EUROPEAN ECONOMIC RECOVERY

The Second World War had brought colossal destruction to Europe. Every participating country was economically exhausted after the war. But in 1948, the European economy began to revive. From 1950 onward, European economic growth became rapid.

There are a number of factors which can explain the rapid economic recovery of Europe:

(1) the changes in government policies;
(2) growth in world trade;
(3) scientific and technological advances;
(4) foreign aid

Of these four factors, the last factor may be the most important one.

(1) Economic recovery was helped by the. changes in government policies. Before the war, most European governments adopted the laissez-faire policy. After the Second World War, most of them tried to stimulate the economic growth of their own countries by more government investments. In Britain, the Beveridge Report was adopted and it meant that the British government would make heavy investment in developing the welfare services in Britain. In France, Jean Monnet, the Commissioner of the Plan for the Reconstruction of Key Industries, drew up a comprehensive scheme of modernization in 1946. According to the Plan, the French government was to provide the financial resources for setting up a new transport system, for modernizing the machines of the basic industries, for constructing more houses and for improving farming facilities. Government investment encouraged private investment, created full employment and led to continuing economic growth of Europe in the long run.

(2) Growth in world trade also helped economic recovery. After the war, many European countries had realized the disastrous effects of tariffs on inter-European trade. They began to co-operate economically and tried to lower their tariffs. Both the Organization for European Economic Co-operation and the European Economic Community worked hard to reduce tariffs between European states. Intra-European trade increased as a result of the reduction in tariffs.

Trade between Europe and the developing countries in Asia and Africa also increased after the war. After 1945 the primary producers in Asia and Africa were benefitted by the general increases in the price of raw materials. As they were growing richer, their demand for European products increased.

(3) Scientific and technological advances after 1945 also helped economic recovery. Both chemical and electrical engineering industries made rapid advances during and after the war. As a result, new varieties of electrical and chemical consumer goods were made after the war. Washing machines, refrigerators, radios and television-sets were produced in large quantities and so they were sold at low prices. The demand for these new products ensured continuing prosperity in the post-war years.

(4) The most important factor in assisting speedy economic recovery in the immediate post-war years was the injection of foreign aid into the European economy.

(i) U.N.R.R.A. (1943-1948):

Late in 1943 the United Nations Relief and. Re-habilitation Administration (UNRRA) was formed. This Administration consisted of 44 member-nations. Its staff was recruited internationally. Its finance came from 44 member-nations, with the United States making the greatest contribution.

This international agency provided first aid of all kinds to the countries that were just liberated from Nazi domination. Besides giving immediate aid, this agency also helped the war-torn countries to rebuild their communication system and to rehabilitate their agriculture and industry.

Up to 1948 when this agency was dissolved, 22 million tons of supplies (e.g. food, clothing, medicine and other daily commodities) had been supplied to the needy countries. The chief beneficiaries were Greece, Poland, Yugoslavia, Czechoslovakia, Austria and Italy. Without this material relief, the eastern European countries would suffer greater material distress in the immediate post-war years.

(ii) International Bank for Reconstruction and Development and an International Monetary Fund:

The western nations also planned to provide financial relief to the needy countries. In 1944, at a conference held at Bretton Woods in New Hampshire, they agreed to set up an International Bank for Reconstruction (the World Bank) as well as an international Monetary Fund (IMF).

The Bank lent money to war-torn countries for reconstruction purposes, and to developing countries for further development. The IMF provided short-term loans to nations having temporary unbalance of payments.

(iii) Marshall Aid (European Recovery Program):

Shortly after the proclamation of the Truman Doctrine, the American Secretary of State, George Marshall proposed to finance the recovery and reconstruction of Europe by a programme of economic aid.

Marshall declared that the U.S. would provide financial aid to European countries if they agreed to rebuild their economy on a co-operative basis. In other words, the European countries should have a joint programme for economic reconstruction. They were expected to adopt an agreed system of tariffs, and to gear their industrial and agricultural production together so that they would not waste any financial aid in unnecessary economic competition between one another and could quicken their mutual economic recovery.

