EUROPEAN UNIVERSITY INSTITUTE, FLORENCE
DEPARTMENT OF HISTORY AND CIVILIZATION

"Challenge and Response in Western Europe: the Origins of the European Community (1945 - 1950)"

Project directed by Professor Alan Milward
Project Paper No. 3

E U I WORKING PAPER No.78

WHY DID EUROPE NEED THE MARSHALL PLAN IN 1947 ?

by

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WP 320
EUR

MARCH 1984

BADIA FIESOLANA, SAN DOMENICO (FI)

WP
320
EUR

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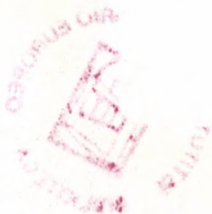
Paper presented at the conference held on 17 and 18 November 1983 entitled

"National and International Economic Reconstruction in Western Europe, 1945-1950"



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Printed in Italy in March 1984
European University Institute
Badia Fiesolana
I - 50016 San Domenico (FI)
Italy

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WHY DID EUROPE NEED THE MARSHALL PLAN IN 1947?

1. Academics are often perceived by the general public as people with an exceptional capacity for wasting their time, one of their favourite occupations being trying to give complicated answers to irrelevant or banal questions. It is very likely that the title of this paper will be seen by many as falling into the category of questions that have an obvious answer, the answer presumably being: Europe needed Marshall Aid because of the physical devastation caused by the war. A more complete answer, I think, would run as follows: the devastation brought about by the war forced the European countries to devote all possible resources to reconstruction, thus reducing the volume of exports below their usual level while increasing the volume of imports above normal levels. This created a huge current account deficit with the US, the only country that could supply the food, the raw materials and the industrial machinery which Europe desperately needed for her reconstruction.

I have said that this would be the presumable answer because, as the question is not asked, it is extremely unusual for someone to consider this problem with any care. The devastation and the critical shortages prevailing in Europe during the early post-war period were so obvious that it is not surprising that they dominated the picture.

Recent research has been mainly concerned with two other problems: 1) why did the US grant the necessary aid, and 2) how did the various European ruling groups use American aid to

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reconstruct the economy.

If, caricaturing the political scientists who caricature economists, we divide the problem into the forces that governed the supply of, and the demand for, the Marshall Plan, we see that both categories do not have to deal directly with our question: that is, why was there a need for the Marshall Plan at all. They deal with questions that, from the logical point of view, arise after our problem.

This paper deals with the explanation that Europe needed the Marshall Plan in 1947 because of the wartime destruction she had suffered. After stressing that there was an unexpected crisis in 1947, data of European production is presented from which it is clear that recovery in production in physical terms was quite satisfactory; it is also shown that changes in the volume of European exports and imports explain only a relatively small part of the deterioration of Europe's balance of payments. Changes in invisibles plus changes in Europe's relations with the rest of the world were much more important. This paper gives particular significance to an often neglected factor: the change in the absolute level of U.S. prices after decontrol in mid-1946.

2. There are two curious things to notice: the first is that the need for the Marshall Plan emerged suddenly in 1947, two years after the cessation of hostilities; the second is that the country that received most American aid was Great Britain, a country that after the war had a much higher level of output than before the war and where economic development was much more satisfactory than in Continental Europe. On the first point an excellent UN report may be quoted:

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> "The first twelve to eighteen months after the close of hostilities were months of rapid economic reconstruction and recovery. The period since then was characterized by retardation of economic progress in so many countries that the year 1947 must be regarded as one of frustrated hopes."(1)

After the great optimism of 1946 frustration and deep pessimism seemed to prevail in Europe. The US Administration was clearly taken by surprise by the turn of events. It had been convinced that after the big appropriations for the Bretton Woods institutions, for UNRRA and for the British Loan, plus emergency relief for liberated areas, no more big sums would be needed. Instead a dramatic crisis emerged. Secretary of State Marshall returned from Moscow on 28 April 1947, fearing total economic disintegration in Europe in a very short period. He summoned Kennan the next day and gave him an astonishing short period (about two weeks) to form a study group and propose a solution to the problem (2).

This explains the title of this paper: why 1947? What had happened that had proved wrong all the previsions of the early post-war period? It is interesting to note in passing that the year 1946 is usually treated with much less attention than the earlier or following years. Those who are interested in why the United States did give help usually stress three points: fear of a post-war depression, interest in reconstructing world trade on a multilateral and non-discriminatory basis, and containment of communism. Because of this they tend to concentrate on post-war discussions made during or soon after the war, when fear of a post-war depression was widespread, or on a later period, when the Cold War had already erupted. This tends to result in a

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relative neglect of 1946, the year in which, from the European point of view, things started to turn sour towards the end.

The second important point that has to be considered is to whom the US gave most of its aid. Of the total of net authorizations of the US Government that is, loans and credits available to foreign countries, between 1 July 1945 and 30 June 1947, over 55% went to only one country: the United Kingdom. Also from 3 April 1948, the day when the Marshall Plan started (apart from interim aid) to 30 June 1949 by far the largest share went to the UK, with over 30% of the total (3).

This is particularly interesting because the UK was one of the very few countries that emerged from the war with a far better industrial structure than the one she had in the thirties. Her industrial production had evolved much more favourably than in other European countries. Compared with 1938 industrial production in the UK for 1946, 1947 and 1948 was 106, 114 and 128 respectively. Similar figures for western Europe were 77, 87 and 101.

If global figures were good, detailed ones had even more positive features. The production of steel ingots and castings was already in 1946 22% above 1938, while the output of electricity was an amazing 69% above 1938. Steel production of the European countries, including the UK in 1946 was 40% below 1938. In the UK also agricultural production had evolved favourably during the war.

Foreign trade figures in volume show a surprisingly positive achievement. Already in 1946 the volume of British exports was above its 1938 level, while the volume of imports was below

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pre-war. By the second half of 1947, when there was widespread fear for the future of the British economy following the collapse of sterling convertibility, the volume of exports was 15% above its 1938 level while the volume of imports was 23% below its 1938 level. The composition of exports had also changed; coal had almost disappeared while textiles were below (26%) their 1938 level. But the following items showed high rates of growth over their 1938 level: machinery exports 68%, vehicles 110%, chemicals 46% and electrical goods 79%. Although coal was vitally needed and its shortage retarded reconstruction, these figures show the modernization achieved by British industry. But the situation described is paradoxical: the US gave most of its aid to the country that was better off and whose foreign trade had shown most progress.

