16 nations — with a combined population of 270 million out of a total European population of 400 million — seized this unique opportunity to create a new Europe. Nonetheless, the division is principally political in nature, and trade relations are being pursued on a larger scale than might have been expected. There are in fact signs of an attempt to increase the exchange of goods and services between the two groups.

2. Although the Commission must for the moment accept, albeit unwillingly, the fact that there is a political division, it is clear that this is a state of affairs which cannot be allowed to continue. Western and Eastern Europe complement each other economically. By working together, they could reduce the need for outside assistance. Every effort must be made to promote the continued conclusion of trade agreements between Eastern and Western European countries. If each side is reliant on its own resources, greater effort will be required, and that will slow down not only the recovery of Europe but also that of the rest of the world.

3. A great deal could be done by the United Nations Economic Commission for Europe to bind Europe closer together. However, the first requirement is to extend the scope of the deliberations in that Commission by allowing representatives of private business to participate in them. Effective cooperation for recovery can be achieved only by civil servants working together very closely with those who are involved in everyday business practice.

4. Europe was prosperous in the past and should be prosperous again, but at the moment it is suffering the effects of the Second World War which broke out before the effects of the First World War had been overcome. The resulting imbalance takes many forms and has a variety of causes: loss of life; destruction of material prosperity; stagnation in capital formation — serious shortages coupled with a variety of government measures and bureaucracy; increased financial burdens with frequently strong inflationary pressure and unstable currencies; the loss of overseas investments and considerable depletion of currency reserves; and a shrinking of the markets for Europe's products, partly as a result of the closing off of traditional markets and supply countries and partly on account of the increased emphasis on industrialisation in the countries which previously produced almost exclusively raw materials.

5. These losses can be divided roughly into two categories:

(a) material losses which, although serious, could be swiftly reversed by modern technical production facilities;

(b) losses which can be attributed to continued disarray in management, production, currencies, etc. This disarray is acting as a time bomb, as was the case, for example, in the Great Depression of the 1930s.

6. Governments, and their citizens, are thus faced with huge recovery and development tasks. Moreover, for many of them, the pace of recovery would be very slow if they were limited to their own resources. In that case, it is even possible that the pressure on the political and social structure would be too great.

7. It is obvious — and it is important to stress this point — that not all these problems have affected all the countries of Europe equally. Some have escaped them almost entirely. Others have shrugged some of them off through their own determined efforts and favourable coincidences. Others still continue to suffer all of them acutely.

8. However, 1947 added an even greater problem to the difficulties already being experienced by Europe. As a result of an unusually cold winter and a prolonged drought in the summer, the 1947 harvest yielded only two thirds of the norm. This shortfall in Europe's own food supply had severe consequences: scarce monetary

reserves had to be used for increased purchases of food abroad; black markets flourished; and prices on official markets shot up, thereby increasing still further the burden on Europe.

9. As things stand, the countries concerned can be divided broadly into four groups:

(1) those whose principal present-day problems stem from the disarray in foreign trade and a certain pressure on their balance of payments and which are not free from a moderate form of inflation and exceptional domestic public expenditure;

(2) those which at present are faced with acute problems in balancing their international payments after drawing heavily on their foreign resources to win the war and which can establish a domestic balance only by sacrifices on the part of large sections of their population;

(3) those which are being hit by a serious crisis in their international transfer of payments following a sharp fall in the purchasing power of their currencies, which together give rise to direct political, social and economic problems; and, finally,

(4) Germany, which forms a separate category but which must be regarded as an integral part of Europe.

10. This rough division has the advantage that it highlights clearly certain problems, namely the essential points at which the difficulties will have to be tackled; the need to reach, and also the difficulty in reaching, agreement on concerted measures; and the practical impossibility of treating economic, social and political problems separately if the relevant objective is actually to be achieved.

11. A great deal has already been done by Europe's engineers, industrialists, farmers and workers to get the wheels of the economy turning again, and it is a fact that the industrial output in many countries has already reached, or even exceeded, the pre-war level. Furthermore, in an increasing number of European countries, efforts are being made to combat the inflationary forces unleashed by the war and post-war expenditure.

12. However, there is little hope of balance being restored, either in the field of international payments or the domestic economic life of the various countries, without substantial outside aid.

