CHAPTER II

Economic Cooperation by Participating Countries

A. THE OEEC.

With the signing of the Convention for European Economic Cooperation on April 16, 1948, the sixteen nations associated in the Committee of European Economic Cooperation, together with representatives of the zones of occupation in Western Germany, took a major step towards implementing the pledge of cooperative effort embodied in their General Report of September 22, 1947—a pledge which was of fundamental importance to the United States in its decision to extend American aid to these participating nations. The Convention bound the participating nations to work in close economic cooperation, specified that their first cooperative effort should be directed to the "elaboration and execution of a joint recovery program", and set up the Organization for European Economic Cooperation (OEEC) as the continuing body within whose framework such cooperative efforts should be carried on.

Thus, at the same time that the Government of the United States established the Economic Cooperation Administration to carry out this country's part of the European Recovery Program, the participating countries themselves set up a specific international organization to guide and integrate their own cooperative efforts in attacking their common economic problems. At the end of the first nine months of the OEEC during which its organization had to be established, the work it has accomplished justifies the high hopes of its founders. At the same time, the member countries recognize that they are still on the threshold of European cooperation, and that the most difficult tasks have yet to be tackled with sustained and continuing common efforts.

The work of the OEEC has thus far been primarily focused on the formulation of joint economic programs, which the OEEC develops out of the individual national programs submitted by the participating countries. The aim is to achieve the most effective use of all resources available to the participating countries and thus reduce to a minimum the requirement for extraordinary outside assistance. It is within the functions of the OEEC to study and recommend action on a variety of large-scale economic problems, such as trade and payments among the participating countries, the coordination of national investment plans, joint developmental projects within Europe, customs and economic unions, and trade and fiscal policies.

The OEEC has devoted much effort in the past year to the immediate problem of recommending to the ECA a division of American assistance

for 1948/49. But the analysis of Europe's economic problems and the formulation and undertaking of agreed measures of self-help and mutual aid to solve these problems are far more significant activities for Europe's economic prospects and future organization.

1. The Structure of the OEEC.

The structure and functions of the OEEC were established by the Convention for European Economic Cooperation. The organization is now composed of representatives of 16 nations and of the Bizone and French Zone of Germany and the U.S.—U.K. Zone of Trieste [1] and each nation is represented on the Council, which is the governing body of the organization and the body vested with power of decision. The Council acts on the principle of unanimity, although a member may refrain from voting and may approve a decision with stated reservations. The Council has met more than fifty times since April 1948.

The Executive Committee directs the day-to-day activities of the OEEC. This Committee is composed of seven members chosen by the Council, considers all matters to be referred to the Council and submits them with its recommendations, prepares the agenda for the Council meetings, and has been entrusted with an increasingly wide area of direct responsibility. It has, for example, directed the work on the long-term program covering the first year after the end of the European Recovery Program, including the approval of instructions for the preparation of national submissions, and the review of the program.

In addition to the Executive Committee, there are a number of Technical Committees. In the first place, there is a series of committees dealing with general problems: the Programs, Trade, Intra-European Payments and Manpower Committees and the Overseas Territories Working Group. Secondly, there are committees dealing with commodity or industry problems, in the fields of food and agriculture, iron and steel, coal, raw materials, textiles, machinery, and others. Each member is entitled to representation on these technical committees or to send a representative when a committee is considering a problem of interest to it.

The committee structure is flexible and adaptable to changing needs since no hard and fast procedures have been laid down. As presently organized, the working-level activity of the OEEC centers in this committee structure. These committees also work on the principle of unanimity but have authority to make only recommendations and not final decisions.

The other major segment of the organization—apart from the Council and the Executive Committee and the technical committees—is the internationally staffed Secretariat. The Secretary General assists the Council, the Executive Committee, and the various technical Committees in their tasks. The Secretariat analyzes the various economic problems that come before it and submits proposals for their handling or

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1 The full list of members is: Austria, Belgium, Denmark, France, the U.S.—U.K. Zone of the Free Territory of Trieste, Greece, Iceland, Ireland, Italy, Luxemburg, The Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, the United Kingdom, and the occupied zones of Western Germany.

for their solution. In addition, the Secretariat provides the necessary technical and housekeeping services for the efficient administration of the business of the organization.

The relation between the Secretariat and the National Delegations is flexible. Sometimes the work is done by one or more national delegates, sometimes by a committee, sometimes by the Secretariat. The object is always to entrust the work to be done to those who can best do it.