In July 1947, the European countries came together to examine Marshall's proposal at Paris. The Soviet Union attacked the disclosure of the financial record of each recipient country to America because it infringed their economic independence. She also condemned the Marshall Plan as a scheme to sell non-essential U.S. goods to Europe and as an imperialistic tactic to stretch American commercial interests into the communist market. The Soviet Union and her satellites withdrew from the conference and did not receive any American aid.

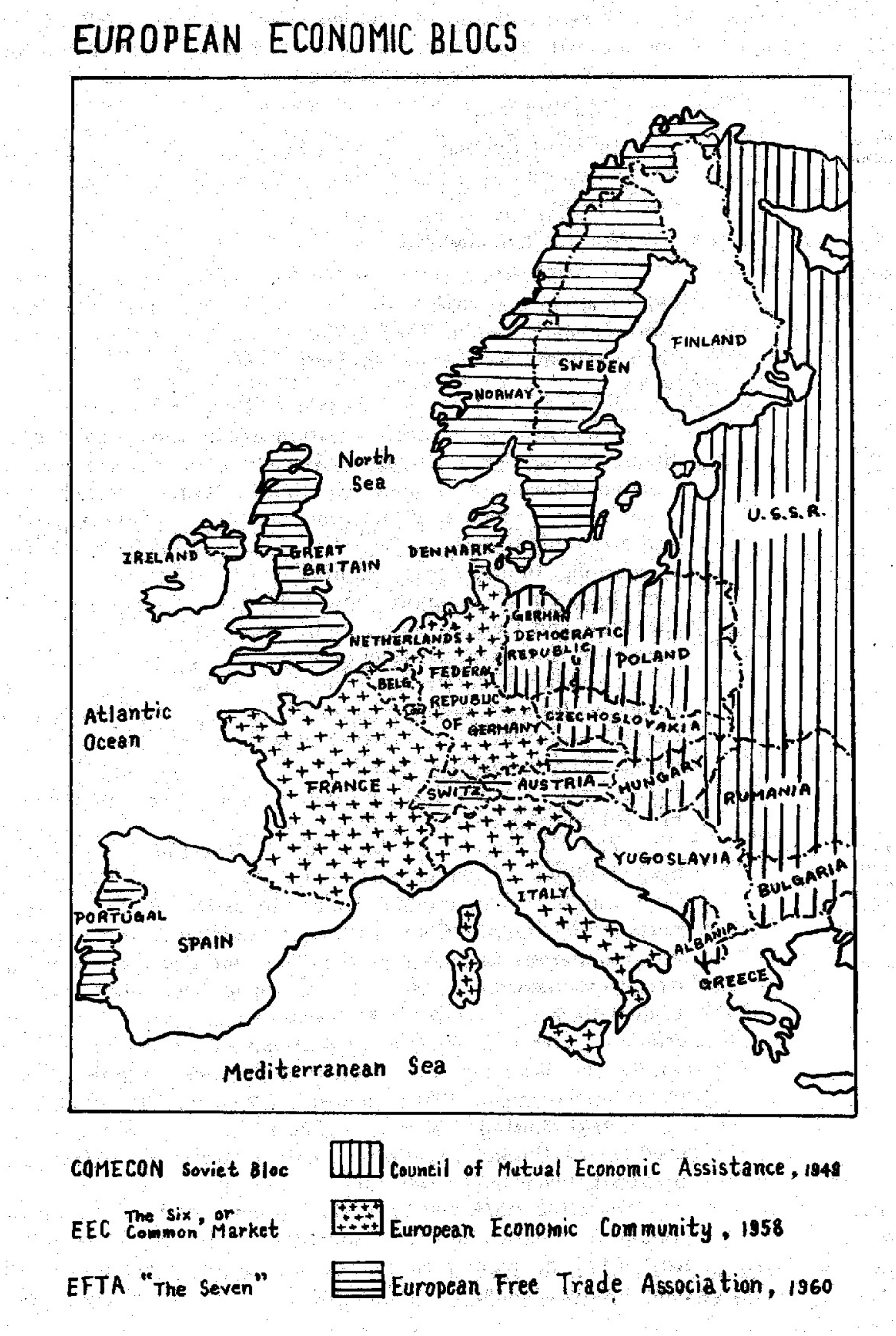
The western nations thought otherwise. They believed that the United States was helping them to achieve a speedy economic recovery. On July 16, the sixteen western nations (Britain, France, Italy, Belgium, the Netherlands, Luxembourg, Austria, Norway, Sweden, Denmark, Iceland, Greece, Portugal, Switzerland, Eire and Turkey) at a meeting formed the Committee of European Economic Co-operation and asked it to draw up a four year recovery programme. The programme was delayed by the American Congress. It was anxious about the huge sums of money that the programme involved. But after Czechoslovakia had become communist, the United States felt the urgency of the situation and eventually approved the programme in April 1948. To administer the programme, the European nations set up the Organization for European Economic Co-operation (O.E.E.C.) in Paris.

