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FRENCH RECONSTRUCTION IN A EUROPEAN CONTEXT

by

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This paper is an analysis of the reconstruction of the French economy within the international economy. It examines both the constraints on domestic economic policy stemming from the need to participate in an international economy and the attempts by French policy makers to create a framework larger than the national one in which to achieve national objectives.

When France signed the lend-lease agreement with the United States in February 1945 it undertook to abolish all forms of discrimination in international trade and to reduce tariffs and other customs barriers by an unspecified date. Few in France doubted the potential advantages to be derived from participation in what came to be known as the Bretton Woods system. The development of protective trade blocs in the 1930s had forced the French to reduce their trade and direct it towards their colonies. But the colonial markets were no substitute for former European markets so that while the percentage of total imports supplied by the French colonies increased from 20.9 per cent in 1932 to 27.2 per cent in 1938, they absorbed a smaller proportion of French exports -- 27.5 per cent in 1938 compared with 31.5 per cent in 1932. It was felt that this decline in trade had restricted growth and stifled investment opportunities so that while other countries had been investing in the 1930s and during the war, the French economy had stagnated. So fifteen years of lost investment had to be made up before the French economy could hope to survive and compete in a world of free trade. It was on this understanding that France signed the Bretton Woods agreement in December 1945.

The disappearance of Germany as the major industrial power in Europe provided the French with an opportunity to expand their industry beyond the highest level achieved in the interwar period in the hope of replacing Germany as the major centre and supplier of heavy industry in Europe.[1] This provided the basis for the five year modernization plan which was drawn up in 1946. Priority in investments and imports was to be given to the six basic sectors of coal, steel, electricity, transport, cement and agricultural equipment. It was a plan for industrial modernization which marked a sharp break with the idea of the 'balanced economy' so prevalent in the 1930s and under Vichy. A half-hearted attempt was made to modernize the backward agricultural sector through increased mechanization.

It was hoped that the imports required for reconstruction and modernization would be largely financed by American credits on the scale of the recently negotiated British loan. France had been assured of second place in the round of discussions to wind up lend lease in which Britain ranked first.

In preparation for these discussions Monnet made it clear to the Americans that the French needed a large lump sum credit if they were to proceed with their modernization plan which was to enable them to adopt American commercial policies. Without such an assurance he warned, French reconstruction would take longer and operate within a closed economy. On the other hand piecemeal credits would only handicap French planning procedures and prevent a proper synchronization of France's modernization programme with production trends in the United States.[2]

However, as the French realized if they managed to get a substantial credit they would have to be prepared to grant concessions similar to those demanded of the British. This would mean an end to both exchange controls on current payments and discriminatory trading practices in carrying out their import programme by an agreed date. And once modernized, French industry would have to be content with an ad valorem tariff on imports varying between 10 and 25 per cent; depending on the sector.[3] But modernizing French agriculture was much more complicated since it necessitated not only increased mechanization but also creating larger farm units and overcoming the psychological barrier which French farmers had towards using modern methods. This meant that agriculture would have to be protected for a period longer than the five years envisaged for French industry.[4] Even at this stage it was clear that there were two quite distinct policies for modernization. One was planned investment in the basic sectors while the other was to result from the pressure on the rest of French industry from international competition once the plan was completed.

The other major concession exacted from the British government had been a renunciation of its Imperial Preference Scheme. By analogy the French government expected the Americans to ask them to draw up a policy for the future of the French Overseas Territories which would either incorporate them into a French customs union or abolish all preferential tariffs between them and Metropolitan France. While the ultimate aim of both the colonies and Metropolitan France was ostensibly to participate in free multilateral trade, the

Monnet Plan was based on French industry availing of the extensive markets of the colonies during the period of reconstruction. For this reason those colonies which thought they could get American aid independently were discouraged and had to submit to being included in the overall demands made by the French government at Washington.[5]

But American policy was evolving along lines quite different from those imagined in Paris. Before the Washington talks opened the National Advisory Council met to discuss the American government's policy regarding foreign loans. It was accepted without question that Britain was a special case since "no other country had the same crucial position in world trade". This meant that the financial and commercial practices of Britain were of the utmost significance in determining what sort of international economy would be set up. But the needs of other countries were to be met by the International Bank for Reconstruction and Development and until it could start operations, all loans for reconstruction and development were to be met by the Export-Import Bank and limited to the immediate, minimum needs of the borrower.[6]

To demonstrate to the Americans how the French plan would enable the French economy to participate in the Bretton Woods system, the French planners drew up an estimate of the balance of payments for the period 1946-1949. The import bill for the 4-year period was projected at 11,000 million dollars, of which 5,000 million dollars were to be spent in the United States on supplies, equipment and freight. Of the remaining 6,000 million dollars at least three million were to be spent in the sterling area. While the deficit for