3. In order to verify the thesis that Marshall aid was necessary because of physical destruction, it is necessary to look at figures of physical production. Global figures are available but with a wide margin of error; OEEC publications of the fifties preferred to omit the figures for total OEEC industrial production in 1946 and 1947 (4). Although the figures presented here should not be taken as very accurate, the picture they give is sufficiently clear. By the third quarter of 1946 industrial production in the countries that would become participants in the Marshall Plan had almost reached the 1938 level and comfortably exceeded it by the second quarter of 1947 if Germany is excluded. Including Germany, industrial production was about 80% of the 1938 level in the last quarter of 1946 and over 90% one year later (5). By 1948, when Marshall Aid became

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operative, industrial production of ERP countries was above the 1938 level <u>including</u> Germany; excluding her it was about 20% higher (6).

If the figures for industrial production were relatively satisfactory, the same cannot be said for agriculture. Cereal production for participating countries plus Germany for 1946-47 was about 14% below the 1934-38 average. What is more important however is that the following year production fell further. Cereal production in 1947-48 was 15.6 million metric tons below the 1934-38 average, <u>but over 40% of this difference was due to the decline that occurred between 1946-47 and 1947-48</u> (7). Clearly climatic conditions played an important part in worsening the European outlook in 1947. Already in 1946 meteorological conditions were abnormal, with a terrible drought in eastern Europe. Rumania's harvest in that year was about a third of its normal level; parts of the Soviet Union, like the Ukraine, suffered their worst drought in fifty years. 1947 started with terrible cold in Britain, France and Belgium, with heavy consequences for agricultural and industrial production; later drought fell on western Europe, once again damaging agriculture and (hydroelectric) electricity . This led some authors, like Woytinsky to assert that the 1947 European crisis was due in great part to an insufficient harvest (8).

The value of output per inhabitant is at best a very vague concept; in the circumstances of the early post-war period its relevance is still further reduced. Still, it is instructive that an attempt to compare physical output per inhabitant in Europe (but excluding Germany), for the year July 1946-June 1947

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with 1938 figures show a decline of less than 7% (9). It should be noticed that these figures comprise some countries of eastern Europe, like Poland, where devastation was terribly serious. Naturally these figures do not include imported goods.

What is clear is that from this sort of very rough calculation recovery in production was quite encouraging; from this point of view, it cannot be said that there was a general economic collapse in Europe as some very highly placed members of the Truman Administration seemed to fear. Indeed, the performance of the European economy was much better after the Second than after the First World War. As mentioned above, manufacturing production of OEEC countries, including Germany, had regained its 1938 level by 1948, that is, three years after the end of the war. After the First World War manufacturing production of the same countries regained its 1913 level more than six years after the end of the war; by 1924 it was still below 1913 (10). If we compare 1920 with July 1946-June 1947, industrial production of OEEC countries was 76% of 1913 in 1920 and 80% of 1938 in 1946-47 if we include Germany; excluding her the figures are 83% for 1920 and 95% for 1946-47. This includes mining, building and construction for 1946-47 but not for 1920; had it been possible to exclude these sectors for the second post-war the comparison would have been even more favourable (11). It could be objected that this comparison is unfair, because 1913 was a peak year while 1938 was a year of relative stagnation and that by comparing both post-war performances with these two years gives an unduly positive picture of the recovery after the Second World War. There are many factors that correct

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this distortion: apart from the fact that, as has already been mentioned, building and mining is included for 1946-47 which lowers the performance of this period, the index uses 1947 weights for the UK, had 1938 weights been used the second recovery would look still better. And it should not be forgotten that although both periods start fourteen months after the end of the war, 1946-47 includes the effects of completely abnormal weather.

These production figures are however not enough to have an adequate picture. It is possible to envisage a situation in which the destruction of capital has been so heavy that, although the flow of production is satisfactory, so many resources have to be devoted to rebuilding means of communication, factories and houses that not enough is left to satisfy consumption. This would be extremely unlikely, as it is not easy to have a high flow of production without adequate communications or industrial equipment; still, it is a possibility.

Figures for investment are impossible to compare; in some countries they include repairs, in others they do not; furthermore, the element of depreciation is totally artificial, especially in the early post-war years. The following few generalizations may however be made: 1) in most European countries investment was channelled into heavy industry; 2) investment in agriculture was usually neglected, although figures may give a too strong impression of this as they often do not include increases in livestock, 3) investment in stocks was extremely heavy. In the case of Norway and Holland probably more than 4% of national income in 1947 was devoted to the rebuilding

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of stocks of raw materials and consumer goods. A normal figure would have been about 1%. Finally, investment in transport was also abnormally heavy. Probably net investment in transport was as large as net investment in manufacturing; in the US investment in transport in 1947 was about 1/6 of investment in manufactures (12).

4. It is now time to deal with the problem of foreign trade. It would be reasonable to assume that the need for the Marshall Plan, which was after all a way to allow Europe to receive goods which otherwise she would not have been able to buy, was due to a big trade gap. A devastated continent had to devote all possible resources to reconstruction and therefore had to export less and import more than before the war. This possibility justified the brief discussion on investment and rebuilding of stocks above.

Looking at the figures, however, we notice that although it is certainly true that Europe's exports were much lower in volume in 1946 and 1947 than in 1938, also imports were below the 1938 level. Reconstruction did divert resources from exports; it was not however achieved through huge imports. In 1946 Europe's total imports were only 67% of their 1938 volume; in 1947 81% and in 1948, 86% (13).

At 1938 prices exports in 1946 were 51% of 1938, in 1947 they were 64% and in 1948 82%. If we take only ERP countries, by 1947 the volume of extra European exports was 75% of 1938 while extra-European imports were 95% of 1938. But by 1948 extra-European trade, in volume, was not very different from 1938: imports were 94% and exports 92% of their 1938 volume (14).