From 1948 to 1952, the United States spent about $12 billion to assist the economic recovery of the western nations half of the sum went to Great Britain, France and West Germany. The massive American financial aid made available for investment in industrial and agricultural production greatly stimulated the economic productivity of Europe. Two years after the launching of the Marshall Plan, the productivity of western Europe exceeded the pre-1939 average by 25%. In 1952, productivity was twice that of 1938. Intra-European trade revived. By 1952, Europe had not only recovered from her economic distress but was on the point of having the greatest boom in its history. Between 1950 and 1960 the annual rate of growth in the output of goods produced in the West jumped to 3.9 per cent, whereas the rate of growth was about 2.7 per cent between 1870 and 1913. In short, the Marshall Aid had not only enabled the European countries to have a swift economic recovery but had also brought about the greatest economic boom in Europe. Finally, the success of the Marshall Plan also encouraged further economic co-operation among the European nations, about which we shall discuss in the following pages.

[Go Top (#top)]

ECONOMIC CO-OPERATION IN EUROPE

(/web/20170609075338/http://www.funfront.net:80/_0000)



(1) Background - Reasons for Economic Co-operation

The idea of European unity was century-old. It went back to the medieval ideal of the restored Roman Empire. For centuries, philosophers, statesmen and romantic thinkers had called for some form of European union. During the inter-war years (1920-1939), a Pan-European Union was formed by Count Condenhove-Kalergi to promote the idea of a United Europe.

During the Second World War, many political leaders of the western European countries had seen the destructive effects of national self-interest. They advocated more economic and political co-operation among the European states so as to avoid wars in the future.

After the Second World War, it was widely believed that European economic recovery could be quickened by a co-operative effort among the European states. There was also a growing conviction that in the modern competitive world, the small nation-states could not be economically viable. The small European states could compete with the two economic giants, Russia and the United States, only through the removal of tariff barriers between themselves, economic co-operation and the utilization of their economic resources on a continental scale.

[Go Top (#top)]

Western Europe - Early Efforts at Economic Co-operation

(i) Benelux (1944):

During the war (1944), the exiled governments of Belgium, the Netherlands, and Luxembourg made an agreement to integrate their economies after the war.

By 1946 their decision began to be carried out. In 1948, they abolished tariff barrier among themselves and charged common rat6 on incoming foreign goods. The resulting enlargement of their free-trade areas stimulated economic activity. Trade among the 3 member-states and their domestic production increased rapidly. The economic success of Benelux encouraged other European countries to begin economic co-operation. (Economic integration of these three states came near to completion in 1958, with the formation of Benelux Economic Union. There have been free movement of people, capital and goods within the union since 1960)

(ii) Treaty of Dunkirk (1947):

In 1947 Britain and France signed the Treaty of Alliance and Mutual Assistance at Dunkirk. The primary purpose of the Treaty was military - to prevent future German aggression, but the Treaty also provided for bi-lateral economic assistance and cooperation.

(iii) The Pact of Brussels (1948):

Shortly afterwards the Dunkirk Treaty was broadened into the Pact of Brussels by the inclusion of Belgium, the Netherlands and Luxemburg. Like the Treaty of Dunkirk, its primary purpose was military but the Pact also provided for consultation on economic problems.