2. The Functions of the OEEC.

The functions of the OEEC are summarized in the resolution of the Committee of European Economic Cooperation, dated April 16, 1948, which states that the organization is:

> "(1) to prepare as often as necessary, on the basis of and after examination of national estimates or programs, such general production, import and export programs as appear necessary to further the objects of the Convention;
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> "(2) to consider, in the light of national estimates or programs of development submitted by the Contracting Parties, the best use of productive capacity and manpower to further the objects of the Convention within both their metropolitan and overseas territories, and the measures necessary to achieve these ends;
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> "(3) to promote consultation between the countries concerned, to consider the measures and create the machinery necessary for European economic cooperation especially in matters of trade, international payments and movement of labor;
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> "(4) to investigate, wherever necessary, methods of coordinating the purchasing policies of Members;
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> "(5) to assist Members, at their request, to surmount difficulties incurred in the execution of the European Recovery Program;
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> "(6) to make recommendations, as may be appropriate, to the United States Government and, as need be, to other Governments or International Organizations, on the allocation of commodities among the Members, having due regard to the allocating functions of other International Organizations;
>
> "(7) to ensure the most efficient use of external aid and to contribute towards ensuring the most efficient use of indigenous resources;
>
> "(8) to prepare as often as necessary reports on the execution of the European Recovery Program and the use of external aid;
>
> "(9) to collect all such information as may facilitate the accomplishment of the tasks of the Organization * * *"

The OEEC's terms of reference are wide enough to embrace any and all economic problems of European recovery. The organization has not, as yet, been able to give its full attention to many of the problems suggested in the above list of functions, though it has had to concern itself to some degree with most of them in its preparation of the first annual program. The analysis, review, and formulation of recommendations on long-term recovery problems will, however, compel it to consider

very carefully a wide range of internal and external aspects of the economies of the participating countries.

B. PROGRAMMING.

Hitherto the preparation of one quarterly supply program and two annual programs has taken up most of the time of the OEEC. The preparation of these programs was requested of the OEEC by the ECA, and the OEEC had to develop its own techniques for this difficult and complicated task. But now that those techniques have been learned —even though there will have to be continual modification of them—it is probable that the preparation of further programs will take much less time. More time will thus be available to deal with the vital problems of European recovery.

In general OEEC programming is a cooperative effort to guide national policies so that the participating countries, as a coordinated group, will most effectively use their resources to achieve independence from extraordinary outside assistance. More specifically, the programming activity of the OEEC has consisted of obtaining forecasts of the maximum amount of industrial and agricultural production which might be expected in any period, the amount of labor, raw material, and capital equipment which would be needed to reach these output goals, and an estimate of the extent to which the necessary resources can be obtained from indigenous production or must be obtained from outside sources, together with recommendations for necessary action.

The development of a program has three main aspects. First, the OEEC defines the objectives which the particular program is to meet and the form and content of the forecasts which are to be made by the participating countries and submitted to the OEEC. The second is the preparation of such forecasts by the national governments, and the third is the analysis, reconciliation, and consolidation of these forecasts by the OEEC into an integrated joint recovery program. A vital part of this last stage, a part which the participating countries have not yet completed for the 1949/50 and long-term programs, involves the modification of national programs to minimize incompatibility and to provide for the most effective contribution by each nation to the common recovery objective.

Three types of programs have been undertaken during the past year: quarterly procurement programs, annual programs for the fiscal years 1948/49 and 1949/50, and a long-term or four-year program which will project the goals to be reached by mid-1952 in order to achieve freedom from extraordinary external support.

1. Quarterly Procurement Programs.

Because of the pressure of time and the need for maintaining an uninterrupted flow of essential commodities into Europe during the first months of the recovery programs, quarterly supply programs for the second and third calendar quarters of 1948 were prepared without the benefit of a completed annual program for 1948/49.

As its first programming assignment, the OEEC undertook the preparation of the supply program for the third calendar quarter of 1948.

It was soon recognized, however, by both the OEEC and the ECA that the former could not continue to prepare quarterly programs and also devote the necessary time and personnel to the drafting of annual and long-term programs and the solution of Western Europe's basic economic problems. Consequently, it was decided that the ECA, working directly with the governments of the participating nations, would prepare the quarterly procurement programs within the framework of agreed annual programs.