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5. It is clear from all this that it is impossible to understand the crisis in Europe's balance of payments by looking at data expressed in physical quantities. The Marshall Plan was necessary to solve a financial problem; to understand why it was needed one must study financial data, including prices. Figures of export and import volumes compared with their 1938 values give no indication of the balance of payments problem not least because although in 1938 Europe's current account was in balance, she had a huge trade deficit: the value of exports covered less than 2/3 of imports. With the US the situation was worse: exports covered less than one half of imports. (This is using European data. Using American data Europe covered 2/3 of her imports from the US with exports.)

This made invisibles, plus gold production in the Sterling Area, key elements in paying for the trade deficit. This explains the paradox of the amount of American aid to Britain: British exports could well be above their 1938 level while import volumes were below their 1938 level, but this did not mean that Britain had ceased to have a trade deficit. And if account was taken of prices and invisibles, a foreign exchange crisis could easily coexist with an impressive improvement in export and import volumes from their pre-war level.

In 1938 Europe had a current account deficit with the US of about $400m. and a surplus of a similar amount with the rest of

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the world. Its total trade deficit of about $2.1 billion was covered for two thirds by income from investments, while the remaining third was covered with shipping, tourism, etc.

One major difference after the war was that invisibles became negative, and did not help to cover the trade gap, which was $5.1 billion in 1946 and $6.9bn in 1947. The publications of the UN and OEEC give very detailed information on Europe's balance of payments. In this paper for reasons of space they will not be repeated, instead attention will be paid to aspects which are less frequently discussed and that are also relevant to the foreign exchange crisis of 1947.

If we try to see how much did the main factors weigh in the deterioration of Europe's current account between 1938 and 1946 we have some surprising results. The change in income from investments and service receipts is the main cause, responsible for 48% of the deterioration; 35% is due to price rises and only 16% to changes in the real volume of trade. This explains how there could be a serious balance of payments crisis although trade volumes had not changed too dramatically. Even with no change in the volume of exports and imports from their 1938 level the crisis would have been almost as serious. It was not due so much to physical destruction as to the liquidation of foreign investments and to the changed role of Europe in the world (15).

There is an important point, however, that has to be kept firmly in mind. The figures discussed above refer to Europe's balance of payments with the whole of the rest of the world. But the key problem was Europe's dollar deficit, a very different matter. Destruction in Asia, the weakening of colonial links,

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increased domestic consumption in some overseas countries and the Cold War meant that Europe obtained less goods from non-dollar sources than before the war; very often she was forced to import from the U.S. goods which previously had come from other areas. This effect, although it did not increase the overall deficit of E.R.P. countries, had a very serious effect on their payments position. A clear example is given by trade with Eastern Europe: a zone which before the war had sent to Western Europe abundant supplies of agricultural goods and coal. With increasing East-West tensions, many of these supplies were no longer sent West, with the result that OEEC countries had to buy them overseas, frequently paying for them in dollars.

In volume terms by 1947 OEEC imports from North America were about double their 1938 level, while their exports to that area were about 80% of their 1938 level. There was therefore a deterioration in volume terms in Europe's trade with the US. But these changes in volume do not explain even half of the deterioration of Europe's balance of trade with the US (16). According to the BIS Europe's exports to the US in 1938 were $0.6 bn. while her imports from that source amounted to $1.3 bn. A decrease of 20% in exports and an increase of 100% in imports would explain a deficit of $2.12 bn.; instead, in 1947 the trade deficit with the US was $5.2 bn. Clearly prices were at least as important as changes in volume.

6. Before discussing what in this paper is considered the main cause of the 1947 financial crisis, i.e. the rise in the level of American prices in the second half of 1946, another factor of this crisis will be examined: the deterioration in the

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dollar balance of payments of non-European countries. For Europe this meant that areas that had traditionally supplied her with dollars now became a dollar drain. As for the countries that had traditionally financed their deficits with the U.S. with a surplus with Europe, their huge dollar deficit inevitably forced them to demand dollars from Europe in a much more forceful manner. And it should be noted that in 1947 there was an abrupt deterioration in the dollar position of the non-European world that had serious repercussions for Europe's balance of payments.

Between 1946 and 1947 the net balance on goods and services of the US improved sharply from $7.8 bn. to $11.3 bn. Of this deterioration in the position of the rest of the world vis-à-vis the U.S. only one-third was due to ERP countries; the rest originated in other countries. Indeed, it is worth noticing that countries that were not touched by the war had a much more serious deterioration in their dollar position in 1947 than Europe. Between 1946 and 1947 the net balance on goods and services of the U.S. improved by 28.4% with ERP countries, but by 68.7% with Canada and Newfoundland and by 220% with Latin American countries (17). In the interwar period, the US usually had a trade surplus with all areas except tropical countries and producers of some commodities such as copper. These commodities were needed in the US and did not harm American producers, therefore tariff protection was low. But tropical countries imported little from the US; their inhabitants were often too poor to afford the advanced products in which the US were clearly superior. Usually also tropical countries were colonial dependencies and were forced to prefer supplies from their

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Imperial metropolis. In this way, plus the fact that they had to service their debts, India and Malaya earned dollars for Britain, as the East Indies did for the Netherlands.

This changed drastically after the war. Asian colonies had suffered from the war and their capacity to export was temporarily reduced, while India, approaching independence and with huge sterling balances was unwilling to supply dollars to Britain.

For the Sterling Area the difference is striking: while in 1934-38 India (including what was to become Pakistan) plus Ceylon and the Colonies had a trade surplus with the dollar area of about 210 million dollars a year in 1947 they had a dollar trade deficit of about 136 million. Thus, while before the war their dollar surplus covered about 46% of Britain's dollar trade deficit, in 1947, instead of contributing to Britain's dollar problems, they aggravated it.

Australia, New Zealand and South Africa had a different trade pattern. They had rich white inhabitants who already in the interwar period could purchase the new products of the United States; furthermore, their geographical characteristics made them prefer lorries, tractors and cars of an American and not European type. As for their exports they often competed directly with American agricultural production, and faced protectionist barriers in the US. Their dollar trade deficit had averaged 140 million dollars in 1934-38; in 1947 it was 609 million.

