

Statement by Paul Hoffman at the 75th OEEC Council meeting (31 October 1949)

Caption: On 31 October 1949, at the 75th meeting of the Council of the Organisation for European Economic Cooperation (OEEC), Paul Hoffmann, US Administrator of the Economic Cooperation Administration (ECA), the body responsible for distributing the funds granted under the Marshall Plan, calls on the countries of Western Europe to work towards greater union and to integrate their economies within a large single European market.

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Statement by the E.C.A. Administrator at the 75th Council meeting on 31st October 1949

It has been fifteen months since I had the privilege of meeting with this Council. In that period Western Europe has made truly amazing progress in restoring its industrial and agricultural production. That progress is the result of work, hard work, on the part of millions of Europeans. That is the human story behind the cold statistics of production increased.

We applaud the success of your efforts. We in the Economic Cooperation Administration, and you in the Organisation for European Economic Cooperation, have come to know each other well. Through working with you toward our common objectives, we have come to hold the O.E.E.C in high esteem, and our feeling toward its members is one of deep friendliness. I am delighted to be here, and I am pleased to note the presence of the representatives of the German Republic as full partners in your organisation. It is as an admiring friend of the O.E.E.C that I speak to you today.

Since 1947 we have confounded both the Communists and the other cynics by proving, first, that together we could successfully start economic recovery in Western Europe; and, second, that we could join in laying the foundations for security against attack upon our Atlantic community. We have seen anxiety give way to hope. Today I am asking you to turn hope into confidence.

The European Recovery Program is now approaching the halfway mark. The time has come to consider carefully what more must be done to hold the ground already gained and to assure the further progress that is vitally needed. We must now devote our fullest energies to this major tasks.

These tasks are: First, to balance Europe's dollar accounts so that Europe can buy the raw materials and other items which mean employment and better living.

The second - and to say this is why I'm here - is to move ahead on a far-reaching program to build in Western Europe a more dynamic, expanding economy which will promise steady improvement in the conditions of life for all its people. This, I believe, means nothing less than an integration of the Western European economy.

The first of these tasks can be achieved only through vigorous and effective action by this organisation and by every participating government. Unless dollar earnings rise dramatically between now and June 1952, Europe's trade with the Americas will have to be balanced at so low a level that it will spell disaster for you and difficulties for us. The readjustment of exchange rates which occurred in September paves the way for a larger expansion of dollar earnings, but devaluation by itself is obviously not enough.

I want briefly to mention two specific fields of action which seem to me especially relevant to this objective.

One concerns domestic fiscal policy. As was clearly foreseen by your governments, devaluation, essential though it was, gave new impetus to inflation. If, as a result, the past year's efforts at stabilization are undone and your costs and prices are allowed to rise, the potential benefits in dollar earnings will never be realized. This should not be allowed to happen. Unpleasant though it may be, action - particularly budgetary action - to prevent inflation is imperative.

The other field of action I have in mind is the provision of direct incentive to private exporters. Practically all Europe's exports are furnished by private producers. Governments may set targets; they may exhort; but unless sales in dollar markets bring adequate rewards to sellers, the great effort required to enter and hold those markets will never be made.

Urgent as I regard the first major task - that of balancing Europe's trade with the dollar area - its performance will not be meaningful unless we have come to grips with our second task - the building of an expanding economy in Western Europe through economic integration.

The substance of such integration would be the formation of a single large market within which quantitative restriction on the movements of goods, monetary barriers to the flow of payments and, eventually, all tariffs are permanently swept away. The fact that we have in the United States a single market of 156 million consumers has been indispensable to the strength and efficiency of our economy. The creation of a permanent, freely trading area, comprising 270 million consumers in Western Europe would have a multitude of helpful consequences. It would accelerate the development of large-scale, low-cost production industries. It would make the effective use of all resources easier, the stifling of healthy competition more difficult.

Obviously, such a step would not change the physical structure of European industry, or vastly increase productivity overnight, but the massive change in the economic environment would, I am convinced, set in motion a rapid growth in productivity. This would make it possible for Europe to improve its competitive position in the world and thus more nearly satisfy the expectations and needs of its people.

This is a vital objective. It was to this that Secretary Marshall pointed in the speech which sparked Europe to new hope and new endeavour. It was on this promise that the Congress of the United States enacted the E.C.A act. This goal is embodied in the convention of the O.E.E.C.

I know that the difficulties which stand in the way of its achievement will spring all too readily to mind, but before integration is dismissed as a merely romantic possibility, too remote to have any bearing on practical, immediate decisions, I invite you to weigh the alternative.

Even assuming brilliant success in overcoming the dollar deficit in the next two years, the end of E.R.P in 1952 will at best leave Europe in only a precarious balance with the dollar area. Monetary reserves will be inadequate, and it is plain that dollar shortages will recur in one country or another the first time the European economy is subjected to serious pressure. In the absence of integration, nations would each separately try to protect their dollar reserves. They would attempt to earn dollars from each other by restricting imports. The vicious cycle of economic nationalism would again be set in motion.

