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TO: Members of the Executive Board
FROM: The Acting Secretary
SUBJECT: Progress of European Integration

The attached report prepared by the Fund's European Office, is circulated at the Managing Director's request for the information of the Executive Directors.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

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September 15, 1953

To: The Managing Director

From: European Office

Several members of the Board and Staff have indicated their interest in having an up-to-date picture of various European projects aiming at the integration of the European economy. I submit a report which epitomizes the developments until about the summer of this year. You will shortly receive another report describing the organization of various European institutions.

Progress of European Integration

Prepared by: European Office
(Paris)

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Progress of European Integration

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1. Political Environment

It is often stressed that the history of efforts to create a European Union is long, and that the movement in our times has its roots in an old trend of thought.

The interest in creating an institutionally unified Europe can, indeed, be traced back to the Middle Ages, and some lessons can be drawn from these experiences. Yet the differences between contemporary attempts and those which were made by the outstanding minds of the past five centuries cannot be overlooked.

The early projects for European unification were invariably motivated by one of two conditions. The urge to join forces was particularly strong at times when Europe felt menaced from outside; but the call for closer association was also heard when it became evident that European countries were too inclined to spend their talents and resources in exhausting intra-European struggles.

As in the past, the sentiment of danger seems to be a major force behind the contemporary European movement. The memory of recent wars seems also to have strengthened the feeling that Europe now needs a more modern organization which would exclude recourse to armed hostilities among its members. But there are some new elements in the picture. In comparison with past centuries, Europe seems to be closer to the realization of an ethical community of mind. Although the 18th and even the first part of the 19th century were considerably more anational and unchauvinistic than our own times, and therefore more receptive to super-national philosophies, the community of mind was confined to a very narrow layer of the population. At present, Europeanism, although strongly contested by nationalisms, is much more widespread and its followers, not always very determined or exacting, though also not lacking in convictions are numerous in almost every European country. The growth of popular European sentiment should not be understood to mean that its intensity is the same all over Europe or that the links between different countries are all of equal strength. There are undoubtedly areas of greater homogeneity from the point of view of culture, political philosophy, and political and economic interests. These variations are reflected in a varying degree of preparedness to go far and fast in building institutions for a European community.

There seems, however, to be an additional motive for European union which, although perhaps present in the minds of the designers of the earlier schemes, was not then prominent. There is now a widespread realization of the economic needs of Europe, and it is noteworthy that at this stage by far the greater part of the effort for unification is crowded into the economic field. The technical developments of the last three decades, as well as the economic experience gained over a still longer period have enhanced the desirability of large economic units. The example of the United States has undoubtedly been a source of inspiration.

The concentration of political importance in the two super-powers of our times and the rise, or return to the scene, of large Asian nations are for Europeans a tangible reminder of changing proportions and an invitation to strive for the creation of an organizational unity in Europe.

There is, however, a profound difference between the earlier and the present schemes for European integration which is to be traced, not to the motives lying behind the schemes, but to the changes which have occurred in the relations between the continents. The European community, as envisaged up to the end of the 18th century, was a concept which intellectually approximated more closely to universality than does the concept which is predominant to-day. Europe represented almost the whole of Christendom, which, for the European mind of that time, was the only part of mankind for which any attempt at organization could be made. Intercontinental relations have since been intensified and the progress of other parts of the world has made it possible to conceive of a considerably broader basis for organization. A European Union in such conditions assumes an aspect of particularity and of relative separation from even the closest political associates of European countries. The creation of a unified Europe would bring European countries closer together to each other than they are to the rest of the world, and there is therefore an inevitable element of discrimination involved. This particular aspect, has considerable practical importance, especially during the process of formation of a unified Europe, and its manifestations in the political, military and economic fields create delicate situations.

This paper is concerned mainly with the methods and problems of economic integration. It does not examine the question whether sufficient vigor is being shown in building a European Union and it does not analyze the various political plans for reorganizing Europe. Neither does it explain the interests of particular countries in the various schemes that have been put forward. But it is impossible to understand the problem of economic unification in complete isolation from what is going on in the political field. Most economic schemes are closely related to corresponding political concepts, and Europe's progress towards political understanding and unification clearly determines how far Europe can go in the direction of economic integration. The paper must therefore be prefaced by a few words on the general political climate.

The rather complex picture, as it must appear to an outside observer, of European movements and institutions, shows that Europeans see more than one approach to the problem. There are, as in any other field, conservatives and radicals. Conservatives seem inclined to do the job through governments, i.e. through various organizations of governmental representatives, where the value of national sovereignty seems to be placed fairly high. On the other hand, there are a few popular movements whose tendency is considerably less respectful towards national sovereignty, and schemes for European institutions are being produced which would take over a good part of governmental sovereignty and jurisdiction. A closer look at the existing European institutions will reveal that some of them (OEEC) are built according to the first concept, whereas others contain already some elements of the second concept, which manifests itself either in the

allocation of some responsibility to representatives of parliaments in contrast to governments (e.g. the Assembly of Europe in the Council of Europe) or in the greater jurisdictional independence of the institutions themselves (High Authority of the Coal and Steel Community). The project for the European Political Community envisages a truly European parliament elected directly by the population of member countries, although this still may be modified.

There is a similar division of opinion between those who believe that it is necessary to create, as soon as possible, an overall political organization, and those who believe a piecemeal approach which would create institutions with specialized jurisdictions, in the economic or military sphere, to be more realistic and rewarding.