13. By taking the initiative to draw up the European Recovery Plan, the United States has taken a generous and far-reaching step which is of great significance to the standing of the American people and their government. The United States viewed the problem in its true perspective. The most important factor is not the supply of aid or charity but the stimulation of activity by Europe itself with the assistance of the unavoidable minimum of outside aid. The American initiative was born of the conviction that the restoration of a strong and prosperous Europe is a prerequisite for a prosperous and peaceful world. However, the fact remains that Europe owes a great debt of gratitude to the United States. The gesture by the United States is unique in the history of the world and calls for an appropriate response.

II. An action plan for Europe

14. The greatest responsibility lies with Europe itself. A comprehensive programme for joint action is a prerequisite. In the drawing up of such a programme, it is of primary importance that outside aid is no greater than the minimum necessary for a swift restoration of European production capacity. On the other hand, however, aid must be provided swiftly and be adequate if the economic situation in Europe is not to be allowed to deteriorate seriously before the aid becomes available. In the meantime, the European countries must themselves deal with the problem and, where necessary, resort to emergency measures so as to keep current inter-European trade going. The first year is decisive: adequate aid now will reduce the need for aid in future years to a more than proportionate degree.

15. Not only governments but also businessmen can play a useful role in the European response to the American initiative. Special committees, for which the existing apparatus of the United Nations Economic Committee for Europe can be used or which could be assembled under the auspices of the Committee for

European Cooperation of the 16 countries, should look into the possibility of joint action so as to make more economic use of European resources for specific sectors, in particular coal, iron and steel, energy production, the chemicals industry and transport. Such joint action will eliminate many uneconomical measures in the field of production, transport and distribution, which are unavoidable in the present stage of post-war disarray. It is essential that businessmen with experience of these matters are appointed to these committees. A committee made up of businessmen, amongst others, must study the problems of the international mobility of labour in Europe.

16. Proposals for capital investment and increasing production capacity must be reviewed in the light of whether they are consistent with a restriction on import requirements to a minimum which is entirely compatible with an effective and swift restoration of economic life. It should not be taken for granted that an increase in production is the only way to eliminate the disparity between existing, emerging needs and available resources. The scope for reducing the consumption of consumer and capital goods must also be considered in full. Before a country is entitled to expect outside aid, it must first ensure that its resources and existing capital equipment are being used fully and effectively. We must consider whether the amount of aid required, for example, could be decreased by temporarily scaling down efforts to reduce working hours (which is desirable as a long-term objective but not in a situation of great shortage) and by abolishing restrictive practices both on the part of workers and management.

17. What is necessary now is a plan which is resolute and wide-ranging in order to obtain the maximum result from an absolute minimum of aid. Some of the main points of such a recovery plan are set out in the series of recommendations below:

A. Action at national level

18. The first and most imperative obligation on the governments of the European nations is to put their own economies in order and to curb post-war inflation. This will entail radical changes in many aspects of the policy pursued thus far. As a first step, the countries concerned must balance their current account payments and do so at a level which does not draw excessively on national resources. Where private savings are not sufficient to fund the necessary investments, a budgetary surplus is necessary to prevent further inflation. In certain cases, where budgets have already been balanced, this has been made possible only by maintaining taxation at, or almost at, its wartime level, and that restricts virtually all economic activity. In order to reduce substantial tension, which sooner or later is bound to lead to disaster, attention should be paid to whether total expenditure is exceeding the capacity of the country concerned and whether it is placing an excessive burden on the resumption of normal progress and the improvement of living standards. Balancing budgets or creating, where necessary, a budgetary surplus, must in general involve a drastic reduction in public expenditure rather than an increase in taxation on the country's already overstretched resources. We must also ensure that nationalised industries pay taxes, too, and that a proper limit is placed on the number of civil servants. Such limits may require the abolition of complete administrative services, in particular where government measures are discontinued. The European Recovery Plan must strengthen the economies of the countries receiving aid so as to enable them to carry out the rather protracted process of switching supernumerary civil servants to more productive work.

19. In the field of credit provision, too, an anti-inflationary policy must be pursued, for example by a judicious rise in interest rates or an appropriate policy in relation to bank credit.