The impact of this change in trade with the dollar area by countries of the Sterling Area other than the UK can be summarized in a few figures:on average for 1934-38 the UK had a

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dollar trade deficit of 525 million, while the rest of the Sterling Area had a surplus of $58m.; in 1947 the UK had a dollar trade deficit of $1476 million while the rest of the Sterling Area had a deficit of $900 million. If instead of comparing 1947 with 1934-38 we compare it with 1946, we obtain an equally striking difference. Between 1946 and 1947 the UK's dollar deficit more than doubled, jumping from $1260 million to $2657 million. Of this deterioration of $1414 million only $481m (or about one third) was due to the UK's balance of trade, the rest was due to services (in great part military expenditure) as well as dollars for the dollar deficit of the rest of the Sterling Area. Britain had also to supply dollars to other non-dollar countries that demanded payment in dollars for their exports in order to alleviate <u>their</u> dollar problem. The latter factors were far more important than the deterioration in Britain's balance of trade: in 1946 the rest of the Sterling Area had supplied Britain with $44 million, in 1947 it cost Britain $849 million, a swing of $983. Other non-dollar countries had supplied Britain in 1946 with $291 million, in 1947 they obtained from Britain $625 million, a swing of $916 million. It should be remembered that Britain's dollar trade deficit had deteriorated far less ($481m)(18).

It is quite clear therefore that the worsening in Britain's dollar position had much less to do with the state of physical reconstruction than to government policy (military expenditure and relief in Germany) and to changes in other countries. Calls for increased austerity could not solve the problem.

A fact of enormous significance is that after the Second

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World War the US had a trade surplus not only with the European countries ($8.5 bn in 1946 and 1947) but with the rest of the world as well ($6.1 bn in 1946 and 1947). This was in marked contrast with the experience after the First World War (1919 and 1920), when the US trade surplus with Europe was $7.7 bn but there was an American trade deficit with the rest of the world excluding Europe of $800 million. In this way in 1919 and 1920 the US had a global trade surplus that was smaller than its trade surplus with Europe, while in 1946-47 its global trade surplus was about 70% higher than its trade surplus with Europe. In current dollars, Europe's trade deficit with the US was only 10% higher in 1946 and 1947 than in 1919 and 1920. The US global trade surplus was however more than double in the two years after the Second World War than after the corresponding period after the First World War. This is another way of saying that after the Second World War the "dollar shortage" had become a problem for the whole world and not just for Europe.

It is because of this that extra-European countries clamoured for dollars from Europe, as has been seen above, this had a very serious effect on Europe's balance of payments in 1947. The situation was particularly serious for countries who had traditionally financed their deficit with the US with their surplus from Europe. Canada and Argentina furnish a good example: both countries had an extremely serious balance of payments crisis in 1947 although their current account remained in equilibrium. Their real problem was that they could not use their surpluses with some countries to pay for their deficit with the US.

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In 1947 Canada had a current account surplus of C $85m. but this was composed of a deficit with the US of C $1135m., a surplus with the Sterling Area of C $874 and a surplus with other countries of C $346m. (19). Notwithstanding its current account surplus and the fact that it obtained dollars from the Sterling Area and from other countries by the end of 1947 Canada faced an extremely serious balance of payments crisis. Foreign exchange reserves collapsed in a short period from C $1638.7m. to C $461m. and stringent direct controls had to be imposed on imports (20).

Argentina had a similar experience. Although its current account balance for 1947 was approximately in balance (the deficit was about 30 million dollars) the decline in her gold and convertible foreign exchange was about 700 million dollars. In great part this was due to the fact that her surpluses with Europe could not be used to pay for her deficits with the US. Not surprisingly the utmost pressure was exerted in order to obtain dollars in part payment for her exports to Europe, thus aggravating Europe's position (21).

The dollar needs of other countries had a dramatic impact on the balance of payments of ERP nations. In 1946 their deficit with the US on goods and services was $4.2 bn. while they had to give $327m. in dollars to other countries. In 1947 their total dollar needs jumped from $4500m. to $8.1 bn. but most of this deterioration was not due to a higher current account deficit of ERP countries with the US. Most of it was caused by the fact that non-European countries demanded (and were able to obtain) a much bigger amount of dollars from Marshall Plan countries. The

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deficit of ERP countries with the US passed from $4.2bn. to $5.3bn., but net dollar payments to other countries passed from £327m. to $2740m. (22).

7. Clearly there must be some factor, not related directly to wartime destruction that explains why there was a crisis in 1947 and why the deterioration in the balance of payments was similar in war torn countries and in countries that had not suffered from war destruction. The thesis of this paper is that this factor was the violent rise in US prices in the second half of 1946. This had immediate consequences for the rest of the world: even without changes in volume, nor in terms of trade, it increased proportionately the dollar trade deficit of the rest of the world; it reduced proportionately the real value of dollar reserves of the rest of the world; it not only reduced proportionately the real value of gold reserves but also of current gold production, as well as affecting negatively the volume of gold output and encouraging private gold hoarding. It also reduced the real value of European income from investments in the US, as bonds remained stable and share prices and dividends rose less than prices.

It should be noticed that this does not touch the question of changes in the terms of trade, which on the whole did not deteriorate as much as could be expected. They seem to have worsened for Britain and improved for Continental Europe; on the whole European terms of trade do not seem to have changed much, although in many cases this only meant that inflation accelerated without corresponding alterations in official exchange rates. In these cases, European countries had difficulties in selling in

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hard currency markets, where their products were not competitive, and had to sell in soft currency markets. In this paper attention is concentrated on the effects of the change in the absolute, not the relative, level of US prices.

That this could seriously affect European recovery was realized only after some time. By then to stress the damage that the rise in US prices had inflicted on Europe would only have aided the enemies of the Marshall Plan. Those civil servants and experts that realized the unexpected effect of American inflation on Europe therefore usually preferred to mention the problem but not to give to it a central role. After all, through US aid Europe's balance of payments was being supported and this was what mattered most.

It may be useful at this point to give an indication of how much American prices rose. If 1938=100, the prices of the following products in January 1947 and January 1948 in the US were: maize 242 and 493; wheat 234 and 333; raw cotton 354 and 391; lead 273 and 316. Weighting the main commodities according to each commodity's share in Europe's total imports from overseas in 1947 we have January 1947 243 and January 1948 301 (23). We therefore have at least a doubling of the pre-war level of prices by 1947 and a trebling for 1948.