Another special feature of European development should also be mentioned. So many paths towards European unity are being explored that it is only natural that there should be considerable differences between the support given by each European country to various projects. Some institutions (e.g. OEEC, the Council of Europe) include almost all the non-communist countries of Europe. Others have only a few members (e.g. Benelux). The expressions "great Europe" and "small Europe" are often heard, the former standing not for the whole of Europe, but, excluding what used to be central and eastern Europe, and covering thus the membership of the Council or OEEC; while "small Europe" includes the six countries, Belgium, France, Germany, Italy, Luxembourg and the Netherlands, which form a nucleus for more far-reaching projects. The countries of "small Europe" have already created the Coal and Steel Community and are listed for membership in a number of organizations which, if set up, would tie the member countries in a rather close political, military and economic association of a sui generis federation. Two of these projects are in the center of attention: the European Defence Community, which would enable a European army to be created, and the European Political Community which would be an "apex" organization equipped with high governmental and legislative prerogatives, but leaving still a great deal of authority to Member governments. Rudimentary projects for economic counterparts to these political and military organizations are discussed later.

II. Concepts of Economic Integration

The evolution towards a unified Europe in the economic sector is usually referred to as "integration". While this term is often used loosely it can be said that its generally accepted meaning is a process which would replace the economic relations between independent countries by conditions such as usually exist in a single country. One of the most important achievements of such a process would be freedom of movement of products and of factors of production. Integration, therefore, involves the removal of obstacles to the exchange of goods and services, to the movement of capital and to the migration of manpower. The justification for efforts to establish integration in this sense is the classical principle of the division of labour.

The meaning of this principle in its application to a limited area is obviously not the same as if it were to be given a world-wide application. Anxiety has been expressed that a regional system might develop into a high-cost area which, under the protection of discriminatory restrictions

and tariffs and the influence of facilities favoring "internal trade", would move away from, rather than towards, a generally strong position. The extent to which this may be a real danger depends on a number of circumstances which cannot conveniently be discussed in this paper.

1. Trade

Unhampered trade between European countries is a goal for the attainment of which several avenues of approach have been devised. One line of attack is aimed at quantitative restrictions, the second - still in the stage of blueprints - at tariffs and the third, combining the other two, tackles quantitative restrictions and tariffs as well as other obstacles but has so far been confined to a few specified goods or to a very limited geographic area.

There are at present three "liberalization" regimes in force:

1. In "greater Europe", under the OEEC liberalization system, the quantitative restrictions on trade and services between fourteen countries, including their dependent territories, have been removed in varying degrees.
2. In "small Europe", under the Coal and Steel Community arrangements, all quantitative restrictions and tariffs on basic coal and steel products have been removed between the six countries associated and further effort is being made to eliminate other obstacles to the free market.
3. Under the Benelux system, both tariffs and, with a few exceptions, quantitative restrictions have been removed on the trade of the three countries associated.

a. Relaxation of Quantitative Restrictions

The relaxation and elimination of quantitative import restrictions has become one of the main goals of the Organization for European Economic Co-operation. The Organization established a system of targets according to which all members should simultaneously and by stages eliminate their quantitative restrictions on each other's trade, the degree of relaxation being measured by the percentage of total imports on private account entirely liberated from import restrictions. The Council at the end of 1949 and the beginning of 1950 set the target at 60%. This meant that goods representing 60% (with 1948 as a base year) of total imports on private account were to be freed from any effective quantitative import restrictions. To prevent an unequal degree of protection in various sectors of trade, three groups of goods were named, i.e. foodstuffs, raw materials, and finished goods, and it was required that the target should be reached in each of these sectors. At the same time members undertook not to discriminate vis-a-vis each other. This particular clause caused considerable difficulty so long as European currencies were not transferable. With the establishment of the European Payments Union which provided for such transferability of claims within Europe, the pressure to discriminate greatly disappeared. In the summer of

1950, at the time of the establishment of the E.P.U., a new Code of Liberalization was adopted; the overall target was raised to 75% and it was agreed that, in each of the three categories of goods mentioned above, the percentage should not be less than 60%. The rule of non-discrimination has been applied not only to imports freed under the above provisions, but, in fact, to any imports originating in member countries. It was stipulated that imports handled by monopolies under government control should be conducted in accordance with the general principles laid down in Chapter IV, Section D of the Havana Charter (*). Liberalization is applied not only to imports from metropolitan areas but also to those originating in the dependent overseas territories of E.P.U. members. De facto, a degree of liberalization has also been extended to imports from the independent members of the British Commonwealth.

In order to enable countries to move towards these targets and to weather occasional deficits, the Union was equipped to give considerable credit facilities. Each member was assigned a quota, which set limits for the settlement of its net cleared monthly balances, partly by establishing debits vis-a-vis the Union, partly in gold. The proportion of gold settlement is progressive with the use of the quota.

There was fairly rapid progress towards 75% liberalization and some countries exceeded the target quite considerably. On the other hand, there was a temporary return to restrictions by Germany during its payments crisis in 1950/51. Subsequently, with the spectacular improvement of the German payments position, restrictions were again removed and Germany is among the countries leading in voluntary liberalization. French and British payments difficulties have also forced these two countries to reverse the earlier steps toward liberalization. In 1951, France had to reduce her liberalization percentage to zero, i.e. the restrictive regime of import licences was fully re-introduced and there has since been no change in the opposite direction. As a result of the unfavourable development in its balance of payments in 1951, the U.K. also reduced its liberalization percentage to about 47%, and it was only in March 1953 that this was increased to 58%. Austria and Greece were, in the first years of E.P.U., lagging behind the other members, but recently have been able to liberalise de facto part of their imports (**). Several E.P.U. members have gone further than is required by the Agreement: Italy, Switzerland, Portugal, Belgium, Luxembourg, Sweden, Germany and the Netherlands. (***)

(*) Chapter IV, Section D - Commercial Policy - State Trading and Related Matters. Article 29 Non-discriminatory Treatment.

