

ORGANISATION FOR EUROPEAN  
ECONOMIC CO-OPERATION

RESTRICTED

Paris, 7th June, 1950

CE(50)58

Or. Engl.

EXECUTIVE COMMITTEE

PREPARATION OF THE THIRD REPORT OF THE  
ORGANISATION

Note by the Secretary General

At the meeting of the Council on 2nd June, 1950, the Executive Committee was invited to prepare a plan of work in connection with proposals made by the Secretary-General for a programme of further European economic expansion. The attached note is submitted to the Executive Committee for CONSIDERATION as a basis on which arrangements for preparing the plan of work might be made.

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M.132, D9EM 6218/1342

PREPARATION OF THE THIRD REPORT OF OEEC

Note by the Secretary General

At the meeting of the Council on Friday, 2nd June, the Secretary General made a number of proposals designed to indicate the outstanding features of the Third Report of the Organisation and drew attention to the special importance of this report in providing a general perspective of economic development in the years following the end of Marshall Aid. He suggested that it would be necessary to take a long view of the economic prospects of Member countries and to plan for a steady expansion of production and the means of production. His proposals, which were noted with approval by the Council, were as follows:-

- "(i) Each country will give details of its own proposed objectives for the next four or five years. It will endeavour to lay down the main lines of the investment programme which it counts on carrying out or which it expects to be carried out, together with the policy it intends to adopt, in order to ensure the greatest possible development and best possible use of its productive resources, while preserving internal financial stability;
- (ii) The role of the Organisation will be to compare the national objectives, policies and programmes and to harmonise them so as to avoid contradictions and waste of resources;
- (iii) Any difficulties encountered by individual countries will be examined and the greatest possible joint effort will be made to overcome them."

2. The Executive Committee will wish to take an early opportunity of discussing these proposals and preparing a plan of work in order to give effect to them. It will also wish to consider the further proposal of the Secretary General, which was accepted by the Council, that:-

- "(iv) The Council at ministerial level will examine, two or three times a year, a report on the progress achieved by Member countries in their efforts to reach 'viability'."

The Secretary General will be circulating a separate paper on this proposal in due course.

3. The first of the Secretary General's proposals embraces the objectives, policies and programmes of the participating countries. Each of these will require separate consideration.

#### 4. Objectives

The participating countries need to take stock once again, as they did when the OEEC Report of 1947 was drawn up, of the fundamental tasks in front of them. Of these, the need to achieve and maintain a satisfactory level of economic activity without extraordinary outside assistance must continue to rank first, and constitutes the general framework of all other efforts. It is, indeed, to the most rapid economic development that their available resources will permit that Member countries must look, if they are to achieve lasting independence of external aid. They will require to preserve internal financial stability on the one hand and to encourage an expanding world economy on the other. From these general objectives springs the need for greater specialisation within a larger European market resulting from the progressive liberalisation of trade (either along the lines already followed within the Organisation or along different lines, on an industry by industry basis). A reduction of obstacles to the free movement of persons is also implied. Other objectives will vary with the needs and resources of individual countries.

5. A statement of objectives in broad terms will have only a limited value unless it is related to the concrete problems that countries are facing or expect to face. It will be necessary for Member countries to indicate the directions in which they wish or expect economic development to take place, how they intend to maintain or accelerate the tempo of economic activity, and what difficulties they foresee in achieving their programme of expansion. This must mean expressing some of the main objectives in figures in order to bring out the emphasis placed on them and to show that they are consistent with one another.

6. It will be desirable, for example, to lay down, as yardsticks of expansion, a series of estimates of the year-by-year movement in national production, consumption and



investment between 1950 and 1955; among other items in the national accounts that would have to be included would be government expenditure, imports, exports and the balance of payments. These figures would provide a sketch of the expansion in the national economy of each Member country that seemed both practicable and in keeping with its general objectives. They would show to what purpose the available resources might be used; the changes in productivity and employment that might prove possible; the scale on which investment might be carried out; the pattern of trade that might emerge.

7. It is obvious that figures of this kind cannot be forecast with any precision. It would be sufficient if Member countries could indicate the orders of magnitude of the changes which they anticipate so as to enable the broad consequences to be measured and the consistency of things to be tested. The maximum flexibility in supplying the information will have to be reconciled with the need for comparability of the results.

#### 8. Policies

The policies pursued by Member countries in seeking to achieve their objectives will necessarily vary with the situation in each. Some will have greater freedom of action than others, and some will have greater certainty as to the policies that they can pursue consistently over the next five years.

9. Of the policies that bear most directly on economic expansion those relating to external and internal finance will be of major importance. Countries will require to indicate on the one hand the relation between economic expansion and their balance of payments; and on the other, the policies by which they hope to secure a balance between the investment programme which they submit and the flow of capital necessary to finance it.