To have an idea of what this meant for Europe it may be pointed out that in 1946 US merchandise exports to ERP countries were $4383m while their merchandise exports from those same countries were only $757m. These are figures for the whole year and therefore already include a good part of commodities that were sent to Europe when prices had already risen abruptly. It

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is clear that with such an enormous trade imbalance, a rise in US prices even without a change in the terms of trade, was bound to have a devastating impact on Europe, as the dollar value of the trade deficit increased in the same proportion as the level of prices.

Between 1946 and 1947, Europe's current account deteriorated by 1700 million dollars. In this period income from investments improved by 100 million dollars, thus the other two factors accounted for a worsening in Europe's current account of 1800 million dollars. Of these, only $250 million were due to changes in the real volume of exports and imports, 1550 million dollars or 91% of the whole retrogression of Europe's current account was due to the increase in the absolute level of prices(24).

The calculations of the Economic Commission for Europe may contain debatable elements, using different weights the results could perhaps change substantially. What cannot be doubted, however, is the devastating effect that the increase in US prices had on Europe's balance of payments. It reduced the real value of its reserves, it reduced the purchasing power of gold, the biggest dollar earners of the Sterling Area, and it increased in the same proportion the trade deficit that Europe had always had with the US.

What is astonishing is that there seems to have been no premonition at all of the danger that a higher absolute level of prices posed for Europe. On the contrary, it is possible to find complacency about the possibility of higher prices. This was perhaps a residue of discussions after the First World War, when higher American prices were seen as beneficial because they

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reduced the real burden of war debts and reparations. After the Second World War Britain had again the prospect of having to repay a huge loan to the US. In a totally mistaken analysis in which it was thought that the important factor was relative and not absolute level of prices, an authoritative publication in The Statist represents this view.

> "Yet American prices cannot be considered in vacuo. For our net position with reference to the United States depends upon the relative movements of sterling and dollar prices."

And it concludes

> "To take a realistic (but by no means cynical) point of view, a steady tendency to rising prices both here and in America over the next few years may well lighten the real burden of repayment of debt to the United States without doing harm to the creditor."(25)

It is worth noting that this comment was written as a note on the fact that the price control Bill had not been renewed in the United States because of the conflict between the President and Congress. This fact, that was to double American prices in a short period of time and was to have devastating effects on Europe, was seen with benevolence. The same extraordinary mistake was made, remarkably enough, by the experts of the countries that were to receive Marshall Aid. In the General Report of the Committee of European Co-operation there is an appendix on the balance of payments, where the causes of the 'dollar problem' are listed. Three reasons are given:

i) reduction of invisibles;
ii) deterioration of the terms of trade; and
iii) reduction of supplies from South-East Asia and eastern Europe that had to be replaced with imports from the US.

Although the report mentions the fact that the participating

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countries as a group usually imported from the American Continent "more than twice as much as they exported", the experts did not realize that this meant that a doubling of prices automatically meant a doubling of the dollar deficit. On the contrary, the Annex on the Terms of Trade concludes:

> "The assumption that the prices of exports will be unchanged and that the prices of imports will be reduced is made in order to put the matter in a simple form. In fact no doubt the prices of both exports and imports will vary; but what matters is the relative change in import and export prices." (26).

It is ironic that a Report that was instrumental in obtaining Marshall Aid should have such a non-sensical conclusion:

> "The facts and estimates contained in this and other Reports show that the problem of the dollar deficit of the participating countries reflects the fundamental fact that production in the American continent increased greatly during the war, while production in Europe fell to a very low figure and can only gradually catch up with the increase of production in the American continent. The problem of this dollar deficit is inevitably a continuing problem until the increase of production in the American continent is paralleled by as great or a greater increase of production in the participating countries." (27)

9. The doubling of dollar prices not only halved the real value of the foreign exchange reserves of European countries; it also had a similar effect on their gold stocks, due to the fact that the dollar price for gold had not changed. Moreover, there were other adverse consequences, as gold was not only a very big element in European reserves; it was also one of the most important commodities that earned dollars for Europe, although in an indirect way.

To understand better how inflation affected negatively the role of gold in the early post-war period, it is illuminating to

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review briefly the role of gold in the thirties when, through a rise in its real value, gold contributed powerfully to restore international equilibrium.

The financial crisis of 1931 and the devaluatin of sterling made it only too clear that the gold exchange standard, that had been recommended by the 1922 Genoa Conference because of fear of a probable future shortage of monetary gold, was a very dangerous system. Central Banks suffered tremendous losses on their sterling assets and, not surprisingly, frantically liquidated their remaining foreign exchange holdings, converting them into gold. In a very short period the percentage of foreign exchange on total reserves for the Central Banks of the main 24 countries of Continental Europe collapsed from 42% to 8%. Naturally this drastically reduced the global amount of international liquidity available (28).

But the reduction in the value of international liquidity was soon compensated by three main factors which were related to gold. The first was the fall in commodity prices, the second was the generalized devaluation of currencies and the third was an abrupt increase in gold production as well as massive dishoarding. The first two factors raised the real value of the existing gold reserves; the third increased the amount of physical gold available for monetary purposes.

Commodity prices, especially of commodities entering international trade, fell heavily. By 1932 gold prices of world trade were less than half that of 1929 (29). This clearly resulted in an increase in the real value of existing gold reserves. This was reinforced by devaluations, caused either by

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capital flight, or by the vain hope of raising commodity prices (as in the US), or by beggar-my-neighbour policies. Although at the end of the cycle of devaluations some key exchange rates were not very different from those prevailing at the beginning of the period there was an enormous difference. The market value of gold stocks had risen by about 70%, in line with the change in the dollar price of gold from $20.67 to $35, while dollar commodity prices in the thirties were below their 1929 level.

In this painful and roundabout way the real value of international reserves was restored. There was, furthermore, another factor at work. The main gold producing countries had also devalued; on average the price of gold in terms of their domestic currencies had risen by about 76% between 1929 and 1936, while the price of goods had fallen by about 15%. This made gold production enormously profitable, and in a world ravaged by depression and starved for markets, gold producers were about the only ones with a guaranteed buyer for their whole output at an extraordinarily favourable price. It is not surprising that in such conditions gold production increased impressively. Between 1929 and 1939 the physical amount of gold mined increased by 85%, while the dollar value of each ounce had grown by almost 70%. The reaction of gold producers is all the more striking if the strategy of South Africa, the world's largest producer, is taken into account. There, it had been decided to use the high price of gold not so much to increase production as to mine lower grade deposits, leaving the richer deposits for leaner times. Because of this, South Africa's share of world gold production fell from 55.7% in 1929 to 37% in 1939; excluding South Africa world

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production increased by an amazing 162.6% between 1929 and 1939 (30). This was reinforced by massive gold dishoarding in the East, which in 1932 amounted to about one half of world production.