Paragraph 1, sub-section (a) reads: Each Member undertakes that if it establishes or maintains a state enterprise, wherever located, or grants to any enterprise, formally or in effect, exclusive or special privileges such enterprise shall, in its purchases and sales involving either imports or exports, act in a manner consistent with the general principles of non-discriminatory treatment prescribed in this Charter for governmental measures affecting imports or exports by private traders.

(**) In the instance of Greece the de facto liberalization is very extreme.

(***) A table recording the contractual and voluntary liberalization is attached [Annex I].

Another standard of liberalization has been applied in 1951 when the OEEC asked that the provision of the code of liberalization which called for a common list of agricultural and industrial products should be put into operation, and this provision has been in force since April 30, 1951. Countries which are not exempted from complete liberalization commitments are under obligation to place the products contained in the common list among their free imports. Opinions are often expressed that the common list could become a rather effective instrument of liberalization. (*)

From what has been said above it can be seen that there are some countries which have in fact abandoned import restrictions in European trade, while others are very far from that position. The strain of the unequal application of liberalization has been felt very heavily in some of the countries which are in the vanguard of the movement. Recently, the OEEC has engaged in a study of the possibility of a 100% liberalization.

b. Lowering of Tariffs

Proposals for a general lowering or elimination of intra-European tariffs are still in the stage of discussion.

An inter-governmental study group for a European Customs Union was created in 1947 and has done useful work in research and formulation of concepts. It has created the notion of a unitary tariff, in which all rates will be ad valorem, and has done a lot of spade work on a common tariff nomenclature, which has already influenced the new German and Italian tariff lists. Much research has gone into the problem of the comparability of tariff impacts in various countries. Yet the group could not produce any definite proposal to lower or eliminate tariffs, although an inquiry has been launched to determine how much could be done without inflicting distress upon particular countries and particular industries. Negotiations carried out in the framework of the GATT have lowered some European tariffs, and in the OEEC a proposal for a concerted European policy in the GATT is being studied. In general, however, tariffs remain significant and rather unequal.

Low Tariff Club In December 1951 the Council of Europe decided to undertake a study of Mr. Ohlin's proposal for a Low Tariff Club which stipulated that between members no tariff should exceed 35% ad valorem, and that for goods originating in member countries they should not exceed 5% for raw materials; 15% for semi-finished goods; 25% for finished goods and foodstuffs. These percentages would not be applied fully from the outset and in a three-year transition period would affect 70%, 80%, 90% respectively of each country's imports.

There has been some success in reducing both tariffs and quantitative restrictions in the narrower framework of "small Europe", i.e. the group of six countries who have joined the Coal and Steel Community, and in the even more confined framework of the Benelux.

c. Benelux

The Benelux idea dates from the second world war and is therefore older than the other proposals outlined above. Following the monetary Agreement of 1943, Belgium, Luxembourg and the Netherlands signed in September 1944 a Convention envisaging a Tariff Union which would eliminate custom duties on trade between the three members and introduce an identical tariff vis-a-vis third countries. The new tariff system, applicable to third countries, was put into force on January 1, 1948 and tariffs between the three countries were then abolished. Quantitative restrictions were

(*) Common list attached as Annex II

governed by agreements on quotas until October 15, 1949, when a further step towards economic union was taken in the so-called "Pre-Union Agreement" on commercial and monetary policies. The agreement stipulated the elimination of import restrictions and close co-operation in monetary and trade negotiations with third countries. Imports of the overwhelming majority of goods have been liberalized. Certain agricultural products and industrial items showing great price differentials were to be subject to an equalization procedure but, for the time being, in the absence of such adequate adjustment, it has been agreed that their imports may be checked. A unification of certain administrative procedures and taxes would contribute to make the market more homogeneous. Some measures of this kind are being studied, while others are well on the way to being put into effect. Thus, legislation on unified excise taxes has been already voted in all three countries. It is also worth mentioning that the informal co-operation between the administration, central banks, etc. of the members is developed to a high degree.

A similar project for a Franco-Italian Tariff Union, the Treaty on which was signed in 1949, was never put into effect and the matter was removed from the agenda of the two governments.

d. Small Europe

European Coal and Steel Community One of the most interesting attempts at European integration is the European Community of Coal and Steel. The Treaty, signed in April 1951, brings together six countries, of which five are major continental producers of coal and steel. The purpose of the Community is to create a unified market for the basic industrial fuel and the basic industrial metal. The motives for the erection of the Community were both political and economic. The tying of the French, German and Saar coal and steel production in a relationship of interdependence, has been considered a major achievement of peace making. The underlying economic expectation is an increase of productivity, and, as a secondary effect, the integrating and cost-reducing influence of cheaper coal and cheaper iron and steel traded at unified prices. The Community is intended to mitigate the harsh consequences of oscillations in demand, and in conditions of scarcity to become a distribution agency for member countries.

The Community has a number of extremely interesting institutional and legal aspects which are dealt with in another paper. Here it is sufficient to say that the Community is endowed with wide powers in its field and its executive organ, the High Authority, consisting of men independent from governments, had been invested with an extensive jurisdiction.

A common market is to be created by suppressing various practices which are regarded as impediments to free and fair trading. Thus, the Charter of the Community provides for the abolition of tariffs and import restrictions, and imposes an embargo on various acts of discrimination, on subsidies and special charges, and on the cartelization or monopolization of the market.

According to the Charter, all custom duties, import or export taxes and fees of comparable effect, on coal and steel should disappear as far as trade between members of the Community is concerned. Similarly, all quantitative restrictions on the movement of these products should be suppressed.