2. The First Annual Program, 1948/49.

Immediately after the completion of the July-September program, the OEEC took up the task of preparing an annual program for the year 1948/49. It was impossible to delay this work until a definitive long-term program, setting forth the goals to be attained before the middle of 1952, could be completed. Although both the OEEC and the ECA agreed that, logically, the long-term goals should be established as the basis from which the first annual program could be developed, pressure of time forced the adoption of the reverse order. For a number of reasons, including the preoccupation with urgent commodity requirements and the attempt to forecast in detail for a year in advance supply and demand for individual commodities, the initial emphasis was placed on detailed commodity projections. Later, emphasis was shifted to the measures which might be taken by each country and by the group to promote financial stability, to develop domestic production and improve labor productivity, to coordinate investment plans and other measures of self-help and mutual aid, and to consideration of the basic economic problems which affect the trade and financial relations of the European countries with each other and the rest of the world. Only through action of this kind can Europe achieve the most effective use of its own resources and a steady and rapid reduction of its requirements for outside assistance.

After receiving the national submissions for 1948/49, the OEEC examined and analyzed each program separately, trying to determine the requirements of each country for imports considered essential according to common criteria of recovery needs. In order to carry out this operation, a committee of four members was set up and empowered to review the programs and to make a provisional allotment of aid among the participating countries. These men were members of the National Delegations of France, the United Kingdom, the Netherlands, and Italy, and were the Chairmen or Vice Chairmen of the most important technical Committees. They were, however, appointed in their individual, not in their representative, capacities, and were charged with proposing through the Programs Committee to the Council a recommended division of American aid.

As guidance for the work of the Committee of Four, the Council laid down the following principles:

> "(a) maintenance of food consumption at approximately the 1947 level, except where a higher level could be justified by exceptional difficulties or increased production and employment;

"(b) maintenance of imports of raw material at a level sufficient to prevent production and employment from being reduced, especially in connection with industries whose activity may directly or indirectly result in dollar saving or earning; widest possible recourse by participating countries to sources of supply outside the dollar area;

"(c) due attention to the volume of expected world market availabilities; and

"(d) adjustment of the import prices of basic products in accordance with the most up-to-date information."

Regarding capital equipment goods, the Council recommended that "the needs should be assessed according to the effect that such imports might have on production likely to result in dollar earnings or savings." Special attention was also to be given to relations between equipment requirements for 1948/49 and the over-all targets which might be set in the long-term program.

The OEEC suggested reductions in dollar requirements by recommending both the cutting of certain dollar imports and the shifting of other imports from the dollar area to European or other non-dollar sources. The problem of meeting the non-dollar deficit was solved in large part by the adoption of the convention on intra-European trade and payments. The background of this convention, together with the steps which were taken to solve it, are discussed in detail elsewhere in this document. After initial forecasts of intra-European trade and payments were reconciled, it was possible to determine each country's net requirements for assistance. Certain countries were in a position to provide assistance to other countries. The final recommendations on the division of aid, therefore, involved the determination of the amount of direct dollar aid which each country would receive from the United States and the assistance it would receive from, or extend to, other participants. As a result of this process, some modifications were made in both the earlier recommendations on dollar assistance and the forecasts of intra-European trade and payments. Final agreement in the Council was reached on October 16, 1948, and the entire program for 1948/49, including the recommended division of American aid, was transmitted to the ECA.

3. The Long-Term and Second Annual Programs.

Since August 1948, when the original instructions were sent out by the OEEC to the participating nations, and in particular since early November when the replies to the questionnaires were received, the long-term program covering the year 1952/53 has been the focus of OEEC activities. Again, advances have been made in the techniques of programming. The Council has delegated to the Executive Committee the direction of the preparatory work on the long-term program and the Executive Committee has interpreted this directive broadly. Functioning mainly as a working group, that is, relatively divested of national responsibility, it has undertaken the examination of the national program submissions, the preparation of reports on and analyses of these submissions, the discussion of the basic economic issues which

have arisen in the course of the study, and the issuing of instructions to the technical committees engaged in commodity screening. The Secretariat has taken an increasingly active part in this process; and a Central Unit, consisting of the Chairman and Vice Chairman of the Executive Committee and the Secretary General, has been set up to operate as a steering committee.

Simultaneously, work on the second annual program for 1949/50 has been in process. The Programs Committee was put in immediate charge of this program, but the work on it has been conducted, throughout the OEEC, as an integral part of the long-range plan.