1946 was to be over 3,000 million dollars, it was to drop by about 1,000 million dollars annually until the balance of payments would be in equilibrium by 1949. Exports were to rise from 450 million dollars in 1946 to 2,000 million dollars in 1949. Of this, 17.5 per cent were to be exported from the French colonies. Metropolitan France alone was to export over 27 per cent of its total exports to the United States in 1949, compared with 7.6 per cent in 1938. These were to be mainly textiles and chemical and industrial products. Sixteen per cent of French exports were to go to Britain and the Sterling Area.[7]

But the Americans were most alarmed at the contrast between the French export policy and that of Britain. Whereas Britain planned to increase its exports by 40 per cent in 1947 French exports were to be very low at a time when foreign exchange requirements were highest.[8]

But this reflected a conflict between the planners and the government. While the Ministry of Finance in particular wanted each industry to be forced to export a certain percentage of its production in order to alleviate the balance of payments and secure a foothold in foreign markets, the planners were only willing to let non-essential goods be exported as long as shortages of essential goods existed in France.[9] Insertion into the international economy was to be the result of modernization but not the driving force behind it. The planners had hoped for a credit of over 4,000 million dollars from the United States. Instead they got 650 million dollars and no assurance that the coal which they were demanding from Germany as reparations and on which the plan for steel depended, would be delivered.[10]

The Ruhr was in any case in the British zone of occupation. Months of negotiations with the British followed which led to the creation of an Anglo-French Economic Committee. This became the framework for a series of French suggestions to coordinate the two countries' investment plans and on that basis to work out a policy for the future of the German economy.[11] But the long-term position of Germany within the European economy was a question which did not preoccupy the Brititsh. In addition the French suggestion smacked of market-sharing arrangements which had no place in the liberal order of the Bretton Woods system.

Through Marshall Aid though the Americans hoped to produce a solution to the problem of Germany. It was to be reconstructed within the context of a more closely integrated European economy, which in itself would mark a coordinated transition towards the liberal economic system of Bretton Woods. Marshall Aid also held the promise of a solution to the French planners' problem of financing the dollar imports of equipment so crucial for the realization of their investment plan and of supplies necessary for the French economy in general. Despite the French government's stated policy in August 1947 of cutting all imports from the dollar area except for food and fuel, imports actually increased in the second half of 1947 compared with the first six months, while exports declined.[12] The main problem was that only three per cent of French exports were going to the United States while it supplied about thirty per cent of French imports.[13] Otherwise despite the higher rate of inflation in France and the planners' opposition to the export of essential goods, France had a trade surplus with all west European countries in 1947 except for the rather special case of the western zones of Germany.

So rather than devalue the franc in terms of all currencies by the same amount, the new Finance Minister René Mayer introduced a system of multiple rates. His scheme involved devaluing the franc by eighty per cent -- bringing it from 119 francs to the dollar to 214 francs. All essential goods were to be imported at this rate. But at the same time a parallel free market rate was allowed between the franc and the dollar and other hard currencies. And it was at this free rate that imports of non-essential goods had to be bought. Exporters had to sell half their foreign exchange proceeds on the free market and half at the official rate of exchange.[14]

According to the rules of the IMF any alteration of an exchange rate had to be discussed beforehand. But when the British heard of the French scheme they immediately opposed it on the grounds that it would undermine sterling and lead to disorder and instability in western Europe. They argued that it would be easy for the French to import British goods and sell them in the United States, giving Britain francs instead of dollars. The Americans were more ambivalent. The State Department was concerned lest the IMF should block a measure which a member country considered to be in its best interest -- a curious criticism since that was one of the main reasons why the IMF had been set up.[15] The Treasury felt that in the absence of better alternatives, the French proposal should be accepted as a temporary one aimed at achieving exchange rate stability -- although the French had made it clear that it would last as long as was necessary. The National Advisory Council was afraid that the French scheme might start an exchange rate war and thus nullify the whole purpose of the IMF.

The staff of the IMF made the suggestion that France should set up a free market for other currencies as well as the dollar. This would have the advantage of eliminating most of the discrimination, would not be a competitive devaluation and would avoid commodity arbitrage -- although it would still contravene the rules of the IMF. But Mendès-France, the French representative at the IMF had the last word. He argued that there would be considerable difficulty in reversing the French proposal -- the major one being that since the sultan of Morocco had not been informed of the previous devaluation but had been told of this one with which he was in agreement, the French government could not possibly offend him again by changing it.[16]

Marshall Aid was to last until June 1952 whereas the original French Modernization Plan was to end in 1950. The plan had obviously to be revised if France was to make a case for aid after 1950. By June 1948 the Commissariat au Plan had drawn up what became known as the Long-term programme which was once again designed to make the French economy viable within the international economy by 1952. According to Monnet it was at his suggestion that the other members of OEEC were asked to do the same. Not only had the original modernization plan been extended to cover more sectors of the economy but many of the basic assumptions on which the plan had been based, were changed. The most dramatic change was that agricultural production was to be raised by twenty-five per cent not only to save on imports but also in the hope that France would export wheat and meat to West Germany to replace what had previously been imported from eastern Europe, in return for coal, to Britain in return for wool from the Sterling Area and to Belgium in return for copper. The earlier plan to increase exports to the United States so that it absorbed over twenty-seven per cent of French exports by 1949 was now quite correctly seen to be totally fantastic. The more modest objective was now to export about 5.5 per cent of the total to the United States by 1952. Even more startling was the fact that beneath the rhetoric of closer cooperation in Europe the planners envisaged increasing French exports to their overseas territories from twenty-seven per cent in 1938 to about forty per cent by 1952 and reducing exports to the OEEC countries from fifty per cent to forty per cent.[17]