The consequences would be the cumulative narrowing of markets, the further growth of high cost protected industries, the mushrooming of restrictive controls, and the shrinkage of trade into the primitive pattern of bilateral barter.

This course spells disaster for nations and poverty for peoples. This is why integration is not just an ideal. It is a practical necessity.

This being so, it is your job to devise and put into effect your own program to accomplish this purpose - just as it was your responsibility, which you carried out so ably, to take Secretary Marshall's original suggestion and give it life and breath.

In a program designed to accomplish effective and lasting integration, certain fundamental requirements suggest themselves. First, means must be found to bring about a substantial measure of coordination of national fiscal and monetary policies. Trade and payments cannot long continue free among countries in which there are widely divergent degrees of inflationary, or deflationary, pressure. The development of such differences in financial pressures among different countries will inevitably force the reimposition of restrictive controls. Unless individual countries accept the necessity for some coordination of domestic financial policies, the prospects for eliminating even the most restrictive types of controls over international trade will be dim indeed. Coordination of these vital national policies need not result in identity of policy. Coordination need only go so far as to insure that policies will not diverge so drastically as to break down the whole structure of European unity; but it must go at least that far.

Another essential of your plan, I believe, is that it should provide means for necessary exchange rate adjustments, subject, of course, to the general supervision of the International Monetary Fund, where these are the only feasible alternatives to imposing direct exchange controls within Europe. This is necessary

because there will be occasions when, either for reasons of policy or as result of circumstances beyond the control of government, prices and costs in one country will diverge from those in other countries too far to be brought into line through internal financial measures alone.

Even when effective means are found to coordinate financial policies and to promote needed exchange rate changes, there are still bound to be temporary disturbances in the flow of trade and payments between countries. Their whole impact should not be allowed to fall upon the gold and dollar reserves of the individual countries. I believe, therefore, that a third essential of any plan you devise must be a means to cushion the effect of these inevitable temporary disturbances.

Fourth, means must be found to insure that severe strains are not imposed upon the maintenance of integration through conflicting commercial policies and practices. Such strains might arise from disguised barriers to trade within an areas or from radically divergent policies toward external trade.

This brings me to our final suggestion, which has to do with the path by which this goal of integration may be reached. I have repeatedly referred to the creation of a single European market. Many of the immediate steps that need to be taken toward this goal can, and will, involve the whole group of the participating countries. But there are other arrangements, some already in prospect, involving smaller groups of countries which, I am convinced, will also turn out to be steps toward the same objective. I do not believe that any path toward integration should be left unexplored. It seems to me absolutely essential that arrangements arrived at within groups of two, three, or more countries should be in harmony with wider possibilities of European unity and should, under no circumstances, involve the raising of new or higher barriers to trade within Europe than already exist.

I feel, therefore, that, while pressing forward to the broader objective of economic integration of all the participating countries, we should not slacken our efforts toward establishment of close economic arrangements within one or more smaller groups of countries - always with the intention that these should contribute toward and not be turned against, the integration of the whole of Western Europe and its overseas territories.

I have made a number of references of the urgency of starting immediately on this program of integration. My conviction on this point is based, in the first place, on the acute realization of the very short time still remaining during which American aid will be available to cushion the inevitable short-run dislocations which a program of integration will involve. There is another very important reason for speed. The people and the Congress of the United States and, I am sure, a great majority of the people of Europe have instinctively felt that economic integration is essential if there is to be an end to Europe's recurring economic crises. A European program to this end - one which should show real promise of taking this great forward step successfully - would, I strongly believe, give new impetus to American support for carrying through into 1952 our joint effort toward lasting European recovery.

For all these reasons - but particularly because of the urgency of the need - I do make this considered request: That you have ready early in 1950 a record of accomplishment and a program which together will take Europe well along the road toward economic integration.

By accomplishment I mean really effective action to remove the quantitative restrictions on trade on which you have recently made a start. I also mean the elimination in Europe of the unsound practice of double pricing - that is, maintaining export prices for fuel and basic materials at higher levels than domestic prices. This practice results in higher production costs throughout Europe. It cannot be squared with your pledges of mutual aid.

By a program, I mean a realistic plan to meet the fundamental requirements I have described. Perhaps you will accomplish this through adaptation of existing institutions. Perhaps you will find that new central institutions are needed.

We are together playing for high stakes in this program. The immediate goal is a solidly based prosperity for

an economically unified Western Europe - a goal which President Truman reaffirmed to me just before I left Washington. Beyond that lies what has been the hope of all men of good will during your life-time and mine, an enduring peace founded on justice and freedom. That high hope can be realized if we, the people of the free world, continue to work together and stick together.