

Note from the French delegation on the economic and financial conditions prevailing on the armaments market (29 March 1955)

Caption: On 29 March 1955, the Secretary-General of Western European Union (WEU) circulates a note from the French delegation analysing the economic and financial conditions for an armaments market in Western Europe.


Source: Western European Union. Interim Commission. Working Party on Production and Standardisation of Armaments. Committee of Experts. Secretary-General's Note. PWG/E/26. 29.03.1955. 7p. Archives nationales de Luxembourg (ANLux). <http://anlux.lu/>. Western European Union Archives. Armament Bodies. CPA/SAC. Comité permanent des armements. File CPA-034.

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WESTERN EUROPEAN UNION
INTERIM COMMISSION

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WORKING PARTY ON PRODUCTION AND STANDARDISATION OF ARMAMENTS

CONFIDENTIAL

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COMMITTEE OF EXPERTS

Secretary-General's Note

The Secretary-General circulates herewith a note from the French Delegation entitled:

"Economic and financial conditions prevailing on the Armaments market".

This note has been drawn up to help with the study of point B.5. of the terms of reference of the Committee of Experts, which runs as follows:

"Study of finance, balance of payments and trade policy conditions with particular regard to possibilities for relaxing quantitative restrictions and reducing customs duties."

The Committee will discuss this note at one of its future meetings.

ECONOMIC AND FINANCIAL CONDITIONS PREVAILING ON THE
ARMAMENTS MARKET

In considering the economic and financial conditions of the armaments market, it is necessary to take into account the nature of the requirements to be fulfilled, that is to say the military needs. The special characteristics of this market are over-riding technical and strategic considerations and the necessity to maintain production capacity at a level at which it is capable of rapid expansion.

The method which from an economic point of view would be the most advantageous for the equipment of the forces in time of peace might give results which would not be satisfactory from the military point of view. Conversely, to organise the arms market solely from the point of view of military needs would no doubt be impossible economically. It would therefore seem useful to consider the probable results of applying each of these two conflicting principles before seeking a formula by which they might be reconciled.

I. THE ECONOMIC PRINCIPLE

The most economic way for the Western European countries to procure the arms they need would doubtless be to abolish quantitative restrictions and customs duties so that each country could draw its supplies from the cheapest sources, either within or without Western Union. In this way, free competition would,

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in principle, at any rate between those countries who fully applied the rules, help to produce the widest possible international division of labour and enable the equipment to be mass produced with a consequent reduction in cost prices.

Under present circumstances, however, it seems probable that a large proportion of the orders would be placed outside the Western Union countries and mainly in the United States and Canada where the cost prices for many items of equipment are lower than in the European industries.

The first consequence, then, of this policy would be to create insoluble balance of payment problems for most of the Western European countries.

From the military point of view, the primary effect of the resulting industrial concentration would be that the greater part of the arms industries would be grouped together in districts particularly favoured from the economic point of view, thus constituting particularly vulnerable objectives in case of war. On the other hand, if, as seems probable, this concentration took place mainly in industries situated at a great distance from Western Europe, the industrial production base in Europe, which has been reinforced so as to shorten the lines of communication in case of war, would be considerably

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reduced in size. This would be contrary to the aims of the North Atlantic Treaty Organisation, according to which it is essential that arms production in Europe should be raised to a high level in order that the armed forces of the Alliance may be effectively supported and less dependent on the long lines of supply from North America.

Finally, it would mean the renunciation, in most cases, of the study and research in Europe which is indispensable in the sphere of armaments if a technical advantage over the enemy is to be ensured. Such research entails costly work and tests which it would not pay any firm to undertake unless it were sure of obtaining a large order for the equipment in question. Moreover, any such research would be in danger of remaining purely theoretical if it did not lead to the industrial production of the equipment.

II. THE MILITARY PRINCIPLE

To neglect the above economic considerations, however, entails the opposite disadvantages.

The dispersal of production centres, which is desirable to limit the risk of air attack, would entail on the one hand the splitting up of the production industries and on the other, their establishment in those parts of Europe or North Africa least exposed to attack. Such dispersal would be an obstacle to the

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reduction of the cost price of the main items of equipment through adequate investment and mass production. The installation of factories in geographical regions not generally industrialised and far from the sources of raw materials and electric power, and where there is a dearth of skilled labour, would lead to production conditions that were extremely difficult, if not impossible, and in any case extremely costly.

Moreover, the need to maintain, in Europe, an industrial production base capable of rapid expansion in case of war would entail the setting up, in each of the allied countries, of a number of production lines which would have to be kept in cold storage or just ticking over. In addition to the capital outlay on plant, this method would also mean that the skilled labour necessary to work these production lines would have to be available. Although it would doubtless be impossible to maintain the necessary production base without using such methods, they have the disadvantage of being extremely costly and should only be used with great discernment so as to avoid duplication.

It is not possible to consider here the economic perturbations which the sudden application of these principles could not fail to cause in the various countries, but it seems probable that they would be considerable.

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To base the armaments policy of the Union on purely military considerations would be to defeat the military object, because the limited economic and financial resources of the countries would be insufficient, in the long run, to satisfy their military requirements according to that method.

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It would therefore seem, that the organisation of arms production in Europe could not be based exclusively on either one or the other of these main principles. Each must be tempered by a policy capable of realistically interpreting both military necessities and the economic and financial conditions prevailing in Europe.

That policy should make it possible:

- to undertake the necessary research through closer co-operation between the Governments;
- to maintain an adequate production base in Europe, avoiding duplication and the dispersal of the means of production;
- to encourage the installation of factories in the least exposed districts without upsetting existing economic conditions;

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- to facilitate international competition, particularly by the lowering of tariff barriers and the relaxation of import restrictions, without upsetting balances of payments.

These objectives could probably be more easily attained if arms production in Europe were organised on sufficiently clearly defined lines to allow the main military aims to be achieved without being compromised by the normal law of supply and demand.