The first draft of the Long-term programme predicted an overall deficit with the United States of 253 million dollars in 1952 which was to be balanced by a surplus with the OEEC countries.[18] What assumptions about the international economy were made in this long-term programme? Despite Monnet's claim in his Mémoires that the plan for agriculture marked a break in a tradition of protection dating back to Méline, the plan was based on discrimination against the United States. It presupposed the end of the British system of Imperial Preferences and an end to agricultural protection in other European countries but also an extreme gullibility on the part of European countries and American Congress if they allowed the French to predict a final deficit with the United States which was almost as large as its import bill.

When the plan was finally discussed in the interministerial economic committee in October 1948 after a summer of political turmoil, the lack of consensus was evident. Petsche criticized it on the grounds that the increase in agricultural exports, even if desirable or possible, was to European countries and so would do nothing to reduce France's dollar deficit. Queuille, on the other hand argued that exports would have to be cut since the French consumer had been deprived for too long.[20]

It is true that exports had been increasing steadily since the war and at a faster rate than industrial production.[21] Exports in 1948 were 96 per cent of the 1938 level whereas consumption was 95 per cent. It was imports which had fallen from 105 per cent of the prewar level in 1947 to 101 per cent in 1948. ECA shared Petsche's misgivings about the size of French exports particularly to the United States, and in a meeting on 15 November 1948 Bruce called on the French government to take the necessary measures to increase exports and to exercise greater vigilance in detecting infringements on exchange controls.[22] The following day he was more explicit and told Queuille that the French government would have to increase taxes, restrain wages, in order to reduce inflation and increase exports.[23]

The Ministry of Finance tried to claim that, in the absence of a complete administrative reorganization it was almost impossible to implement an export policy. The Ministries of Industrial Production and Agriculture were more concerned with domestic supply than exports, the Commissariat au Plan had not been in favour of increasing exports until 1948 while the only policy coordinating body, the Interministerial Economic Committee, had faded out of existence. The alternative of restricting imports was also considered unworkable by the Ministry of Finance since France, unlike, it seemed, Britain, was incapable of enforcing a strict rationing system.

The other traditional method of boosting exports was by devaluation but after the devaluation of the franc in October 1948 against all non-convertible currencies to bring it to the mid point between the official rate and the free rate for the dollar, a study had shown that only one third of French exports were considered to be too expensive. But at the same time the Ministry of Finance felt that costs should be reduced by cutting down social security payments and exports stimulated by reducing domestic demand. And what more obvious way to do this than by using counterpart funds for deflationary purposes instead of using them to boost domestic demand [24].

The problem was essentially one of increasing exports to the United States. And in view of the fact that taken together, all European countries hoped to increase their exports to the dollar zone by 42 per cent compared with 1938, it seemed to the French that the best solution would be to cooperate rather than compete in this effort. But what did this term cooperation mean, and how compatible would it be ultimately with a liberal national economy? To the Ministry of Finance it meant drawing up long-term collective purchasing contracts for new materials particularly from the Sterling Area similar to the ones Britain benefitted from, as well as sales contracts. It meant eliminating competition between European countries in third markets, passing legislation to prevent competition between countries and liberalizing the European payments system to facilitate trade. In this way countries could specialize in those lines of production for which they had a comparative advantage, and by availing of the European market could benefit from economies of scale which would reduce costs and make exports competitive in the United States. The combination of increased production and trade and lower costs would lead to a higher standard of living. To meet this European industries should also increase the production of luxury goods where they would not be faced with American competition.

If this sounded like a highly controlled system the Ministry of Finance was firm that it should not be controlled by governments. In many cases governments had neither the will nor the power to control industry. A more realistic alternative was for governments to encourage industrialists to cooperate, not on the basis of the interwar cartels where industries had a monopoly of the national markets and shared out third markets, but on the basis of one large European market where industries had to specialize. This could take the form of a continental customs union which could have mutually advantageous links with the British Commonwealth, if indeed that remained a separate entity.[25]

The funds necessary to finance the adjustment in production caused by such specialization would come from a European Investment Bank, which would be independent of national governments, and would make decisions on economic rather than political grounds.

A European Banking Committee had been set up in July 1948 to study the application of Marshall Aid. The purpose had been to see how countries could be helped to balance their payments within their plans drawn up for OEEC -- while avoiding over-investment leading to wasteful competition. They hoped to raise private American capital and get financial backing from ECA.[26]

But Guindey, director of external financial relations within the Ministry of Finance made it clear that it was up to governments to decide the viability of investments.[27] But while that was French policy it was not so true of Italy, Belgium or Switzerland and as the pressure to liberalize European trade grew, so did this idea to set up a European Bank which could finance the dislocation to industry caused by the removal of barriers.