All these factors combined made it possible for the world's stock of monetary gold to increase between 1929 and 1939 from $11.4 billion to $31.3 billion, that is, more than amply compensating the gap that had been created by the collapse of the gold-exchange standard (31).

The experience of the thirties has been discussed in so much detail in order to show the contrast with the early post-war period. All the factors that in the thirties had helped gold to alleviate the shortage of international liquidity now worked in reverse, although Europe desperately needed financial resources to pay for imports. First of all, the dollar price of gold remained fixed at $35 an ounce although dollar prices had doubled. This halved the purchasing power of the $10 billion of dollar and gold reserves of the European countries that participated in the Marshall Plan. The gold reserves of these countries at the end of 1945 were $7673 dollars (32). Gold production was also discouraged by the new relationship between rising costs and fixed prices. If we exclude the Soviet Union as well as South Africa, whose output fluctuated less for the reasons discussed above, gold production in 1946-47 was less than half that in 1935. Part of this was due to the ravages of war, but the economic factors were important, although some countries decided to subsidize gold producers. Between 1939 and 1946 gold output in Canada fell by 44%; in Australia by half.

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Also hoarding worked in the opposite direction. Now the official price of gold in terms of commodities had become cheap. This led to hoarding, that is, an increase in private gold stocks at the expense of monetary stocks. Precisely when international liquidity was most needed, a big part of gold production was unavailable for this purpose. In the thirties the private sector had released gold, therefore the increase in the world's monetary stock had been higher than world gold production; in the post-war world the opposite happened. In 1946 over half of the production of gold of the world disappeared into the hands of the public. Troubled conditions in many parts of the world were certainly important, especially in China. A good part of the explanation was however in Europe. The Swiss National Bank, for instance, was selling in 1946 one million Swiss francs of gold coins a week to the public; after mid-1946 this was raised to 3 million. Although it demanded a written pledge from buyers (who had to be Swiss nationals) not to re-sell these coins, a part of them ended up abroad, where gold had a premium on the black market ranging from 170% in Paris to 200% in Lisbon (33).

Whether gold had to be revalued was sometimes heatedly debated; not surprisingly the US were totally opposed to the idea. Their main argument was that it would divert resources needed for reconstruction to unproductive use in gold mines and that it would cause inflation. The South African Minister of Finance, Havenga, could attack the US by pointing out that it was only too advantageous for some countries to sell their exports at post-war prices while buying gold at its pre-war price (34), but others were more cautious. By buying gold in unlimited amounts

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at $35 an ounce, the US were guaranteeing a minimum price for gold. Chiefley, the Australian Prime Minister was reported to have declared: "There's only one buyer of gold -- the United States. It might stop buying."(35)

The main effect of the fixed dollar price for gold was on the Sterling Area. Before the war, this area had an annual trade deficit with the dollar area of about $450 million; at that time, gold production in the Sterling area was about $550 million. This shows the enormous importance of gold for Britain; the impression is further reinforced if one compares gold with the other main dollar earners of the Sterling area before the war. Compared with over $500 million for gold, exports of the two main commodities to the US were: rubber $113 million and tin $58 million (1934-38 averages). Total US imports from the UK in that same period averaged about $150 million.

After the war the role of gold in the balance of payments in the Sterling Area had clearly changed. The decline in physical production was about 13%, the real problem however was that its price had remained fixed. In 1946 gold production of the Sterling Area covered only 1/3 of the dollar trade deficit of the UK. Had its price doubled or trebled like so many other commodities the balance of payments of the UK would have been very different. To say that it would have been in equilibrium is clearly impossible, because a higher gold price would have meant larger dollar imports in South Africa and could also have changed the very complex ties between South Africa and the Sterling Area, that were in a period of rapid change. Still, a lower level of prices, or a higher level in the price of gold, would have

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improved the balance of payments of the UK very significantly; perhaps enough to leave a deficit that could have been financed by existing reserves.

The connections between the price of gold and the need for the Marshall Plan did not pass unnoticed, although it was not usually stressed as strongly as below.

> "Dans ces conditions, on peut conclure que, tout au moins dans le cas de la Grande Bretagne, le Plan Marshall aurait été superflu si le prix de l'or avait subi la même courbe ascendante que celui des autres matières premières." (36)

Seen from the point of view of the US the picture is equally clear. The US economy had traditionally had a trade surplus. This made gold a crucial item in supplying the rest of the world with the necessary means of payments to buy in the US. In 1938 total US imports were $1960m. while world production of gold (excluding the US) was $1141m. and US net gold imports amounted to $1973m. The fact that in that year net gold imports into the US were similar to total US imports shows dramatically how a substantial change in the commodity value of gold inevitably had to upset the world's international financial equilibrium.

It should not be thought however that a doubling or even trebling of the dollar price of gold would have, by itself, solved the problems of the rest of the world vis-à-vis the US. In 1947 world gold production was about 24 million ounces while the US trade surplus was about $10 bn. For current gold production to equal the US trade surplus a price of more than $400 per ounce would have been necessary. Still, it should be remembered that gold stocks are very large if compared with gold production and that the function of reserves is to finance

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temporary disequilibrium. In 1947 ERP countries sent to the US about 41 million ounces while their deficit in goods and services with that country was about $5 bn. Had the price of gold in terms of US commodities not changed in the early post-war period Europe's situation would have improved substantially, although clearly serious problems would have remained.

Raising the price of gold remained in the following years a frequently discussed method of increasing reserves in line with US prices. It was the first of the various ways of increasing international reserves explored in a UN report of 1951 in which the level of reserves was considered inadequate (37). In early 1952 there was again fear of a generalized dollar shortage, and by then the connection between the dollar price of gold and Europe's need for American assistance was more widely understood. In the City of London three alternative solutions to a generalized dollar shortage were being discussed: 1) another Marshall Plan; 2) a new devaluation of sterling and other commodities against the dollar, and 3) an increase in the dollar price of gold (38).