(iv) Organization for European Economic Co-operation (O.E.E.C.) (1948):

The most important impetus towards economic co-operation and economic integration came with the launching of the Marshall Plan. The Marshall Plan was designed to help Europe to recover economically as a whole unit. All European nations were invited to participate in a joint programme for their economic recovery. In June 1948, the European states formed the Organization for European Economic Co-operation (O.E.E.C.) to administer the Marshall Plan.

The O.E.E.C. was an inter-governmental body. Its council consisted of representatives of all member states. This body had the power to determine questions of general policy and overall administration. Its decisions were unanimous. Dissenters might abstain and the decision did not apply to them. But after a unanimous vote the council's decisions were binding on all members who agreed to the decisions (but not to the dissenters). It could make agreements with non-members and international bodies.

> The O.E.E.C. had five important functions. The first function of the O.E.E.C. was to divide American aid among the member states. This function was successfully carried out from 1948 to 1952. The second function was to reduce trade-barriers. The O.E.E.C. had successfully reduced import controls between European countries. As a result, intra-European trade more than doubled from 1948 to 1954. The third function was to improve the system of payments in intra-European trade. In 1950 the O.E.E.C. Council set up the European Payment Union. This allowed the O.E.E.C. members to settle their trade accounts (debts and credits) on a multilateral basis rather than by bilateral agreements between individual countries. Since the trade balances of the 16 members of the O.E.E.C. were settled together, the pressure on the scarce money resources between European countries was much reduced. The fourth function was to make technical studies necessary for European economic growth, such as studies on international payments, international trade and movements of labour. These technical studies laid the groundwork for future economic planning. The ultimate purpose of the O.E.E.C. was to provide for a large free trade area in which the member states would enjoy stable currency, increased production and increasing prosperity.

[Go Top (#top)]

Although the O.E.E.C. had not yet achieved its ultimate purpose, it had shown itself to be the greatest piece of European co-operative effort to solve common economic problems. It greatly increased mutual confidence and unity among European nations. All these gave rise to new hopes of closer European economic co-operation in the future.

(v) The Uniscan (1950):

In 1950 Denmark, Norway, Sweden and Britain had agreed to hold consultation in economic matters. Their union was called the Uniscan.

(vi) The Nordic Council (1953):

In 1953, the Scandinavian countries set up a consultative organization, the Nordic Council -

Denmark, Finland, Iceland, Norway and Sweden. They agreed to discuss tow to harmonize their economic policies in their annual meetings.

(vii) The European Coal and Steel Community (1952)

The proposal for the formation of the European Coal and Steel Community was put forward by Robert Schuman, the Foreign Minister of France. He thought that a merger of the French and German steel and coal industries would bring political and economic benefits to both France and Germany. Economically speaking, France was rich in iron ore while Germany was rich in coal. France had to import about half of her coal and coke from the Ruhr and Germany, half of her steel from Lorraine. Thus a merger of their coal and steel industries helped each other. Politically speaking, if the two basic industries of war - iron and coal - could be brought under common control by both French and German governments, the chance of war between these two countries could be greatly lessened. In the-past eighty years (1870-1950), France and Germany had fought three wars - each of these had brought colossal destruction to Europe.

West Germany, Italy, Belgium, the Netherlands and Luxembourg, readily accepted Schuman's proposal. In 1952, the European Coal and Steel Community came into existence. The most important body of the Community was the High Authority. It had its headquarters in Luxemburg. The members of the Community were to surrender their control of coal and steel industries to the High Authority. This Authority was to plan coal and steel production, to ensure free flow of coal and steel and their products within the Community, to adjust their prices among member states, and to regulate their import and export. The ultimate goal of the High Authority was to establish a free market for coal and steel in the Community through the removal of tariff and quota barriers between the member-states.

From the start, the Plan was a great economic success. By pooling their basic industrial resources tinder a super-national High Authority, the member-states could produce coal and steel and their products more efficiently and at cheaper cost. Unnecessary trade competition in coal and steel products was done away with. Mutually profitable trade was encouraged. During the first five years (1952-7), trade in steel rose more than 150%, trade in coal more than 20%. Abundant supplies of coal and steel at reasonable prices helped the industrial boom of the late 1950's and 1960's. So successful was the Coal and Steel Community that its members were encouraged to seek further economic union. This led to the founding of the European Economic Community.