The French planners' view of cooperation was rather different. During a meeting with his supposed counterpart in Britain, called at Monnet's insistence, he told Plowden that most of the current expressions about specialization, cooperation and integration were little more than popular catchwords with no hope of becoming policy. His alternative was that those responsible for planning in Britain and France should discuss the economic problems of both countries as if they were one economy, outside the official structure of governments and civil services to determine what more fundamental transformation could be realised.[28] The French planners had been making similar proposals to Britain since 1947 and been getting nowhere.

Plowden rejected not only this independence from the official machine of government but equally any attempt to involve industrialists in the work of the planning committees which was so central to the French concept of planning. While the British agreed to discuss the coordination of investment for oil, steel and fertilizers and possibly for coal and electricity in the future, the French also wanted to include textiles, chemicals, engineering and agriculture. But the British felt that it would only work in industries where unit investment was large and where governments were actually in a position to implement the decisions reached -- if there was a danger of total over-investment. Otherwise the British preferred to leave such decisions to the market.

As far as the French plan was concerned, the British felt the estimated dollar deficit which had been scaled down to 140 million dollars by 1952 was still quite unacceptable. Since they had no confidence in French attempts to increase exports to the United States by whatever method, they considered that planned imports of oil, cotton and equipment would have to be reduced significantly. As for other trade, it was calculated that the French programme was based on export prices higher and import prices lower as compared with pre-war than any of the main OEEC countries [29].

By 1952 the French estimated that payments between the Sterling Area and the Franc Area would be in balance whereas the British long-term programme showed the franc area having a deficit with the sterling area to the tune of about 90 million dollars. The discrepancy was to a large extent due to the British scepticism about the French plan for agriculture.

They were unable to believe that the planners would succeed in changing French farming practices over 4 years in order to increase output by twenty-five per cent. In any case they intended to use the French offer of wheat exports in order to bring down the price of Canadian wheat, rather than to import French wheat.

If there was to be any more fundamental cooperation between the two countries as Monnet hoped then the British felt that the French economy had to change. A greater equality in income distribution in Britain had reduced demand for luxury products. It was up to the French, for example, to persuade vinegrowers to grow something else or at least aim to produce poorer quality wine.[30]

The general conclusions drawn by the British from their discussions with Monnet were that the French were anxious to increase their exports to Britain in order to pay for raw materials from the sterling area, that they wanted to increase their level of industrialization through specialization and increase their exports through the use of British trade connections. But in return it was felt that the French were unable to make any contribution to solving Britain's main problem which was to reduce dollar imports. Reducing imports from Canada was of no interest to Britain. In the words of a Treasury official, "France is trying to recover by turning herself into a British supplier and climbing out of her difficulties on our backs. Only Germany is large enough, skilled enough and organized enough to alter, as distinct from following, the trend of economic events".[31]

It was precisely to reverse this German leadership that the French plan had been drawn up in 1946 and the offer made in 1947 to any member of OEEC which was interested in negotiating to form a customs union with France. Italy was the only country to accept.

On 26 March 1949 the Treaty establishing the Franco-Italian customs union was finally signed. Even Schweitzer, President of the Interministerial Economic Committee set up to study questions of European cooperation, found it hard to justify to the Conseil Economique except as a step towards a European customs union. In economic terms Italian agriculture would compete with French agriculture and the Italians were even investing in developing a steel industry at a time when the other OEEC countries were saying that the French plan for steel would have to be reduced and their order for a second wide strip mill from the United States cut. Nor was it clear whether Italy would now have access to the Ruhr through whatever organization emerged from the London talks and thereby compete with France for coal and coke.[32] The commitment to setting up a customs union with Italy was also seriously questioned when it became apparent that no formal attempt had been made to coordinate their long term programmes within OEEC to prevent competitive investments.

Discussions within the Conseil Economique continued during May 1949 revealing the opposition of the main agricultural organizations and trade unions to the proposed union.

Similarly industrialists, and in particular the car and textile industries, despite official government sanction of private industrial agreements, were sceptical of their ability to restrain competition once tariffs were removed. Indeed, so great was the opposition to the union with France that it was not even presented to Parliament.

It had never been the intention of the French government, to have a customs union with Italy alone, but the problems since the war had been to convince the Benelux countries and Britain to associate more closely with France. With the customs union with Italy failing, and talks with Britain proving disappointing, Monnet tried to get American support for renewing French overtures to Benelux. In the middle of April he decided to test Harriman's reaction to a proposal to remove quantitative restrictions on the movement of capital, labour and as far as possible on trade between France, Italy and Benelux. The scheme was based on flexible exchange rates in the short term which required the approval of the IMF. Harriman's support was unambiguous since he claimed that it was along such lines that the United States envisaged the integration of the European economies. But Harriman hoped that the group could be enlarged to include Scandinavia and Germany at a later date (33).