The Charter also forbids any discrimination with respect to producers, buyers, or users, concerning price, delivery or transportation tariffs, and all measures or practices preventing the buyer from choosing freely his supplier. Any acts of unfair competition are therefore prohibited, especially the temporary or local lowering of prices the purpose of which is to attain a position of monopoly and discriminatory practices by buyers imposing special conditions for different suppliers, especially with respect to the nationality of the products. The High Authority can define the practices falling under these prohibitions. Certain rules concerning methods of pricing and publication of prices are contained in the charter as well as the right of the Community to establish maximum and minimum prices for domestic use, and also, with some qualifications, for exports.

All subsidies or government assistance as well as special charges levied by governments, are forbidden irrespective of their form. The Community has the right to make recommendations to countries resorting to such practices. On the contrary, if a country should subject enterprises on its territory to measures which make the burden unduly heavy, the Community may request that the enterprises producing coal and steel should be compensated.

Finally, restrictive practices affecting the division of exploitation of markets are forbidden. There is thus a general embargo on any agreement between enterprises or any decision of their association, or any concerted practice, which would, in the common market, prevent, restrain or distort the normal working of competition, whether they concern price control, production, technical development, investment, division of the market, allocation of products, customers and sources of supply. The High Authority, however, has the right to permit for clearly defined products agreements of specialization and agreements on collective purchases or sales, if it is satisfied that such measures would contribute to the improvement of production or of distribution; that they would be no more restrictive than is warranted by their purpose; and that they do not give enterprises any right to determine prices, to control or limit an important part of production in the common market, or to protect it from the competition of other enterprises.

The authors of the Charter were not satisfied with merely imposing embargos on certain practices and removing the obstacles to trade. The process of integration is to be followed a step further and attention given to the impact of "one market" on enterprises. It is recognized that the situations of various enterprises in various countries are different and that the positions of enterprises in the same country are also not the same. The extraction of coal in Belgium, for instance, involves higher costs, due to the nature of coal sources, than in Germany or France; steel enterprises differ in efficiency and modern equipment. Hence, at the common market price there would be whole industries or certain enterprises which would make considerable profits, whereas others would have to work at a loss or close down. This is indeed the very core of the process of integration. Yet, it is assumed that, while certain areas or units have no chance of survival, others could with some improvements in their equipment, successfully carry on. In recognition of the fact that the re-allocation of resources will take time, the idea of a transitional period of five years has been accepted.

To deal with these problems of reallocation, various methods of compensation, grants and credits can be used. The High Authority can approve temporary compensation between enterprises of the same area and, with some qualifications, of different areas. Over and above that, the Authority can impose certain taxes on enterprises, and can borrow funds; it can give temporary assistance in the form of loans, of guarantee of loans, or grants. The funds can be used for a range of purposes connected with the improvement of production and division of labor, and more particularly it can be devoted to investments, research or re-training of labour, temporary unemployment allowances, and installation allowances.

The Community has already recorded significant progress on the way to a common market. With the exception of a few products custom duties and quantitative restrictions on coal, iron ore, and scrap were removed in February, and with respect to steel, in April 1953. Italy has been authorized to keep the Annecy Convention tariff on steel but has to reduce it progressively and eliminate it eventually at the end of the transition period. At the same time, the first steps have been taken towards coordination of custom duties on imports from outside the Community. Dual transport tariffs have been suppressed: it was customary in a number of countries to charge more favorable transport rates for domestic trade than for export.

Progress has also been achieved in the field of pricing. Many products coming under the Agreement have been governmentally controlled in many countries, the prices for internal use being lower than for exports. Generally speaking, dual pricing has been removed, although some zonal differences have been maintained. The Community wishes to prevent any violent changes and a degree of regulation remains.

Some temporary compensations have been agreed in the field of coal mining. As foreseen, Belgian and Italian coal mines will receive a subsidy, whereas German and Dutch coal will carry a levy. Some governmental subsidies have been authorized, such as those granted in French Lorraine in order to step up the production of coal fit for coking. The subsidies will have to be decreased progressively.

The High Authority of the Community has levied a duty on the production of coal and steel which will eventually produce around \$17 million a year, but somewhat less in the first year.

European Political Community. As mentioned before, it is proposed to complete the Organization of "Small Europe" of which the Coal and Steel Community is at present the only existing institution, by creating a political community which, in documents and newspapers is often referred to as the "European Political Community", or simply the "European Community". The economic provisions of its draft statutes restate the principle of "one market" and accept the basic principles of the Charter of the Coal and Steel Community. If the system were put into effect, the freedom of trading, which is being progressively realized for coal and steel products, would be extended to all commodities and would be accompanied by freedom of movement of capital and manpower. As in the E.C.S.C. a transition period of five years is proposed. An "adaptation fund" would also be created to help enterprises and manpower in the adjustment to "one market" conditions.

The Ad Hoc Assembly recognized in its deliberations on the draft constitution that it had to confer upon the Community certain powers in the economic field, but it restricted itself to formulating a procedure by which future decisions would be taken on steps leading to "one market". The Dutch Minister of Foreign Affairs, Mr. J. J. Beyen, and his Government made it clear that they consider it imperative to incorporate certain concrete provisions in the treaty with a view to establishing a greater community of economic interest.