This approach to the long-term program is significant as an indication of the importance attached to it by the OEEC. It has resulted in a more centralized control over programming within the organization, and the development of programming technique has strengthened the OEEC. Not only is it more aware of the fundamental decisions which its member governments must take to achieve European recovery, but its increased prestige should facilitate action on the basic measures now required.

The procedure used in preparing the long-term program is to present an economic picture of the participating countries individually and as a group in the first year after the end of the European Recovery Program showing how the countries, individually and as a group, expect to attain satisfactory levels of production and living conditions, independent of extraordinary outside assistance. The preparation of such a program is by no means an easy task. The individual national program submissions of the governments to the OEEC are in many cases inconsistent with each other. This is to be expected at this stage of preliminary work. The inconsistencies and duplications appear in the anticipated types and quantities of exports and imports and consequently in the industrial and agricultural production, consumption, and investment targets on which these trade estimates are based. Equally important, the position of the participating countries as a group which is forecast in the 19 individual programs requires a reexamination of the anticipated levels and terms of trade between Western Europe and other important regions of the world.

To date, the OEEC's work on the long-term programs has consisted largely in analyzing the prospects of Western Europe in 1952/53 as it might be expected to emerge from the uncoordinated submissions of the participating governments, and in clarifying the issues which must be settled before a coordinated and realistic Western European program can be formulated. During the next several months the OEEC will endeavor to find solutions to these problems and will probably not complete its work on the long-term programs until sometime in the spring of 1949.

The second annual program, that is, the one for the fiscal year 1949/50, will also not be completed until the spring. The OEEC has obtained program submissions for 1949/50 from each of the participating countries but it does not plan to undertake the detailed revision and

coordination of these programs until after the Congress has indicated what the maximum extent of American aid may be and until the work can be done with a clearer view of the needs of the long-term program for Western Europe.

The preparation of an integrated and consolidated long-term program is of greatest importance. If it is to be developed, basic decisions must be taken by member governments and basic questions must be faced with regard to the present structure of the European economy. The first stage in inducing governments to adopt the necessary policy decisions was reached when the OEEC requested its members to prepare detailed long-term programs for national recovery as the basis for discussions in Paris. As a result of preparing such programs, most of which were completed during November 1948, national governments have become more aware of the nature of their own individual problems and, as a consequence, it is not unreasonable to expect that far-reaching decisions will be made affecting national economic policies.

4. The General Effects of Programming.

In the post-war period in Europe, it has been difficult to remove all controls and restrictions on the flow of international trade and on the process of investments. As a result, the normal economic forces which determine prices, directions of trade, and rate of capital investment have not been fully operative. In their absence, economic decisions must be made through the process of cooperative action. Through the mechanism by which OEEC studies in detail the program submissions of each country, the members of the organization obtain accurate knowledge of the general lines of development envisaged by their neighbors. They also have an opportunity to see the points at which their own plans are in conflict with those of other countries. The magnitude and nature of the problems facing the European nations are, for the first time, being defined. Specific problem areas are being isolated for further study. This process of exchanging information in itself results in basic policy decisions by the Governments. The next step, which is yet to be taken, would involve the deliberate and conscious negotiation among the participants looking toward common agreement upon the further policies which must be adopted by each to insure compatible and complementary plans.

During the work of the OEEC in the last year there has been a strong tendency to try to define in statistical terms the bilateral relations of each member with the other participants. This has been particularly true in the negotiations leading to the intra-European payments plan, and there is a risk that the final reconciliation of the long-term programs may attempt to define too closely the bilateral trade patterns for each major commodity in intra-European trade. The OEEC recognizes the importance of avoiding undue crystallization of the individual trade patterns. If the plan were to attempt to define the amount of each country's production and the destination of each ton of its exports, there would be considerable danger that such rigid patterning would result in losing the advantages of competition as an incentive to efficiency in production and distribution.

5. The Relation Between OEEC and ECA Programs.

It is clear that the expenditure of ECA funds must be controlled and directed by the ECA. But it is equally clear that ECA funds must be spent in a manner which will make the maximum contribution to European recovery and protect the economy of the United States. Consequently, both the ECA program for American aid and the OEEC programs to make more effective use of Europe's own resources must be consistent with each other and the two organizations must be free to make recommendations and suggestions to each other.