The scheme was presented to Guindey in the Ministry of Finance early in May. In its most primitive form it entailed the ending of exchange controls between France, Italy and

Belgium, the partial or complete ending of import controls and the ending of export controls over all but essential goods while letting exchange rates float. But it was feared that the system of multiple exchange rates in France would encourage Italian and Belgian importers to buy goods from the dollar and sterling areas in France and to encourage French exporters to sell through the intermediary of either Italy or Belgium, with the result that France's dollar deficit would increase(34).

The announcement by ECA on 21 May that between 300 and 400 million dollars would be set aside to finance a multilateral payments scheme in Europe provided a necessary incentive to improve on the French scheme. Yet as Petsche explained to Snyder, Secretary of the American Treasury, in July the real stumbling block for closer cooperation in Europe was the French obligation to respect the cross rate in commercial operations between the dollar and sterling. Since the pound was so overvalued if the French aligned the franc with the pound it was overvalued with respect to the dollar. Within Europe those countries which followed broadly similar policies to Britain, such as Holland, aligned their currency with sterling while others, such as Italy chose to base their rate on the dollar. This made it very difficult for those countries involved in the French scheme to reduce commercial and monetary restrictions when they were following such different monetary policies. A further obstacle in the path of European cooperation according to Petsche was the dual pricing policy of Western Germany, and Britain especially of coal for export (35).

The Belgians tried to get round the problem of commercial cross rates by suggesting only the liberalization of capital movements and tourism under what the French called the "Brother Plan" (36). But the problem now was that since Belgium had not had restrictions on capital movements, the agreement would make no difference to the movement of Belgian capital into France or Italy but it could result in French and Italian capital going to Belgium and from there to Switzerland as a result of an agreement between Belgium and Switzerland. And the proposal to have floating exchange rates raised further problems. Since the French franc would almost certainly depreciate against the Belgian franc the Belgians feared this would provoke a reduction in French imports from Belgium thereby increasing unemployment in Belgium (37). In any case the French were interested in trade liberalization as well as the free movement of capital. As a possible compromise they suggested that financial transactions between the two countries could be carried out at a freely-floating rate of exchange but that commercial transactions would be carried out at a rate midway between the free and the floating rate of exchange, while all transactions between Italy and France and Belgium be carried out at a freely floating exchange rate (38).

But then during the third quarter of 1949 France for the first time since the war became an overall creditor with the rest of Europe with exports at a higher level and imports at a lower level than in 1938. Confident in this knowledge Petsche chose to announce his plan to the Belgian, Italian and Dutch finance ministers in Washington on the last day of the tripartite talks between Britain, Canada and the United States. Under the plan exchange rates for capital and current transactions between all four countries were to float freely, all quota restrictions on trade were to be removed, capital was to move freely among the four, they were to withdraw support for the sterling dollar cross rates but tariffs were to remain unchanged. The Dutch were prepared to join in this arrangement provided that, since they had a deficit with the other three, but a surplus with the Sterling Area, that they could settle their deficits in sterling, and that the other three would agree to a common policy of restricting dollar purchases. Petsche made it clear that the scheme was designed to obtain the 150 million dollars set aside by ECA for regional groups which moved towards greater liberalization in trade and payments (39).

The State Department supported the scheme and hoped that the group could be enlarged to include Scandinavia and West Germany later on. But as they told Alphand it was preferable to leave Britain out of the scheme since it would slow things up on account of the Sterling Area, and as ECA insisted the important thing was to present the scheme to Congress as evidence of progress towards liberalization (40). But after a meeting in Paris one month later the various American ambassadors in Europe concluded that any form of western European integration which did not include Britain would have little or no value (41).

The British Foreign Office was similarly ambivalent to the proposal. On the one hand it was quite desirable insofar as it seemed to join creditor and debtor countries in one monetary bloc but what they did oppose was any hint that the elimination of quotas would only be for trade between the four and therefore be discriminatory. The most intolerable aspect was the system of floating cross rates between the pound and the dollar (42). But several days later the whole context in which Petsche's plan was to operate was changed. The size of the British devaluation provoked a hasty realignment of other European currencies and the subsequent large devaluation of the German mark. The French had insisted and been defeated in trying to link the German devaluation with the establishment of a single price for coal (43). (German coke had been selling at 13 dollars per tonne within Germany while the export price for the French steel industry was 25 dollars per tonne.)(44) This meant that the Dutch stipulation that Germany be included in the regional group from the beginning was even more unacceptable to the French Ministry of Industrial Production.