10. The main thesis of this paper is that the abrupt rise of American prices in 1946-47 had a devastating effect on the balance of payments of European countries and that it constitutes a major element in the explanation of the 1947 crisis; the question that has to be put is whether this rise could have been avoided.

First, there is the question of timing. It is important to stress that most of the increase in American prices did not occur during but after the war; 70% of the rise in wholesale prices

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between 1939 and 1948 occurred after the surrender of Japan. And, interestingly enough, despite a relaxation of price controls, inflation was low until June 1946, when Congress refused to renew a stringent Price Control Bill. Between August 1945 and June 1946 wholesale prices rose by only 7% (39).

Yet inflationary pressures were very strong; currency plus adjusted demand deposits had doubled between 1939 and 1945 (40), while the gross debt of the US Government rose from $57.9bn in December 1941 to $258.7 bn in June 1945 (41).

It was inevitable that the maintenance of price controls under these circumstances should lead to tensions. At the end of June 1946, Congress instead of renewing a strong Price Control Bill approved an extremely weakened version that was in effect a Bill for the rapid dismantling of controls. Deeming the Bill unworkable, Truman vetoed it; a period of utter confusion followed when there were no controls whatsoever and there was great uncertainty about the future. Prices exploded, and on 25 July 1946 a new, although much diluted Price Control Act was passed. It may be mentioned that Truman signed this Bill in a very skeptical mood (42). Price ceilings were reimposed on many commodities, but by now many producers were determined to win their struggle for free prices. Politically, the key issue became the control of the price of meat. Cattle was kept away from the market. In the brief interlude of no price controls meat prices had risen by 70% in a few days and slaughtering had been too high. In September and October meat was unobtainable at official prices "and public opinion showed very clearly that it preferred to have meat at market price rather than no meat at all

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at controlled price "(43). It is perhaps possible to recapture the feeling of the period in a Nero Wolfe detective novel.

> "It was smack in the middle of the Great Meat Shortage, when millions of pigs and steers, much to the regret of the growers and slaughterers, had sneaked off and hid in order to sell their lives dear, and to Nero Wolfe a meal without meat was an insult." (44)

With elections approaching rapidly, Truman was forced to lift price controls on meat on 14 October 1946; in a week the wholesale price of meat increased by 93%.

This made the early end of price controls inevitable, as other producers began to withhold supplies in expectation of higher prices. On 5 November the Republicans, who had made the issue of a free economy and tax cuts central to their campaign, made enormous gains. In the old House of Representatives there were 241 Democrats and 192 Republicans; in the new House there were 188 Democrats and 246 Republicans. Defeated, on 10 November Truman lifted price controls, with the only exceptions of residential rents, sugar and rice (45).

It is tempting to look at the struggle over price control purely in political terms but this would be unsatisfactory, as its maintenance already posed very serious problems in 1945. A brief examination of early American reconversion problems makes this abundantly clear. In order to understand the evolution of American economic policy it is essential to keep firmly in mind that there was quite a generalized consensus that a depression would follow the end of the war. The acceptance of 'Keynesian' ideas, in their simplest form, contributed to this climate. If the propensity to consume was assumed constant while the share of

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Government expenditure in GNP was drastically reduced, it was not difficult to obtain worrying results. Eight million unemployed were officially forecast for the spring of 1946 and this dominated the debate on economic policy.

The Administration did not have a clear policy for wages and prices, and the early termination of the war caught it unprepared to deal with this problem. With peace, the tacit no-strike, no lockout agreement between labour and management came to an end. Unions were impatient, as average weekly pay was reduced by the diminution of overtime and the forced shifting of labour to less well-paid jobs. Due to these causes in February 1946 weekly pay was about 14% lower than in April 1945; in the meantime prices had risen (46).

At the same time many employers wanted a rise in their prices as a compensation for the fact that they had been forced by the end of the war to concentrate on a less profitable product mix. As early as August 1945 the steel industry had asked the Office of Price Administration (OPA) for a substantial rise in the price of steel because of the decline in demand for its more profitable products (47). Under this sort of pressure OPA, under its very able chief, Chester Bowles, felt that the best defence was to allow changes in wages and prices as rarely as possible; any major concession would have meant a flood of similar claims. It would have been impossible to maintain control against both the wishes of labour and employers; in particular conflicts in the labour market looked menacing. But it was felt that even if more freedom was granted to labour to ask for higher wages a firm control on prices could be an effective method of containing

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these claims. Employers would resist wage increases in a much more determined way if they knew that they would not be able to transfer higher costs to prices. If increased costs had been taken as a reason for higher prices competitive pressure among firms eager to establish themselves in the post-war markets would have made them too anxious to avoid strikes and the consequent loss of market to rival firms.

Wage policy passed through three main phases in a very short period: after the end of the war labour partly regained its freedom; wage increases were allowed if they did not require higher prices from OPA. In October free collective bargaining was restored and it was established that firms had to wait for a six month period before asking for higher prices. At this stage a link had been established between costs and prices, albeit not an immediate one. The third stage started de facto in February 1946, when increased wages and increased prices in the steel industry were announced simultaneously (48).

Growing wages and fixed prices were defended by those like Wallace who feared a depression. For business instead it became clear that profits were menaced and that it was essential to prepare the battle against the renewal of the Price Control Bill that was to expire in mid-1946.

Key political issues inevitably emerged. The CIO under Walter Reuther demanded a guarantee for fixed prices in its strike against General Motors, claiming that profits were sufficient to cover increased wage costs. General Motors replied that wages had to be determined by conditions in the labour market, and that to use "capacity to pay" as a factor would

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introduce a radically different type of social organization; it also refused to open its books to inspection and rejected Truman's suggestions for a conciliatory solution. To avoid political isolation the company made the good point that if their profits were considered to be excessive the correct solution was for OPA to order a reduction in prices in order to benefit all consumers. There was no reason why only General Motors workers should benefit (49).

Firms could afford strikes because of a provision of an early post-war Bill that allowed losses incurred in 1946 to be deducted from excess profits tax paid during the war. This had been done to stimulate investment in 1946 even if firms feared a depression; in the end it meant that more than 85% of losses suffered from strikes by profitable companies could be transferred to the shoulders of the US Treasury.