20. The aim of the policy must be to establish a balanced budget at a level which can be maintained by normal sources of revenue alone. As long as foreign aid is received, it helps support domestic activity (for example, by providing industry with raw materials), as a result of which tax revenues can be kept up more easily, and that, in turn, enables the budget to be balanced. It should always be borne in mind that the day will come when aid will cease, and the objective will have to be to establish a balance at a level which enables the nations to continue without foreign aid.

21. From this point of view, it is therefore also important that assistance for the domestic financial situation deriving from outside aid should not be used to enable a premature reduction in taxation or to fund non-

essential public expenditure. If used correctly, the revenue from outside aid will help to combat inflation and bring about what could be called deflation ‘without tears’, that is to say deflation without unpleasant consequences for the population of the entire country receiving aid or a threat of wage-levels catching up. The European Recovery Plan proposes that, in general, the monetary revenue from the aid received should be entered in separate accounts and be available only for agreed purposes. However, if, in certain cases, it is deemed necessary to use such funds to meet a current budget deficit, special safeguards must be created to ensure that such use is strictly temporary.

22. In order to bring about an *increase in production*, a variety of measures must be applied, depending on the situation of the country in question. Frequently, outside aid will enable control measures to be relaxed in order to give greater freedom to private initiative. Controlled prices of essential goods are often kept so low that production of them is discouraged, whilst consumption is stimulated by the comparatively low price. What then happens is that the price control directly impedes the restoration of balance. If control measures are to serve a useful purpose and are to be abolished in the short term, they must be combined with an appropriate adjustment of prices which must then be set as close as possible to their natural economic level.

B. Action at international level

23. The main area for international cooperation is monetary and trade policy.

(1) Monetary policy

24. The aim must be to bring about, as soon as possible, stability in exchange rates, coupled with currency convertibility. Progress in this area may be achieved more rapidly than is often assumed, provided that outside aid is forthcoming.

25. Effective use could be made of the following measures:

(a) The system of multilateral settlement of payment balances, which has now been applied for the first time by the Benelux countries, France and Italy, should be extended to encompass Europe as a whole. The beneficial effect of this system on the promotion of trade between the 16 countries and on the restoration of the inter-convertibility of European currencies could be strengthened if the balances which have arisen could also actually be converted into dollars. It is regrettable that, at present, no funds from foreign aid are being allocated for strengthening monetary reserves. It is essential that funds be found to set up a European currency pool.

(b) Consideration should be given to whether there is scope for making use of some of the sums arising from the sale of goods supplied under the aid plan to settle payment balances between European countries so that trade between these countries can develop.

(c) An agreement should be concluded to promote and protect private *investments* between European countries. With regard to non-European suppliers of capital and investment goods, the European countries which require capital for their economic recovery must promote private foreign investment and thereby gradually replace loans between governments with a more flexible and normal movement of capital. ⁽¹⁾

(d) *Currency controls* must, as soon as circumstances permit, be abolished, starting with current account transfers. This process could be speeded up by the European Recovery Plan.

(e) At the correct time, *exchange rates* must be adjusted to the relevant economic level. These adjustments must form part of an extensive programme to ensure that they contribute to establishing a fundamental currency balance with freedom of transfer at stable exchange rates, at least in relation to current transactions.

(2) Trade policy

26. Here, too, the fundamental principle must be cooperation, not only construed in the negative sense of avoiding restrictions, although this is important, but also in a positive sense in terms of ongoing consultation and give and take with regard to plans for outward expansion in trade with both European and non-European countries. External aid and expansion of inter-European trade, coupled with convertibility of currencies, should make it possible to concentrate less on exports to countries with scarce currencies and to allow greater freedom in developing production both for domestic and overseas markets. The ideal should always be a balanced economy in which successful domestic trade provides strong support for flourishing foreign trade in economic activity as a whole.

27. External aid, especially if the European Recovery Plan results in a large degree of convertibility, will help halt the trend towards bilateralism and discrimination. However, the drawing up of regional economic agreements within Europe, including overseas territories where possible and desirable, must be encouraged, provided that such regional agreements contribute to the expansion of world trade and do not promote the creation, in relation to world trade, of isolated or exclusive areas through unfair discrimination against third countries or by establishing new or greater restrictions in trade with the outside world.