Partly in response to the increasing American pressure to liberalize trade and payments in Europe which culminated in Hoffman's integration speech at the end of October 1949 the French drew up a detailed draft of a modified scheme for the Fritalux countries. While OEEC had agreed on 2 November that each member was to have removed quotas on 50 per cent of its 1948 private imports from the rest of the group by 15 December 1949 and to raise this to 60 per cent by the end of January 1950 provided that a satisfactory payments system had been agreed upon, the French hoped that their smaller regional group would be more liberal and would thus benefit from the dollar aid which Hoffman had promised would be available for integrated regional groups. They proposed that members should reduce quotas on not less than 60 per cent of their trade with each other and on 75 per cent by the end of 1950. But as the French Ministry of Foreign Affairs made clear the liberalization of trade and payments among whatever number of countries (and their proposals were open to any interested member of OEEC) was not an end in itself. It would only facilitate a balance of payments in each country without dollar aid if it led to a reduction in costs of production. The structure of French trade was such that France had a trade surplus with western Europe except for Germany but a persistent deficit with the sterling and dollar areas. (But the surplus with Belgium and Italy was only a trade surplus which became a deficit when the remittances from Belgians and Italians working in France were included.)(46) For these reasons the French were prepared to liberalize trade within the Fritalux countries but the problem was that that in itself would not alleviate the sterling and dollar deficits. The Ministry of Finance was convinced that only a harmonization of economic and monetary policies which would enable productivity gains to be made through exploiting economies of scale would enable the European countries to sell in North America and the Sterling Area (47). This was the reason for the French insistence on the harmonization of certain basic policies such as budgetary and credit policies and the elimination of subsidies, double pricing and other discriminatory practices in each member country. Therefore not only was the regional group to move towards free trade and payments but it was to have a distinct administrative structure. This was to consist of a Regional Council presided over by Foreign Ministers of each member country together with a financial committee consisting of Ministers of Finance and governors of national banks, which would coordinate financial and credit policies, and an economic committee consisting of Ministers of Trade, Industry, Agriculture and in the French case, the Commissariat au Plan. This committee would be charged with eliminating discriminatory practices, and controlling agreements between private industries. Since exchange rates had been brought into line following the devaluation of sterling, it was hoped that central banks would intervene to prevent wide fluctuations in the future. The French Ministry of Foreign Affairs hoped that Britain would join the group and saw the advantage of German participation in terms of agricultural markets (48).

But ECA made it clear that this French proposal fell short of their hopes for regional integration. Belgium and Holland wanted the 75 per cent liberalization of total trade to be unconditional and certainly not dependent on the harmonization of their budgetary and credit policies and the elimination of discriminatory practices, while for France and Italy these conditions were the only basis for their agreement. But at the same time the French realized that if OEEC under British, or worse still German leadership, moved towards 75 per cent liberalization, the French position would become untenable. For these reasons they wanted to get agreement first among the five countries to preempt any decision being taken within OEEC. And if Britain opposed American plans for European integration, then an alternative existed in Fritalux.

Financial experts of France, Italy and Benelux met in Paris from 29 November until 9 December to discuss the French proposal but the result was, according to Guindey, "peu glorieux". Due to Dutch objections the return to convertibility of member currencies was to be very limited. Exchange rates were to remain within five per cent of their par value, and if the value of a currency fluctuated by more than five per cent in relation to another member's currency than its value in terms of the dollar had to change by the same amount. No agreement could be reached over the question of whether 75 per cent liberalization of trade was to be dependent on the harmonization of fiscal and social policies, including the creation of a European Investment Bank (49). The Dutch insisted on the inclusion of Germany since they were debtors to the other participants and needed access to the German market for the scheme to be of any benefit to them. The French Minister of Agriculture also advocated German membership since the long-term plan for agriculture depended on selling the French surplus in Germany and Britain in particular but the Ministry of Industrial Production was resolutely opposed to removing quotas on German imports. The Belgians and Dutch pressed for a reduction in French tariffs which no one in France supported, while the Italian demand for the free movement of labour met with the sharp opposition of the French unions and the Minister of Labour. In the face of such a multitude of competing interests the Quai d'Orsay thought it advisable to avoid a direct confrontation between governments, which could have disastrous consequences in the United States, by simply letting the discussions between experts drag on (50).

OEEC was to meet again in January to discuss the next stage in trade liberalization and to agree on a payments plan which would be acceptable to the Americans and justify the third allocation of Marshall Aid. This was in spite of the fact that both France and Britain had tried to postpone these discussions until the effect of the first removal of quotas on 50 per cent of 1948 private trade had been studied.

The French Cabinet met on 9 January 1950 to discuss its position regarding the liberalization of trade and payments within OEEC. Although France had been the main beneficiary of drawing rights in 1948 it had scarcely needed them in 1949 so that the proposals to set up a central fund to which all countries would be debtors or creditors and their currencies freely convertible, did not worry the French unduly. In fact they saw it as the only way of paying for their imports from the Sterling Area (51). But trade liberalization was more of a problem. Since Holland, Belgium and West Germany were all in favour of greater liberalization it was feared that France would be forced to comply, if it did not take the initative and offer an alternative. The simple solution was to extend to all OEEC countries the measures of trade liberalization agreed for Finebel, provided that other policies were harmonized and discriminatory practices ended. But this would mean that France would have to liberalize 75 per cent of its trade with West Germany which was totally unacceptable to the Ministry of Trade and Industry.

