The OEEC and the EPU

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The OEEC and the EPU

At the end of the Second World War, the United Nations (UN), whose founding Charter was signed in San Francisco in June 1945, provided aid in various ways to the European countries ruined by the war. Europe was facing serious food shortages and was obliged to keep rationing systems in place after the war. But this programme was haphazard and would not have much impact on the economy of the countries of Europe. Intra-European trade was hindered by a lack of foreign exchange and required an international authority capable of effectively organising trade worldwide. The United States, whose interests lay in promoting such trade in order to increase its own exports, decided to help the European economy via a large-scale structural recovery programme. The United States wanted to protect American prosperity and stave off the threat of national overproduction. But the United States' desire to give Europe massive economic aid was also politically motivated. The fear of communist expansion in Western Europe during the Cold War was undoubtedly a decisive factor, as important as the conquest of new markets. The Americans therefore decided to fight poverty and hunger in Europe, factors which, they felt, encouraged the spread of communism.

In a speech made on 5 June 1947 at Harvard University in Cambridge, Massachusetts, the US Secretary of State, George C. Marshall, proposed the granting of economic and financial assistance to all the countries of Europe, subject to closer European cooperation. This was the Marshall Plan or the European Recovery Program (ERP). Ultimately, 16 countries signed up to the Marshall Plan: Austria, Belgium, Denmark (with the Faroe Islands and Greenland), France, Greece, Iceland, Ireland, Italy (and San Marino), Luxembourg, the Netherlands, Norway, Portugal (with Madeira and the Azores), Sweden, Switzerland (with Liechtenstein), Turkey and the United Kingdom. They immediately set up a Committee of European Economic Cooperation (CEEC) which drew up a report establishing the priorities for the European economy. But the Americans insisted that these countries should control the management and distribution of the funds themselves. The CEEC therefore set up a permanent agency for this purpose.

On 16 April 1948, in Paris, the 16 countries signed a Convention to establish the Organisation for European Economic Cooperation (OEEC). West Germany and the territory of Trieste joined in 1949. The colonies and overseas territories of the OEEC countries were represented by their parent state, and the United States and Canada, even though they did not belong to the Organisation, were also involved in its work. The OEEC was therefore a de facto worldwide organisation.

In 1948, the OEEC negotiated a multilateral agreement on intra-European payments. That was followed, in 1949, by a trade liberalisation scheme. From July 1950 to December 1958, a European Payments Union (EPU) restored the convertibility of European currencies and removed quantitative trade restrictions. The OEEC also promoted economic productivity in Europe via the European Agency for Productivity that it set up in 1953 to study and disseminate technical advances in the industrial sector. As an initial umbrella organisation for European democratic countries with a free market economy, the OEEC was in fact an important forerunner of a united Europe. It remained, however, an organisation for intergovernmental cooperation that was unable to create a customs union.

In 1960, when the United States and Canada joined, it became the Organisation for Economic Cooperation and Development (OECD), which later expanded even further.

European cooperation went beyond the economic field; it also encompassed monetary matters. After the end of the Second World War, bilateral payments agreements were signed between various European countries with the aim of reviving international trade. But these initial agreements were founded on exchange-rate controls, which meant that authorised payments had to be made in accordance with fixed rates that matched the official value of the currencies. In addition, trade and payments had to be balanced within the credit limits set by these agreements. That led to the decision taken in July 1950 by the Organisation for European Economic Cooperation (OEEC) to replace these bilateral payment agreements by a multilateral system capable of revitalising the European economy.

The European Payments Union (EPU) was created on 19 September 1950 by the 18 members of the OEEC and entered into force, retrospectively, on 1 July 1950. The EPU facilitated the convertibility of European currencies by setting exchange rates that were deemed to reflect the reality of each country's economic situation. On the other hand, currency restrictions were maintained vis-à-vis the dollar area. It therefore acted as an international clearing house, helping to compensate and balance the accounts of each European country with those of its neighbours. In practice, each EPU member set a parity between its currency and the unit of account, which was fixed in grams of gold based on the gold value of the dollar, as well as a single exchange rate. At the end of each month, settlement of trade was carried out partly in gold and partly via the granting of credits to the EPU. The EPU's initial capital, subscribed by the United States, was used to settle with the creditors as soon as the debtors made their payments. Thanks to this system, the national central banks also made their currency available to their partners, while the Bank for International Settlements (BIS) in Basel managed the settlement transactions. Every month, the EPU calculated a net credit or debit balance for each country in relation to all the other countries in the Union. A quota was set for each member that represented the maximum that its account balance could attain. Adjustments, partially calculated in gold, were made depending on the monthly credit or debit balance of the country in question. Once the EPU's exchange mechanism had been shown to work, it was gradually made more flexible by the introduction of a bank arbitrage procedure, greater flexibility in intra-European payment arrangements and the decentralisation of these arrangements, to the benefit of the markets.

In the post-war period, the EPU helped to secure complete stability of exchange rates and to promote free trade among its Member States. But the EPU fell victim to a series of crises caused by opponents objecting to price fluctuations and to the convertibility of European currencies between issuing banks but not between individuals. Finally, the EPU, which had advocated a return to full currency convertibility in Europe but which some feared would compete with the International Monetary Fund (IMF), was wound up on 27 December 1958 and replaced on the same day by the European Monetary Agreement (EMA), which called for a collective return to monetary convertibility in Europe.

The EMA was signed by the 17 Member States of the EPU on 5 August 1955, thereby creating a European reserve fund for those countries whose balance of payments showed a deficit and a multilateral settlement and equalisation system founded on exchange rates, which were kept as stable as possible. The Bank for International Settlements managed the financial transactions resulting from the EMA, but unlike the EPU, the EMA's system of multilateral settlements and granting of loans was neither compulsory nor automatic.