Small European Tariff Union. The Netherlands Government have suggested the setting up of a Tariff Union as a concrete contribution to the creation of a European Community, though it is not claimed that this would be a complete solution of the western European economic problem. The proposal is based on the principle that there must be a common responsibility for the consequences of the measures taken. Where the vital interests of one country are affected by the action of the Community, measures should be taken to repair the damage. On the other hand, the realization of a European Community should not be hampered by difficulties arising in a single member country. In order to avoid unnecessary hardships, the Dutch proposal includes escape clauses to be used in case of a threat to the balance of payments or to certain economic sectors. Members should be assisted in their efforts by a European fund, the principle of which has been already adopted in the later drafts of the constitution of the Community. According to the Dutch proposals, the Tariff Union should be completed in a fixed number of years. The lowering of tariffs would cover all items, would start immediately, and would be applied on equal terms for everybody. *Pari passu* with the lowering and elimination of tariffs, quantitative restrictions would be relaxed and ultimately removed. It is further emphasized that the European common market should maintain and develop relations with the outside world and that the common tariff vis-a-vis the rest of the world should be kept low.

e. Projects for Integration by Sectors in Greater Europe

Some of the ideas applied in the ECSC have also had some influence in the framework of "Greater Europe", and the basic concept of integration by sectors has been discussed in both the Council of Europe and in the OEEC. Several projects for "functional authorities" in the fields of transport, (*) agriculture and electrical energy have been elaborated in the Council of Europe and generally recognised as desirable objectives of policy. Some of these projects contemplated the granting of considerable powers to the institutions proposed by them, while others would have allowed a jurisdiction much more limited than that of the ECSC. The Stikker-Plan proposed gradual integration by sectors, beginning with agriculture, certain basic industries, and ^{certain} secondary industries. The proposal involved the creation of a "European Integration Fund", designed mainly to soften the impact of integration on those units that would suffer or disappear and to foster the modernization and conversions called for by the process of integration. The ideas of the Stikker-Plan were later to some extent taken up in a conference between representatives of Chancelleries on the proposed "Green Pool" or the Agricultural Community. This scheme contemplated the creation of a single market for agricultural products. The idea had a varied reception and the proposal remains under study.

The Organization for European Economic Co-operation has launched rather detailed studies of a number of industries (**) with a view to determining to what extent they would lend themselves to integration by sectors. The report to the Council of the Organization pointed out that in the majority of sectors integration would increase productivity and that the majority of national experts have views favourable to integration of certain sectors. The Council has not yet reached a decision on the action to be taken on these reports.

(*) See 2. Invisibles

(**) Motor vehicles, cement, aluminium, textiles, agricultural equipment, electric equipment, nitrogenous fertilizers, etc.

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2. Invisibles

The liberalization of invisibles has been carried out under the auspices of the OEEC Code, but in contrast with trade, it was not possible to establish any yardstick in the form of uniform percentages.

O.E.E.C.

The OEEC Code required members to abolish restrictions on current invisible transactions connected with the movement of commodities which are the object of measures of liberalization of trade. Another provision ensures that the services pertaining to the duly licensed trade in commodities shall be free from any impediment. Two lists of services were also established, member countries agreeing to liberalize all services in the list No. 1 and to free payments for services in list No. 2 "as far as possible". Travel has been freed by establishing certain minimum per capita allocations of foreign exchange. Countries in strong creditor positions i.e. when they have reached 75% of the creditor quota, have to grant higher travel allowances. Some countries have given their citizens going abroad allowances more generous than those required by the code. Travel for reasons of health is supposed to be free and travel for educational and business purposes is expected to be treated liberally.

It should be mentioned here that in the field of transportation certain companies perform their services on an international scale, e.g. the "Compagnie des Wagons-Lit et des Grands Express Europeens", and the "Societe Ferroviaire Internationale des Transports Frigorifiques". Scandinavian countries have also joined in creating a Scandinavian Airlines System.

While several international organizations already deal with various aspects of transportation, a suggestion has been brought before the Council of Europe for the creation of a European Transport Community to be endowed with considerable power. The proposal was not adopted and less ambitious ones are at present under discussion.

In December 1952 a European inland transport Conference was convened under the auspices of the OEEC, to which, besides the member countries, were invited Spain, Yugoslavia, and both governmental and non-governmental international organisations dealing with transport. The Conference adopted a recommendation to set up a permanent "European Conference of Ministers of Transport", with administrative machinery and liaison with various organisations. The jurisdiction of the Conference was to include the unification of transport tariffs, the standardization of equipment, the development of pools of rolling stock and other equipment, the co-ordination of investments and co-ordination of road transport systems. Last July the Council of the Organisation adopted the proposal to establish the European Conference, which is to be constituted in October at a meeting in Brussels.

3. Capital

The regime of exchange control on capital account varies considerably from country to country. The range extends from complete freedom to very stern regulations. The only international intra-European agreement which bears on the subject is the OEEC Code of Liberalization. There is no obligation under this Code to allow transfers of principal. The member countries are, however, supposed to authorize payment of interest, dividends, and other capital earnings and also contractual current repayments. On the other hand, anticipatory repayments and settlements of arrears are not covered by the liberalization provisions.

The problem of capital supply and investment policies has emerged in many connections during the discussions of European integration. Various schemes have been proposed by which capital could be pooled and redistributed, and a European Investment Bank has been proposed in the Council of Europe. A project for an advisory body on investments is being studied in the OEEC.

As mentioned in the section about the European Coal and Steel Community, this Institution has a certain authority to collect and distribute capital in the process of building "one market" for products coming under its jurisdiction.

The European Council has developed a project, known as the "Strasbourg Plan", which tackles the problem of pooling the resources and co-ordinating the development policies of European dependent territories.

4. Manpower

Apart from general international recommendations and conventions on the treatment of foreign labour, there has been no special intra-European rule which would make the migration of labour easier. There are, however, several arrangements which remove major institutional obstacles between certain limited groups of countries and also some relevant provisions in the E.C.S.C. Charter. In the first category come the regimes governing relations between the Scandinavian countries, within the Benelux group, and between Ireland and the United Kingdom.