A more flexible solution lay in distinguishing between the three broad categories of food and agricultural products, raw materials and manufactured goods. While it was felt that France was in a position to liberalize ninety per cent of private trade in the first two categories, this was not true for manufactured goods. But a study showed that on the basis of 1948 trade, if 75 per cent of private trade in manufactures were liberalized this would in fact only mean liberalizing a further eight per cent of total trade. So if it had to liberalize trade with Germany anyway then perhaps the arguments for excluding Germany from Finebel were not so convincing. Indeed if through Finebel, the French were able to end discriminatory practices in Germany, then perhaps there was a case for including Germany (52) but not offering it the same percentage of liberalization from the beginning.

The Finebel experts met again from 19-21 January 1950 to try to agree on a set of proposals to present to governments before OEEC met again on 26 January. They accepted the French proposal to extend to all OEEC countries the degree of trade liberalization which they had agreed among themselves provided that all discriminatory practices such as dual-pricing and dumping were ended. This meant that 60 per cent of private trade was to be liberalized by the beginning of whatever payments union was agreed and 75 per cent by the end of 1950. But Hall-Patch made it clear that the British government could not renounce dual pricing which was so central to its general policy just before an election. And in any case the experts did not have time to present their report to governments before the meeting of OEEC (53).

But when the OEEC countries failed to agree with American conditions for a European Payments Union later that month Hoffman and Harriman turned in exasperation to the Finebel countries and once again mentioned the possibility of dollar aid if they at least could make some concrete moves towards integrating their economies. But they were not supported in this by Bissel and the Planning Group since they continued to see Finebel as an obstacle to wider integration (54). And indeed there were various motives behind the albeit limited support for Finebel within France. There was a current of opinion within the Ministry of Finance which wanted Finebel to be set up immediately to try to prevent further liberalization within OEEC, or at least to influence as a coherent bloc whatever decisions were taken. On the other hand, Guindey supported Finebel as a means of introducing the financial discipline and orthodoxy into France which was practiced by Belgium and Italy. Private industry as represented by Villiers, President of the Conseil National du Patronat Français, supported the original French proposals for Finebel chiefly because the systems of floating exchange rates would keep French export prices in line and because the financial orthodoxy required would probably cause unemployment in France and curb wage demands (55).

It was precisely for these reasons that it was rejected by the planners and by many in the Quai d'Orsay who feared that far from reducing the European dollar shortage Finebel would only increase it since neither Belgium nor West Germany showed any signs of cutting back on dollar imports. Not only that but they were afraid to do anything which would cause a rift between continental Europe and Britain and this was for two reasons. On the one hand it was the fear of being alone with the problem of Germany but the other was the idea that France's economic future lay in trade with Britain and the Sterling Area. American pressure for liberalizatoin was Monnet felt, too high a price to pay perhaps for further Marshall Aid (56). In a meeting between Cripps and Petsche early in February they agreed that Germany should not be invited to join either Finebel or Uniskan until the three Allies had debated both the political and economic aspects of the German question in the spring. This meant that if the Dutch continued to make German participation from the outset a precondition for their own membership, then Finebel would not be set up (57).

Under pressure from Stikker and the Belgians the experts met again on 15 and 16 February in Paris and published a revised version of the conclusions which they had reached in December. But since the introduction to the report stated that each government would make its position regarding German membership known later, the importance of their conclusions was immediately diminished. Nevertheless it was now agreed that member governments should coordinate investment decisions and facilitate agreements between private industrialists, allow the free movement of labour and eliminate discriminatory practices (58). But that same day the British announced that they were ready to support talks to set up a European Payments Union, and suggested that Finebel should be postponed. As the French realized if Finebel were not set up immediately, there would be no point in setting it up at all since the wider European Payments Union would probably make it completely redundant. One section of the Ministry of Finance argued that it should be set up at once without Germany since its immediate inclusion would create financial problems and would cause a rift between Britain and continental Europe. But Stikker on his way to Washington argued that nothing could be done until his return and until the Dutch government had debated the German question (59).

Nothing was done and by early March Guindey had started to consider the merits of joining the British Uniskan scheme (60). One month later, before waiting for the Allies to debate the German question Schuman announced the scheme which from an economic point of view promised to end the disadvantage suffered by French industry due to the high cost of imported coal from Germany without having to open up the whole of the French economy to German competition.