The ECA studies the annual programs prepared by the OEEC and discusses possible modifications with the latter in the production, consumption, investment, and trade targets for Europe projected in these programs. The OEEC recommendations on the amount and division of American aid are carefully considered by the ECA and the advice of the OEEC is sought before important changes in the recommended figures are made by the ECA.

The OEEC annual programs are used as general guides by the ECA in the preparation of quarterly procurement programs for the expenditure of ECA funds. Where changes in supply conditions or other factors necessitate substantial deviations from the agreed annual programs, the OEEC is notified by ECA so that it may discuss the revisions required in its programs as a consequence.

To date, the ECA and the OEEC have worked in complete harmony and their programs have effectively complemented each other. There is every reason to expect that cooperation will be equally close in the future.

C. AGREEMENT FOR INTRA-EUROPEAN PAYMENTS.

One of the most significant results of cooperative action in the OEEC has been the development and operation of the Agreement for Intra-European Payments and Compensation. This plan was designed to prevent a stagnation of intra-European trade caused by payment difficulties. It constitutes the first step towards mutual aid among the participating countries and multilateral balancing of payments among themselves.

In the pre-war years, trade between the participating countries constituted between 40 and 50 percent of their total trade. Pre-war imports of participating countries from each other were almost four times as large as their purchases from the United States. With the striking increase in importance of the United States as a European supplier since the end of the war, American imports by the participating countries almost equalled their imports from European sources in 1947, but in the first half of 1948 imports by the participating countries from each other exceeded their imports from the United States by 50 percent.

In qualitative terms also, trade among the European countries is of considerable importance. This trade traditionally includes the flow to other participating countries of coal from the Ruhr and the United Kingdom, of steel from Belgium, of potash and iron ore from France,

of woodpulp and iron ore from Sweden, of fruits and vegetables from Italy, as well as an active interchange of textiles, machinery, vehicles, and a wide range of specialized manufactures. If the overseas dependencies of European countries are included, the range of key commodities traded in the area is widened considerably and includes phosphates from French North Africa, copper from the Belgian Congo and Rhodesia, and the rich food and raw material resources of Malaya, French Indo-China and Indonesia.

The task of reviving mutual trade which confronted the European countries after the war was a difficult one. The conditions and mechanisms which gave rise to the pre-war trading patterns in Europe had been destroyed. Germany was largely eliminated as customer and source of supply. Price systems were distorted by subsidies, controls of varying efficiency, requisitioning by military authorities, and black markets. Currencies for the purposes of commercial dealings in volume were inconvertible; exchange rates were often artificial and at best untested. Reserves in gold and hard currency had to be husbanded carefully for the huge requirements of importers from the dollar area. Many countries were slow in returning foreign trade to private channels. Under these conditions it was only natural that European countries should have resorted to trade and payments agreements.

These agreements normally provided for exchanging certain specified categories of goods; for offsetting at an agreed rate of exchange the sums representing goods shipped in one direction against the value of those shipped in the other; and finally, to cover the inevitable lack of balance in this trade, for lines of credit to be granted by the central bank in each country to the other. As a practical matter trade and payments agreements of this character had to be negotiated and drawn up bilaterally. Such reciprocal credits eliminated the necessity for day-to-day balancing of accounts, and permitted the building up of substantial creditor and debtor positions over a period of time based upon ultimate settlement in gold or by other means.

In spite of the distortion of normal multilateral trade patterns, trade under these bilateral agreements did revive to a degree in 1946, but in the early part of 1947 definite strains in the bilateral payments arrangements became visible. Practically no progress in the expansion of intra-European trade was made in the course of 1947 beyond the level reached during the last quarter of 1946. This leveling off was due in part to the increased payments difficulties that were encountered throughout 1947. In many crucial payments relationships bilateral balance was not achieved and lines of credit became exhausted. At the same time, practically all European countries were more and more hard pressed for the financing of their purchases from the Western Hemisphere. The intra-European debtors were therefore increasingly unwilling to transfer gold or dollar balances in settlement of their debts. At the same time, the creditors became equally unwilling to extend new credits to the debtors, because of the poor prospects of eventual repayment and because of their concern over their domestic inflationary pressures. What had once seemed so desirable to most countries as to be termed a

"favorable" balance of trade was now renamed "unrequited exports" and was considered as the worst of economic blunders.