Scandinavian Countries. Since January 1947, Denmark and Sweden have constituted a "Common Labour market". No labour permit is necessary for movement from one country to the other and residence permits are granted automatically, save for special police and security reasons. No formal agreement has been concluded for the Scandinavian area as a whole, but practice is very liberal, not only in Denmark and Sweden, but also in Norway and Finland, with respect to nationals of these countries.

Benelux. Labour permits are granted automatically for nationals of Luxembourg in Belgium and vice versa. Between Belgium and the Netherlands a labour permit is required but in practice is given without question, and so are the residence permits when required.

U.K. and Ireland. Between Ireland and the United Kingdom there is complete reciprocal freedom to reside and work. 8466

E.C.S.C. According to the provisions of the Treaty establishing the European Coal and Steel Community, the Member States bound themselves to renounce any restriction based on nationality against the employment in the coal and steel industries of workers of proven qualifications for such industries who possess the nationality of one of the Member States. Should the European Political Community be established an analogous rule would apply to all occupations, although full freedom to migrate might not be established in the transitional period.

As noted before, both the Charter of the European Coal and Steel Community and the project of the European Political Community are not limited to suppression of legal impediments but suggest a number of positive measures to encourage migration.

O.E.E.C. Recently, the Organization for European Economic Co-operation has prepared proposals for a procedure, to be adopted by "Greater Europe", which would enable employers to procure foreign labour by way of petitions which would be approved if it were established that suitable labour was not already locally available. The proposals would also provide some protection to people who have spent a certain period of time in a foreign member country.

In the past the Organization for European Economic Co-operation has helped to encourage labour movements in Europe by proposing simplified arrangements between countries and has contributed to the solution of concrete problems.

III. Problems Involved in the Process of Integration

The experience of the few existing institutions and past and present discussions about various projects seem to show with sufficient clarity the range of considerations, impediments, and stimulants involved in the endeavours to integrate the European economy. The methods of integration already applied and those proposed for adoption consist mainly in the elimination of external restrictions and the substitution for them of internal-adjustments. A general, but not complete liberalization, such as that practised so far by the OEEC, which leaves a certain margin of quantitative restrictions, and does not affect tariffs at all, is likely to have more of an impact on general policies of the country than on the industries which would be most affected by the creation of a completely free European market. Frequently, such vulnerable industries remain sheltered by whatever is left of quantitative restrictions and by tariffs, and, if necessary, by subsidies. On the other hand when the general level of prices is too high, or when the internal demand of a country is excessive, the impact of liberalization is strongly felt. The deficit which results from such a situation exercises pressure on the governments to make the necessary adjustments. The impact of the OEEC system has been, therefore, directed primarily, but not exclusively, on the budgetary and monetary and wage policies of member countries. The European Community of Coal and Steel, on the contrary gives an example of liberalization, which, being limited to a few commodities, important though they may be, is capable of drastically affecting

the financial structure and the balance of payments of those countries only where the liberalized goods represent a very important proportion of total production and trade. On the other hand, the elimination of all restrictions, tariffs and other protective measures, subsidies, cartels, and various discriminatory practices, will expose the industries of the coal and steel sector to considerable competitive pressure.

Primarily, the OEEC and E.C.S.C. systems work, therefore, on different planes which, of course, in their effects are related and would merge in one another if they were applied more generally. While it is true that under OEEC liberalisation some, but not necessarily all, weak industries may remain sheltered against foreign competition, adjustment of financial policies may affect internal market conditions. Should the OEEC system be applied, as suggested by some, to 100% of imports, the weight of direct competition would be felt in many places unless it were promptly neutralized by tariffs. The process of integration, whether pursued by broadening one or other of these two methods, or by a combination of both, raises a number of issues which can be most conveniently discussed under the headings, "Adjustment through monetary and other internal policies" and "Reallocation of productive resources".

1. Adjustment through Monetary and other Internal Policies

A substantial measure of adjustment by means of monetary, financial and wage policies is an indispensable condition of success for any integrating efforts. The "rectitude" of internal policies would retain much of its value even under the regime of flexible exchange rates. In the past, however, the process of bringing the situation back to equilibrium by internal measures did not prove to be an easy one in all instances. In the framework of the OEEC there have been examples of both achievements and difficulties. Germany and the Netherlands have succeeded in reversing their deficits, the latter without reintroduction of restrictions, the former with a short return to restrictions and the help of additional credits. The recovery of the German payments position was fast. In the Netherlands, several months intervened before the result was felt. In both instances the corrective measures were assisted by the termination of a re-stocking tendency. On the other hand, there have been examples of considerable difficulties in applying monetary and financial measures. The U.K. remained for a long time in the "excessive debtor" category and a return to restrictions was necessary, although some improvement in that respect has already been achieved as the general payments position of the U.K. has strengthened. The situation of France also called for a return to restrictions and, in spite of a complete deliberalization, France has not yet been able to reverse its deficits.

It has often been remarked that there is in the present set-up no automatic mechanism by means of which the surpluses or deficits would start corrective internal processes. Decisions to modify rates of interest or impose other checks on credit or cut the price-wage inflationary spiral often come after delays of varying lengths. This is equally or even more true of budgetary policies. This situation reflects in the first place the fact that the political climate is far

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from being identical all over Europe, and measures possible in one place are considered - rightly or wrongly - impractical in other countries. Differences in fiscal methods and their efficacy, differences in the organization of credit are still considerable. It also has to be recognized that the burdens borne by the various countries are unequal. In one or two instances, differences between the attitudes of European countries, are also to some extent the result of differences of philosophy. In certain countries the emphasis on the importance of developmental policies seems to outweigh the attention paid to monetary stability, while in others it is very much the other way round. Yet, these divergences of opinion are palpably diminishing.