Conclusion

No one disputes that in the long term French policy makers favoured the removal of trade barriers and the full participation of the French economy in an expanding international economy. But since exports had only been about 9 per cent of French GNP in 1938 the issue was not perceived as being crucial to French reconstruction -- an interpretation which historians have readily accepted. But it was precisely because the French planners dismissed the problem of the dollar gap as being entirely due to the abnormal needs of reconstruction and therefore not a structural problem that the original basis of the plan had to be altered two years later. In 1948 a long term plan replaced the Monnet Plan which was no longer based on the French economy replacing the German economy as the centre of heavy industry in Europe. The long term plan placed balance of payments considerations ahead of domestic French needs and aspirations. Thus the agricultural sector was to be expanded to be a foreign exchange earner in Europe while investment and exports to the French Overseas Territories were to be increased in order to make them, rather than Metropolitan France significant dollar earners. But even then it was felt that the dollar deficit would persist after the end of Marshall Aid. This analysis lay behind French attempts to coordinate their economic and monetary policies with other European countries in order to create a larger market which could compete with the United States. Britain did not want to join such a group and without Britain, only the Ministry of Finance was prepared to cooperate with countries which pursued orthodox monetary policies. The real stumbling block though which no French policy maker could overcome was the Dutch insistence on German membership of such a group. While the German market was a necessary outlet for the planned expansion of French agriculture, French industry feared German competition. The original Monnet Plan had avoided this problem since it was based on the elimination of Germany as a major competitor. The Schuman Plan attempted a partial solution by forcing the French steel industry -- a major beneficiary of Marshall Aid -- into open competition with the German steel industry provided that a major bone of contention namely the dual pricing of coal, was ended. The rest of the French economy continued to export to the safe colonial markets throughout the 1950s so that by 1958 when the larger Common Market was set up, they were taking almost 40 per cent of total French exports making France the most protected market in western Europe (61).

NOTES

*The archives used in this paper are those of the French Comité Economique Interministériel (F60), the Secrétariat Général Interministériel pour les questions de Coopération Economique européenne (F60Bis) although the classification is still only provisional, the economic files of the Ministère des Relations Extérieures although once again the classification was provisional when I used them, the Ministère de l'Industrie (F12), the records of the British Foreign Office, Board of Trade and Treasury and the records of the American State Department, Treasury and National Advisory Council.

1. Truman Library, Treasury File, Box 129, Fred Vinson collection 6. France Meetings April-June 1946, Monnet to NAC.

2. S.D. 851.51/1-446. Caffery to Secretary of State, 15 Jan. 1946.

3. A.N. F60 923. Instructions to French Delegation to Washington from Ministère des Relations Extérieures.

4. Min. des Rels.Ext. A194-J.47 Affaires Etrangères. Note from Alphand,15 Feb. 1946.

5. Min.des Rels.Ext. A194-J.47 Affaires Etrangères. Note 15 Feb.1946.

6. US Treasury Files.NAC. Meeting no.13,21 Feb. 1946.

7. Min.des Rels.Ext. A194-J.46 Affaires Etrangères. Statistics.

8. Truman Library, Treasury File Box 129. Vinson collection 6.France Meetings April-June 1946.

9. A.N. F60 902. Meeting, 22 Feb. 1946.

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11. PRO BT 11/3203. Bidault to Attlee, 31 Aug. 1946.

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18. F12 10325. Meeting of the Commissariat au Plan, 19 June 1948.

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1949.

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26. F60Bis 474. Note from M.Reyre, Directeur général de la Banque de Paris et Pays Bas, to Valensi,26 Nov.1948.

27. F60Bis 474. Comment from Guindey, 8 December 1948.

28. PRO,T229/207. Talks between Monnet, Hirsch, Riefler and Plowden, 17 February 1949.

29. FO 371/77932. Meetings between British and French Officials, 28 February and 1 March 1949.

30. T229/209. R.Willis' reflections on conversation with Monnet, 18 March 1949.

31. T229/207. Memo on the Bizone by Ogilvy Webb, March 1949.

32. F60Bis 378. Meeting of Commission de l'Economie Nationale du Conseil Economique, 12 April 1949.

33.A.N. 80 A.J. 87 J. 15 April 1949. Monnet. Notes et Rapports.

34. F60Bis 469. Memo to Guindey, 9 May 1949.

35. F60Bis 469. Conversation between Petsche and Snyder, 5 July 1949.

36. Presumably this referred to Maurice Frère, Director of the Bank of Belgium.

37. F60Bis 469. de Margerie to Guindey,26 July 1949.

38. F60Bis 469. Projet 'C', 22 August 1949.

39. FO 371/78111, Washington to Foreign Office, 17 Sept. 1949.

40. F60Bis 383. Bonnet to Sweitzer, 9 September 1949.

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42. FO 371/7811. Foreign Office report, 21 September 1949.

43. FRUS,1949, vol. IV, p. 661. Bruce to Acheson,22

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44. F60Bis 412. Meeting of SGICEE,21 February 1949.

45.F60Bis 469. Proposal from Ministère des Affaires Etrangères,14 Nov. 1949.

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48. F60Bis 469. Proposal from Ministère des Affaires Etrangères,14 November 1949.

49. F60Bis 469. Guy to Guindey,22 December 1949.

50. Min. des Rels.Ext. CE56. Note for SGICEE from Service de Coopération Economique, 7 Jan. 1950.

51. F60Bis 460. SGICEE,23 January 1953.

52. F60Bis 469. SGICEE, 9 January 1950.

53. Min. des Rels.Ext. CE56. Alphand to London, 17 Jan. 1950.

54. F60Bis 469. Note from Harriman, 6 February 1950.

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59. F60Bis 469. Note from de Margerie, 16 February 1950.

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