To the extent that intra-European buying and selling was impeded by lack of the means of payment, European recovery was being retarded. It was important, therefore, that the financial obstacles standing in the way of a more efficient utilization of European productive facilities be removed or diminished. For a period of time, the ECA financed a portion of intra-European trade by allowing the participants to purchase with ECA dollars needed supplies from other participants. This method was regarded by the ECA as a temporary device to meet a pressing problem, since it was felt that it should not be necessary to finance intra-European trade with dollars.

Meanwhile in Paris the OEEC countries were devoting their attention to the creation of a plan which would not only maintain the volume of trade, but would provide a first step toward establishing convertibility of currencies. This plan was embodied in the Agreement on Intra-European Payments and Compensations signed by the participating countries on October 16, 1948. Under the plan, the participating countries estimate the surpluses and deficits of payments they expect to have with each other during a specified period, if their recovery plans are to go forward with maximum utilization of European resources. Once these estimates are agreed upon, the creditor country in each case commits itself to establish accounts in its own currency in favor of its debtor to the amount of the estimated deficit in payments. These accounts are called drawing rights and are made available as grants rather than lines of credit. For example, Belgium is able to export to France the equivalent of $40 million worth of goods and services in excess of the value of the goods and services which France is in a position to export to Belgium. France, not holding Belgian credits and not having adequate gold or dollar reserves, could not buy these needed additional goods and services from Belgium. Under the Payments Plan, however, Belgium agrees to grant to France drawing rights in Belgian francs up to the equivalent of $40 million.

The relating of these drawing rights to ECA dollar aid is the next step. Belgium, although it is a creditor of France, has a dollar deficit in its trade with the Western Hemisphere. How does Belgium acquire the necessary dollars to meet this deficit? The Payments Plan proposes the following solution: $40 million of the aid which Belgium is allotted by the ECA for the period in question is conditional upon Belgium's granting the drawing rights to France agreed upon. In other words, Belgium is required in effect to earn the $40 million by passing on an equivalent amount of aid to France in the form of goods and services paid for in Belgian francs. Belgium thus has $40 million available to finance necessary purchases from dollar areas and these dollars thereby perform a dual function without additional cost to the United States. Goods supplied by Belgium or any other participating country under this arrangement contribute to ERP objectives directly and effectively.

The above process is repeated 78 times—between each creditor and debtor. Countries which might have expected to receive the dollars from the ECA without undertaking certain obligations towards their

European neighbors agree under the OEEC plan that a certain portion of these dollars must be earned by the granting of locally-financed aid to certain other participants. The benefits of ECA dollar aid can no longer be entirely husbanded by its direct recipients but must be passed on in part to the other European countries, thus materially augmenting the total transfer of commodities, goods, and services under the ERP.

In conjunction with the adoption of this basic principle, the OEEC went one step further. It proposed that a mechanism be established through which a limited transferability of European currencies might be achieved. This device is called multilateral clearing and its operation is entrusted to the Bank for International Settlements, operating in this respect under a precise directive from the OEEC.

For example, in a given period of time it might be found that Italy is a debtor to the United Kingdom on its current payments with the United Kingdom to the extent of $5 million while Italy is a creditor of $5 million in its account with Belgium. The United Kingdom on the other hand, is a debtor with Belgium to the extent of $10 million. By the process of multilateral clearing, Italy's credit with Belgium would be used in payment of Italy's debt to the United Kingdom, while the United Kingdom would use the credit thus received against Belgium to offset $5 million of its debt to Belgium. This type of multilateral clearing may be conducted by the Bank for International Settlements without prior approval of each transaction by the countries involved. The beneficial results of such clearing can be readily perceived. An all-around reduction of debts has thus been accomplished, facilitating the extension of credits to finance further trade.

After the process just described has been carried as far as possible, there remains to be settled by the Bank for International Settlements as compensation agent a large volume of indebtedness outstanding between participating nations as a result of their trade with each other, and the agent then proceeds to make use of the drawing rights to the extent needed for this purpose. Under the present agreement only the Bank for International Settlements is authorized to utilize drawing rights to settle debts due from one ERP country to another. By means of these two mechanisms, multilateral clearing and utilization of drawing rights, obligations were discharged amounting in October to $82 million, in November to $67 million, and in December to $80 million, which would otherwise have remained outstanding. If such indebtedness were allowed to accumulate it would again threaten to reduce European trade to a strictly bilateral basis.