28. Vigorous action must be taken to rid inter-European trade of the present stifling restrictions and gradually to establish a large domestic European market. Developments in the Far East and the loss to Europe of many of its traditional non-European markets make this change particularly desirable for the European market. This can be achieved in a variety of ways:

(a) A step with direct practical consequences would be the abolition of import and export restrictions for a limited number of commodities, yet to be specified. Although certain commodities occupy an important position in the European Recovery Plan, they are at present clearly being produced in insufficient quantities in Western Europe. This provides *prima facie* evidence for the argument that they should therefore be exempt from import restrictions. However, each case must be reviewed without delay in terms of the scope that it presents.

(b) At the same time, complete or partial customs unions gradually extending over larger areas should be established as swiftly as possible. Customs unions have the great advantage that they will radically restrict or even ultimately break up completely the vast system of administrative obstacles which divide Europe at present.

(c) A next step towards the greater economic integration of Europe could be the establishment of a 'low-tariff area' where the protection enjoyed by a particular economic sector would be limited to a relatively modest percentage.

(d) In the case of all such plans, particular attention must be paid to the possibility of involving the overseas territories connected with the European countries concerned.

(e) Economic relations between the countries concerned must, to the greatest extent possible, be promoted by relaxing the rules on passports, visas and currency controls for individuals travelling abroad.

29. The Executive Board is aware of the great difficulties involved in bringing about the economic union of Western Europe. It must be, of necessity, a long-term plan which will require careful study and consideration and which may be achievable only after a number of stages. However, at this turning point in the history of Europe, the need to act is so great that the Board considers that it must place firm emphasis on the vital importance of swiftly bringing to a successful conclusion the ongoing negotiations between various groups of European countries, in particular between the Benelux countries, France and Italy. This must be done with a view to paving the way for a greater European Union. The European Recovery Plan provides an opportunity to adopt far-reaching decisions on the economic structure, an opportunity which will probably not arise again for several generations.

III. The organisation of the Recovery Plan

30. The Recovery Plan must not be viewed solely as a matter for each country individually. It is, above all, an international matter and must be treated as such.

31. Close cooperation between the United States and Europe must underlie its implementation by the relevant authorities. This could be made easier if important decisions were taken in joint consultation and not by each of the parties separately.

32. An appropriate authority in the United States must have as its counterpart a corresponding body in Europe with branches in each country. Business, labour and agricultural organisations must be represented by an advisory body.

IV. The German problem

33. The resolution of the German problem is one of the keys to European recovery. Until Germany is reintegrated into the European economy, with due regard being paid to all effective security measures, Europe will be unable to achieve optimum performance.

34. The Executive Board again urges the governments to adopt the recommendations made in its Report on the Economic Condition of Germany Today and its Repercussions (Brochure No 123).

V. Overseas territories

35. Europe's traditional overseas markets and supplier countries must not be overlooked in any plan for European Recovery. A great deal can be done in collaboration with these overseas territories to limit aid from the United States and reduce the period over which it is provided. Moreover, the possibility which Africa opens up, in particular in terms of capital investment and foreign skills, could benefit not only Europe but also the continent of Africa.

36. The specific problems resulting from preferential agreements between European countries and non-European countries connected to them by political and economic links must be viewed openly. The Board is convinced that they could be dissolved without jeopardising Europe's development towards economic integration or the interests of the non-European countries concerned.

VI. The role of business

37. As regards the implementation of plans for European reconstruction and economic integration, a great deal of responsibility lies with business and its representative organisations. Business can be expected to contribute wholeheartedly and with the necessary energy in a spirit of voluntarily assumed discipline in the public interest.

VII. Conclusion

38. The European Recovery Plan is, in the first instance, a plan for peace. The aim is no less than to create in Europe the conditions which will lead to prosperity in place of poverty, stability in place of uncertainty, flourishing trade in place of isolation and decline, economic power in place of weakness, and unity in place of discord. All these objectives are powerful factors in the maintenance of world peace. The European countries must, therefore, do their utmost to make the plan a success and not shy away from sacrifices for the common cause, namely a united, prosperous and peaceful Europe. The European Recovery Plan offers an opportunity which neither Europe nor the rest of the world can afford to miss.

(1) The International Chamber of Commerce has made certain recommendations regarding the promotion and protection of foreign investments, which are set out in ICC brochure No 107.