The formation of the High Authority in administering the Coal and Steel Community was also an epochal event in the history of European political union. The High Authority was a super-national body, free from any influence by the member governments. After the member states had given up the control of their two basic industries to the High Authority, its decisions were binding on all the coal and steel enterprises within the community. Since the European states were willing to surrender part of their sovereignty for common benefits, it had greatly encouraged the movement towards political unity in Europe.

[Go Top (#top)]

(viii) The European Economic Community (1958):

As has been mentioned in the previous paragraphs, the Coal and Steel Community was very successful in boosting European production and trade in steel and coal. In 1955, delegates re~ presenting Belgium, West Germany, France, the Netherlands, Italy and Luxemburg met at Messina and agreed to form the European Economic Community.

Shortly afterwards, the Suez Crisis (1956) occurred, during which France and Britain were forced to give up their interests in the Canal area due to their own military weakness. France quickly came to the conclusion that European nations could have a say in world affairs only when they were militarily and economically strong. Thus France urged the formation of the European Economic Community as soon as possible.

In March, 1957, the six nations of the European Coal and Steel Community signed the Treaties of Rome, which were ratified without difficulties. They provided that on January 1, 1958, the European Economic Community (E.E.C.) and a European Atomic Energy Community (Euratom) would come into being. (The Euratom was created for the purpose of making common efforts in atomic energy research. It aimed to prevent any shortage of energy in the near future; but atomic energy crisis did not occur and the energy of the Euratom was produced at excessive cost. Since Euratom was of little economic value to Europe, it was left aside by the European nations since 1961. It did little to promote European integration.)

The ultimate goal of the European Economic Community was the creation of a common market among the six member states, as a preliminary to the creation of a political federation. The European Economic Community agreed to a number of steps essential to the creation of a common market. The first step was a common tariff policy. There was to be a gradual reduction, and finally abolition of tariffs among the six member-states. The second step was a common scale of tariffs against goods of non-members. The third step was free movement within the

Community of people and capital from one country to another and common policies for agriculture and transport. Other steps included the establishment of Investment Banks, the integration of the transport systems and the adoption of a common taxation policy.

By 1960, the Community had progressed satisfactorily towards its goals. Tariffs, which had been reduced to 60% below their 1957 level, were finally removed in July 1968. A common scale of tariffs against goods of non-members was also achieved in the meantime. Some progress was made in the free movement of capital and labour and in establishing a common agricultural policy. Unemployment in Italy fell as Italian workers could find jobs in West Germany and France. However, the progress towards integration in transport and the adoption of a common taxation policy were still slow.

Because many artificial barriers to economic growth had been removed and all available resources within the community could be employed in a more effective manner, there was a continuous and balanced economic expansion for all members of the European Economic Community in the 1960's. In general, average production for all members of the Community rose by 30% from 1958 to 1962. Trade within the Community between 1958 and 1962 rose by 96%. All the members received great economic benefits. They were quickly establishing a large free trade area which can rival with that of the United States and Soviet Union. (The United States and the Soviet Union had a market of 200 million people. The European Economic Community had a market of 170 million people.)

Despite the rapid economic progress of the European Economic Community, little progress was made in the 1961's towards political unity. Perhaps all national government disliked surrendering their sovereign power except in limited and specified areas - for example in tariffs, in coal and steel production. There was no sign that a United States of Europe would be formed in the near future.

[Go Top (#top)]

(ix) European Free Trade Association (1960):

Britain remained outside the European Economic Community. She had kept a large overseas empire in the past. She still retained a special relationship with the Commonwealth countries after the Second World War - for example, she had special tariff arrangements with the Commonwealth countries. Therefore, she understood that if she had to follow the European Economic Community policy of common tariffs against the non-member states, she had to sever her relations with the Commonwealth countries.