This automatic type of multilateral clearing has not yet attained great significance because of the disequilibrium in trade and payments among the participants. Nevertheless, it is a significant first step toward convertibility of currencies in Europe. More complete convertibility of currencies of the participants must await the correction of excessive disequilibria in trade with other participants. This in turn requires the suppression of inflation and a price structure which will facilitate trade. In the meantime, the Payments Plan is designed to make possible the maximum possible volume of intra-European trade despite the serious disequilibria still existing in Europe. In addition,

the OEEC has adopted a series of commercial policy principles which it has recommended to the participating nations. The principles, if followed, are designed to assist the countries to achieve the necessary trade balance.

It is hoped to move progressively towards the objectives of convertibility of currencies and maximum practicable freedom of trade. The extent to which such progress will be possible depends upon the economic and financial measures taken by the participating countries. The Payments Plan in its present form leaves much to be desired as an instrument in bringing about trade equilibrium in Western Europe and a greater convertibility of currencies. The OEEC is continuing its studies concerning the relationship of the present plan to these objectives. However, the present plan represents a step towards these goals. It serves the immediate needs of preventing a reversion to the type of bilateralism in trade and payments among the participants which existed immediately after the war and encourages a greater utilization of European resources in the interest of recovery.

D. FUTURE TYPES OF OEEC ACTIVITIES.

In the past year, the OEEC has concentrated upon production and distribution programs and on problems of intra-European payments. It has been unable, because of the pressure of work, to devote sufficient attention to problems of furthering the adoption of sound monetary and budgetary policies by the participating countries. Control of inflation should be a major subject for consideration by the organization during its next year of operation. Work also needs to be done looking toward the establishment of currency convertibility within the participating-country area at the earliest possible date.

Work is already well under way in studying what has been termed the very root of the problem of commercial disequilibrium, the principles of commercial policy which must be adopted in order to permit the establishment of a system of stable trade relations and to facilitate the purchase of those commodities most necessary for recovery. The elimination of obstacles to the free flow of trade will occupy the attention of the OEEC to an increasing extent, especially as problems of production are solved and the physical availability of commodities increases.

As the OEEC shifts its attention from the problem of urgent commodity needs to the more fundamental aspects of recovery, it becomes increasingly evident that effective action must be based upon a more complete knowledge of the dynamic structures of the several European economies. With the active support of the ECA, the OEEC has been turning its attention to an exploration of possible methods of evaluating the current status and declared goals of participating countries in terms of the sources and application of national revenue and savings. This orientation toward national-accounts studies has been particularly evident in the emphasis upon the relationship between investment plans and the levels of national income in examining the long-term programs.

Although faced with many serious deficiencies in the national statistics available, the OEEC will endeavor to make the fullest possible use

of the national accounts studies which are currently in progress in certain of the participating countries and will encourage further work along similar lines by other participants, both as an aid to the planning of national policies and as the basis for judging national programs. It is recognized, however, that adequate and comparable information is not likely to be available for some time to come which provide any meaningful comparisons between one country and another.

As the long-term programs for the recovery of the various countries move from the planning and discussion stage into actual operation, the OEEC will devote increasing attention to the development of a suitable mechanism for comparing the results achieved with the standards of recovery progress implicit in the goals defined by the programs. While in the early stages the major emphasis has been upon the preparation and revision of plans for future action, the coming years will call for increasing emphasis upon reporting of action taken and measurement of accomplishment, both as the basis for future actions and in order to insure that programs are actually being carried out in accordance with the announced intentions of the participating countries to the best of their abilities.

Another field, which has thus far received inadequate attention, is the development by each country of a competent group of technicians to work on product design, production techniques, and marketing surveys. Some of this work might be coordinated by the OEEC. Europe must live by its export of manufactures. It can only do this if these manufactures can meet competition in world markets in prices, quality, and design, and in packaging and sales technique. Above all, costs must be reduced through efficient organization of production.

The effectiveness of any free system depends to a great extent upon the confidence and support which people living under the system accord to its institutions and to the national government. Here the OEEC can make an effective contribution in the future in helping each government to encourage the participation of its citizens in the formulation of national recovery policies and to acquaint them with the nature of the problems involved in working toward European recovery. The common objectives of both the United States and the participating countries will be served through encouraging a fuller and clearer understanding of the part which the United States is playing in European recovery and its motives for so doing.