A certain degree of ability to adjust through internal measures is, of course, a prerequisite, not only for integration within a continent, but even more so for an international system including wider areas. An attempt at convertibility, which would not be merely technical and based on important restrictions, would be confronted with this very same question whether countries were able or willing through monetary, fiscal and other internal measures to achieve certain degrees of adjustment.

2. Reallocation of Productive Resources

The salutary effect of a single market consists essentially in a better, i.e. more economical, distribution of productive resources. It implies the growth of more efficient, which in many instances means larger, units of production and inevitably the elimination of less efficient units.

The first painful question which arises is therefore which production units should be eliminated and which preserved. Under the conditions of a fully "free market process" this question would be answered by the "natural course of events". There is little indication however, that European countries consider themselves capable of submitting to the pressure of entirely unregulated market forces. As the E.C.S.C. Charter shows, and as becomes evident from discussions in other quarters, on integration by sectors the pressure of the market is likely to be weakened by extending the adjustment over a period of time. During the transitional period efforts will be made to strengthen enterprises which, if immediately exposed to competition, would undoubtedly succumb. Except for extreme cases, there is hardly any means of determining with complete objectivity which units deserve national or international assistance and which have no chance of survival. If proponents of integration schemes succeeded in creating the general expectation that the time limits of transitional period would be observed and all protection would thereafter be removed, an effective incentive would be provided to concentrate on really promising cases. But even under such favourable conditions some general understanding between governments and producers would be required concerning the sectors and units of production which were to be preserved.

The closing down of inefficient units has essentially economic consequences of two kinds. In the first place, the losses of entrepreneurs have to be taken into account and compensation of some kind devised for them. There is little doubt that schemes which would inflict severe and uncompensated losses on producers would be exposed to stalling, procrastination and eventual failure. For these reasons, in the more recent discussions on integration by sectors, various plans have been designed by which the opposition of producers would be eliminated or at least moderated. In addition to direct compensation from public funds, schemes have been proposed according to which the loser should be compensated by sharing in the "windfall profits" of the winner.

The other problem concerns the employment of labor. Various schemes of assistance for displaced manpower are being considered, such as temporary unemployment allowances, housing programs, etc. Here the European conditions raise difficulties - mentioned below - which are usually non-existent in similar processes within a single country.

The productive units to which the lucky card of survival is dealt will be confronted with the problem of investments. Adequate supply of capital becomes one of the factors which will determine the speed at which markets can be integrated. The other major determining factor is probably the period necessary for the training of technicians and manpower, or for bringing about a greater mobility of persons already trained.

The supply of capital in the transitional period would undoubtedly be a problem. The "strong enterprises" should be able to self-finance at least a part of their investments out of the higher margin of profits which would result for them from the opening of new markets. The level of these profits will therefore be determined, among other factors, by the degree of relaxation of protective measures. Weaker enterprises "to be saved" could hardly depend on the normal supply of capital and the intervention of public agencies or international bodies would probably be called for. Again various ways are suggested of teaming together the strong and the weak so that the latter can benefit from the increased capital formation of the former. Successful industries, inspiring faith in their steady growth, should have a chance of attracting private capital. Supply of capital across the frontiers would, apart from other normal considerations, also depend on freedom of exchange transactions on capital account, and confidence in its permanence. There is little doubt that there would be a stronger tendency for capital to remain in the European area if it did not feel imprisoned by exchange regulations. The advantage of a liberal exchange system vis-a-vis the rest of the world becomes, of course, even more obvious if the hopes of an influx of foreign, i.e. extra-European, capital are to be realized.

The problem of mobility of labor remains one of the least tractable. With few exceptions, the treatment of domestic and foreign labor in European countries is far from uniform, even with regard to the basic legal provisions governing permission to work. Yet, the removal of direct legal impediments upon the employment of foreigners would not by itself, provide conditions of mobility such as exist in a single country.

There are several institutional and psychological factors which always render migration unattractive.

Some of these obstacles could be overcome by a concerted effort; differences in social legislation and the non-transferability of acquired rights are among the barriers to the movement of labor. Inadequate housing facilities for labor is a problem to be fitted into general construction programs. The attitudes of trade unions in receiving countries could be greatly improved and the attitude of the domestic working population would have to be corrected in certain places.

The psychology of the potential migrants themselves seems to be less promptly adjustable. Difficulties of language are discouraging, especially in the linguistically ill-equipped lower echelons. Differences in ways of living are not negligible between the continent and the British Isles, between north and south, between Latin and Germanic areas. In addition, it should be remembered that Europeans in general are more attached to their original environments than the population e.g. of North America, and there is often little migration within one country. It is unlikely that these basic attitudes could be changed rapidly: much education will be necessary and in more than one country something not far short of a change in the philosophy of life.

By courtesy of the O.E.E.C.