Faced with the rising external trade barriers of the six E.E.C. countries, Britain took the initiative in establishing the European Free Trade Association in 1960 with 6 other non-E.E.C. European countries - Austria, Denmark, Norway, Sweden, Portugal and Switzerland. These countries together with Britain were known as the 'Outer Seven' whilst the members of the E.E.C. were known as the 'Inner Six'. The E.F.T.A. was basically a trading organization. They planned to remove all tariffs against each other in ten years; but unlike the E.E.C. they were not obliged to adopt common tariffs against non-members.

Very soon it was found out that the 'Outer Seven' could not compete with the 'Inner Six' in terms of economic production and growth. The first reason was that the 'Outer Seven' had just a population of 92 million people, while the Inner Six had about 170 million people. Thus the Inner Six had a larger market for the sale of their goods than the Outer Seven. The second reason was that the Inner Six were industrially advanced nations, while the Outer Seven, except Britain and Switzerland, were industrially quite backward. The third reason was that the Outer Seven were separated from one another by long distance, thus creating artificial barriers to the growth of trade. Britain realized that E.F.T.A. could not bring much economic benefits to her. Thus Britain applied for membership in the E.E.C. in the hope of improving her economic situation at home. After repeated rejection by the French government, Britain was allowed to join the E.E.C. with Denmark and Eire in 1973.

[Go Top (#top)]

Eastern Europe

The idea of economic co-operation and integration met with an equal response in eastern Europe. But in comparison with western Europe, the economic integration of eastern Europe was not so successful.

(i) First stage - 1945 to 1953:

(a) Economic ties within the eastern bloc:

From 1945 to 1948, the Soviet Union was able to put eastern Europe under the control of the pro-

Soviet Union communist parties. Once the Soviet Union had established direct influence over her satellite countries, these countries, one after another, were to shape their economic structures according to the Russian model. It meant that they were to collectivize their agriculture, to develop heavy industries and to divert their trade from the West to the East.

(b) The Council for Mutual Economic Assistance (January 1949):

After the formation of the O.E.E.C. in the West, the Soviet Union created the Council for Mutual Economic Assistance (Comecon), the counterpart of the O.E.E.C., Bulgaria, Czechoslovakia, Hungary, Poland, and Rumania joined it in January 1949. Later it was joined by East Germany and Albania.

> Yugoslavia had been expelled from the Cominform. She was also excluded from the Comecon. Tito had liberated Yugoslavia with 3M the Russian Red Army. He wanted to communize Yugoslavia by his own ideas, not according to the model of the Soviet Union. It was a sort of mixed economy. In agriculture, collective farms coexisted with privately-own farms. Workers exercised great control in factories but there was no nationalization of industries. A free market was also allowed for the buying and selling of many consumer goods.

The Council met only three times before Stalin's death in 1953. From 1949 to 1953, through the Council the Soviet Union was able to exploit industries of eastern European countries for her own economic needs. The industries of the satellites regardless of their own needs were turned over to heavy engineering. The Soviet Union also took part in a number of joint companies through which she controlled the shipping and mining industries of her satellites. The earnings of these industries were transferred to the Soviet Union annually. In addition, the Soviet Union compelled her satellites to deliver raw materials and semi-manufactured goods to the Soviet Union at excessively low prices. These satellites became poorer than before owing to Russian exploitation.. All these produced much discontent in eastern European countries. But the Soviet Union was able to force her satellites into submission by a policy of purges and oppression.

(ii) Second Stage - 1953 to 1960:

1953 was the year of Stalin's death. Nikita Khrushchev openly admitted in his speech to the Twentieth Congress of the Communist Party that socialism might grow up in different forms in its transition. The satellite countries could now enjoy more economic freedom.

Khrushchev decided to use the Council to increase industrial specialization in eastern Europe. Economic uniformity with Soviet Union was to be replaced by economic inter-dependence. Each country of eastern Europe would specialize in those sectors in which they possessed the greatest potential. In 1956 there was the formation of the Joint Nuclear Research Institute. East Germany gradually developed herself as the centre of the chemical products in the Russian sphere. Up to 1960, each eastern European country developed her economy in her own ways and the economic integration of eastern Europe was slight.

[Go Top (#top)]