10. Information on manpower and employment policy will also be necessary. The success of a policy of economic expansion will depend in large measure on the use made of man-power: the avoidance of unemployment, the movement of labour to places and industries where it is scarce, training and the development of skill, the encouragement of methods of production and management that make for high productivity and better industrial relations,

improved opportunities for emigration from countries suffering from over-population or protracted structural unemployment.

11. In order to provide an outline of their proposed policies, Member countries may require guidance on some of the assumptions to be made. They will be obliged, for example, to make a number of important assumptions in assessing the future course of government expenditure. They will also have to take some view as to the conditions under which trade will be carried on. It is important that countries should be conscious of the assumptions which they are making and should state them in their memoranda, or should base themselves on common assumptions laid down in advance.

## 12. Forecasts and Programmes

It will not be easy to decide what forecasts or programmes Member countries should be asked to submit, and this will be one of the main questions to be decided. Special importance will attach to figures for investment, since it plays so large a role in economic development, both in relation to employment and to productivity. If countries are to make full use of available resources and to sustain a rapid increase in production, a high level of investment is indispensable. It is for consideration in what detail investment programmes should be prepared. They might, for example, show separate totals for each of the main sectors of activity such as transport, fuel and power, etc. They might show, in physical terms, the rate of investment in such items as housing and electric power. They could not, with any hope of realism, show what might be invested in each industry year by year, with the exception of a few major industries like steel.

## 13. Other Material required for Third Report

The plans of the participating countries would be drawn upon in the preparation of the Third Report of the OEEC. They would not, of course, form the exclusive subject of the Report, nor would the memoranda submitted be the only ones required from Member countries during its preparation. Material on the 1951-52 programmes of the participating countries will be necessary but should be easier and quicker to prepare. The operation of the payments scheme, progress in the liberalisation of trade, the development of the Overseas Territories, international

investments, etc., should all find a place in the Report. But so far as it has a single theme, with variations from chapter to chapter, it should be that of continuing economic expansion in Western Europe.

14. This theme will require to be treated in the perspective of a changing pattern of world trade: the economic expansion of Europe will have to be set in the context of developments overseas promoted and encouraged by Europe and North America and of their joint efforts to remedy the unbalance in world trade. In this way, the conclusions reached will be more readily co-ordinated with those of Mr. Gordon Gray who has been asked by President Truman to examine the prospective U.S. balance of payments in the period after 1952.

#### 15. Time-table and Procedure

The preparation of this material will necessarily take a considerable time. If Member countries are to have carried the work to a stage at which they are able to submit investment programmes to OEEC for incorporation in the Third Report, they will require to begin the work forthwith. If the work is to be useful it will have to be undertaken on a basis which will make the results comparable; the common assumptions to be made and the information to be supplied will both require expert discussion. This discussion should result in the preparation of a questionnaire setting out the exact headings under which figures should be supplied. It is desirable that arrangements should be made for the preparation of this questionnaire and of general guidance to participating countries in drawing up memoranda.

16. The most satisfactory arrangement might be to set up a Working Party of experts with general terms of reference. The Working Party would be invited to consider what information should be supplied by participating countries to assist in the preparation of a four- or five-year plan and to report to the Executive Committee as soon as possible; if its recommendations were approved, participating countries would be invited to supply information in conformity with these recommendations.



17. The time-table is likely to be a very tight one. The memoranda will be required by mid-September if the Third Report is to be completed by the end of the year. In the next four months, therefore, questionnaires will have to be prepared, agreed, issued and completed; there will be awkward statistical and other problems to be dealt with during the summer months when the staffs responsible may be on holiday; above all, some major decisions of policy will have to be taken in each of the participating countries. For this reason it will be necessary to indicate to Ministers at the end of this month exactly what is involved in the preparation of memoranda. The basic assumptions, the main heads of information sought, the time-table to be followed will all have to be included in the plan of work for which the Council has asked. Draft questionnaires, in other words, will have to be ready by the end of this month; without such drafts the points to be submitted to Ministers will remain obscure. The questionnaires will have to be ready for submission to the Executive Committee a week in advance of the meeting of Ministers. This leaves at most a fortnight for the Working Party to draft the questionnaires and report back to the Executive Committee.

18. At a later stage it will be necessary for the Executive Committee to consider what action should be taken after Member countries have submitted their memoranda in order to give effect to the second and third of the Secretary General's proposals.

19. The terms of reference of the Working Party might be as follows:-

- (i) To consider what guidance should be given to Member countries in drawing up for submission to OEEC memoranda giving their views on economic development in the years up to 1955;
- (ii) To prepare a questionnaire on the objectives, policies and programmes of Member countries for the next four or five years;
- (iii) To submit recommendations to the Executive Committee not later than 20th June.

20. The Executive Committee may wish to suggest to the Working Party that it should proceed on the basis of the present paper together with any general comments made upon it by the Executive Committee.