ANNEX I

POSITION OF LIBERALISATION OF TRADE AT 1st JULY 1953

(for Austria 1952)

Reference year: 1948 (for Germany 1949)

Values expressed in million dollars

Country	Bases of Calculation							Freed Private Trade						
	Intra-European Trade Total	Government Trade	Total	Private trade			Total		Category I		Category II		Category III	
				Cat. I	Cat. II	Cat. III	Value	%	Value	%	Value	%	Value	%
Germany	801	55	746	267	276	203	672.6	90.1	212.3	79.4	269.5	97.8	190.8	93.7
Austria	384	5	378	59	194	125	135	35.8	21	35.3	69	35.6	45	36.4
B.L.E.U.	980	49	931	227	293	411	811.5	87.2	138	60.8	292.5	100	381	92.7
Netherlands	908	10	898	63	317	518	829.5	92.3	53.7	85.4	315.6	99.5	460.2	88.8
Denmark	445	2	443	58	163	222	336.5	76	46.4	80	156.5	96	133.6	60
France	853	187	666	129	282	254	-	-	-	-	-	-	-	-
Italy	331	14	317	86	151	79	315.7	99.7	86.1	99.8	150.9	100	68.6	99
Ireland	348	1	347	49	74	224	260.4	75.1	35	72.2	69.9	94	155.5	69.4
Iceland	43	10	33	3	13	18	-	-	-	-	-	-	-	-
Greece	120	26	94	23	30	41	-	-	-	-	-	-	-	-
Norway (1)	457	26	431	21	105	304	323.6	75.1	16.7	79	92.6	88.1	214.3	70.4
Portugal	207	-	207	10	73	123	190.8	92.4	7.8	75.2	57.9	79.5	110	89.1
Sweden	766	54	712	49	242	420	650.3	91.4	35.7	72.3	239.6	99.1	375	89.2
Switzerland	586	31	555	104	204	246	507	91.4	64.7	62.2	204	100	239.5	97.2
Turkey	142	7	135	1	17	117	-	-	-	-	-	-	-	-
United Kingdom	1,851	310	1,541	498	678	366	900	58.5	288.8	58	372.9	55	237.9	65
TOTAL	9,222	787	8,434	1,647	3,112	3,671	5,932.9	70.3	1,006.2	61.1	2,290.9	73.6	2,611.4	71.1

(1) Portugal: The last Portuguese notification includes no notification by category of products. Only the total figure given above is exact; values and percentages by category show the results achieved at the previous stage.

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LIST OF COMMODITIES
TO BE FREED IN COMMON
BY MEMBER COUNTRIES

OEEC
Nomenclature

A. TEXTILES

Raw and waste products

Cotton	...	5100
Wool	...	(5200
		(5300
Flax	...	5411
Hemp	...	5412
Ramie	...	5413
Silk	...	5450
Hair and other animal fibres (mohair, alpaga	...	5490

Artificial fibres and continuous
filamentsSemi-manufactured products (yarns and
tops)

Wool tops	...	5610
Wool yarns	...	5620
Cotton yarns	...	5630
Rayon staple fibre and other artifi- cial staple fibre yarns	...	5640
Manufactured silk yarns	...	5650
Flax, hemp or ramie yarns	...	5660

Fabricated basic textiles

Cotton fabrics	...	5710
Wool fabrics	...	5720
Artificial fabrics	...	5730
Silk fabrics	...	5740
Flax, hemp or ramie fabrics	...	5750

Ready-made clothing and textile
manufactured products

Knitwear	...	9210
Other wearing apparel	...	9220
Embroideries, tulle and lace	...	9230
Hats and hat bodies, all types	...	9240
Carpets	...	9250
Other textile manufactured products n.e.s.	...	9290

B. MACHINERY

Textile machinery and spare parts	8910
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C. AGRICULTURAL PRODUCTS

Oil cakes and meal	...	1200
Other feeding stuffs	...	1300
Unmanufactured tobacco	...	0710
Canned or de-hydrated vegetables	...	ex 0850
Fresh citrus fruits	...	ex 0870
Casings	...	0429
Cheese	...	0530
Vegetables and grass seed	...	1410
Gelatines and glues	...	ex 1900
Casein and albumin	...	ex 1900
Dried fruits (dates, raisins,, prunes, apricots, chestnuts, walnuts, hazel- nuts and almonds)	...	ex 0860

D. CHEMICAL PRODUCTS

Basic slag	...	ex 2140
Crude and refined coal-tar	...	ex 2341
Benzol	...	2342
Coal Tar, pitch	...	2343
Creosote, toluene, naphthalene, anthracene	...	ex 2344
Cellulose acetate and pheno-plastic resin	...	ex 2350
Vinyl chloride	...	ex 2350
Vegetable tanning extracts	...	2360
Medicinal and pharmaceutical preparations (except antibiotics)	...	9510
Abrasives	...	7490
Pneumatic tyres, inner tubes and solid tyres	...	ex 9600
Rubber articles for medical and tech- nical purposes	...	ex 9600
Ferro-cerium	...	ex 2320
Inert gases	...	ex 2320
Ochres and earth colours	...	ex 2345
Urea	...	ex 2350
Residual lye, alcaloids and alcaloid pro- ducts, opotherapeutic products and peptone	...	ex 2360
Lithopones, zinc oxide, titanium oxide and other pigments	...	ex 2370
Unworked granite	...	ex 7410
Refractory raw materials	...	7431
Refractory products except magnesite	...	7432
Magnesite and magnesite compounds	...	7433
Graphite	...	7493

E. HIDES, TIMBER AND PAPER

Furskins and pelts, raw	...	...	...	7140-9400
Skin gloves	...	...	...	ex 9430
Hard wood	...	...	...	6200
Cigarette paper	...	...	...	ex 6890

F. MISCELLANEOUS PRODUCTS

Books, printed matter, illustrated maga-	...	...	...	ex9999
zines, newspapers, etc.	...	...	...	ex 9999
Products of the graphic arts	...	...	...	ex 9119
Fish hooks	...	...	...
Astronomical instruments, geodesic in-	...	...	...
struments, meteorological, navigation	...	...	...
and drawing instruments, precision	...	...	...
balances	...	...	...	ex 9120
Medical and surgical instruments	...	...	...	9123
Cine cameras and projectors	...	...	...	ex 9129