In early 1946 there was an explosion of strikes, as labour tried to regain purchasing power and firms resisted in order to defend their profits. Steel production, vitally needed for world reconstruction, was stopped for a month. Coal, another vital commodity of which there was an acute shortage, suffered a two month stoppage in April and May. About 90 million tons of coal were lost.

Controls were becoming unworkable, especially after the increase in the price of steel, a commodity that entered into so many other commodities. Ideologically the Administration was on the defensive, as it could not claim that in the long run a controlled economy worked better than a free market one. The only thing it could do was to ask for a litle more time and to

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warn about runaway inflation if controls were lifted. But its prestige was very low, and its mistaken forecasts about a post-war depression had seriously diminished the credibility of its inflation forecasts. The ideological pressure was very strong, as can be seen by a statement by the President of the National Association of Manufacturers.

> "In peacetime, your government refuses to restore your economic liberties which were given away in wartime. Mussolini, Hitler, and Hirohito convinced the world in our time that individual liberty is inseparable from economic liberty. Today I speak for the return of the liberties we have lost." (50)

With the Cold War approaching and stoppages and shortages appearing with increasing frequency, it was perhaps inevitable that controls could not survive. The clearest case was agriculture. In early 1946 there seemed to be a famine ravaging Central Europe, in great part due to a wheat shortage. Yet at the end of 1945 wheat consumption in the US was about one third higher than in the same period of 1944. The reason was that the price ratio between maize and hogs made it profitable for farmers to feed hogs with their maize and not to sell maize on the market. Those who raised poultry and livestock using corn were forced to feed them with wheat, thus reducing supplies available for export. Chester Bowles, who felt ashamed at the amount of food that was on his table while Europe was menaced with starvation was in a dilemma. The Administration had promised that maize and hog prices would not be increased; yet the price relationship was distorting supplies. If the Administration yielded its credibility would be weakened further; if it kept its word starvation might follow. In the end, not surprisingly,

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the Administration yielded (51).

After the war the mood was in favour of abolishing as many controls as possible, to reduce the weight of the Government in the economy and to reduce taxation. Tax cuts were enacted in 1945 and further cuts were one of the main points in the 1946 Republican campaign (52).

11. The main outline of this paper may now be reviewed. The problem to be explained is why Europe's need for the Marshall Plan appeared only in 1947 and why there was a balance of payments crisis in that year. We have seen that the performace of the indexes of physical production were much better than after the First World War, when no need was felt for anything resembling the Marshall Plan. On the contrary in the twenties many felt that Europe could repay her war debts to the US.

Looking at trade figures in volume makes it clear that volume changes were not a crucial factor in the deterioration in Europe's position. Comparing 1946 with 1947 the main factor is in the change in the absolute level of dollar prices, not because of the effect on the terms of trade but because Europe's trade with the US had always been in deficit, and a doubling of all prices meant a doubling in the dollar deficit even if no change in volume had occurred. An extreme example is Britain which in 1937-38 had exported goods to the US for an average of $26m and imported goods from that source worth $116m. In such a situation a doubling of all prices with no change in volumes would have meant a deterioration in Britain's dollar position of almost $500m.

In the past Europe had equilibrated its balance of payments

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with the dollar earnings of her colonies plus invisibles. After the Second World War the rest of the world, excluding Europe, had a deficit with the US. In contrast with what had happened after the First World War when the rest of the world had helped to solve Europe's dollar problem, now Europe had to give dollars to non-dollar countries. The non-dollar countries had become a heavy dollar burden.

The 1947 crisis was mainly a financial crisis, in the sense that production continued to recover but Europe seemed like running out of dollars and gold to pay for vital imports. The end of price controls and the rapid inflation in the US had three main effects: i) it doubled Europe's existing dollar trade deficit, ii) it halved the purchasing power of Europe's gold and foreign exchange reserves when they were most needed, and iii) it halved the purchasing power of gold production, with negative effects on both the volume of production and on hoarding.

To conclude two questions will be discussed briefly. The first concerns US controls and their relation to the Marshall Plan. Perhaps it is useful to interpret the facts described above in the following way: Europe needed a certain net amount of goods from the US. With her reserves, plus the British Loan, plus relief aid it seemed for a time that she could finance her needs for a reasonable amount of time, perhaps even until world trade returned to more normal conditions. But also American consumers wanted goods, and they had accumulated liquid resources that were vastly greater than Europe's. Compared with the $10 bn. that Europe had at the end of the war, the gross debt of the US Government had increased by $200 bn. during the war, much of

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it in the hands of people who wanted to purchase goods as soon as they became available. Seen in this perspective, the rise in prices and its effect on Europe's capacity to purchase dollar goods is not casual. It is the natural outcome of a process of free bidding by different groups. The 1947 financial crisis was simply the reflection that Europe could not bid successfully against American consumers (as well as other foreign countries) for scarce goods. Marshall Aid may perhaps be seen as an intervention by the US Government to prevent US consumers from outbidding Europe. Goods were bought and sent to Europe with money taken away from the American public through taxes.

If we see the problem as a struggle between US consumers and Europe for a certain amount of goods, there could have been a deterioration in Europe's position even if the amount of goods she needed had not increased significantly. Clearly there could have been another solution: the maintenance of price and administrative controls. This was perfectly clear to some US economists during the war, most notably Hal B. Lary at the Department of Commerce. His exceptionally acute forecast is worth quoting.

> "The real heart of the immediate post-war problem, however, will not be so much an initial general lack of purchasing power but a relative abundance of accumulated dollar reserves and the strength of demand, both domestic and foreign, in the face of a continued though temporary shortage of things -- goods and possibly also ships. Until these shortages are made good, only one solution is possible: continuation of allocation of supplies to meet the most urgent needs, rationing to the individual consumer, price control, and restraints in the liquidation of savings."(53)

In this sense the 1947 crisis can be seen as a financial crisis that reflected a problem of distribution. For the reasons

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discussed above it was not easy to maintain strict controls in peace time, politically it was much more difficult than envisaged by planners during the war. The consequent rise in prices was a market way to solve the problem of allocation of supplies. The problem was that it dealt a devastating blow to Europe, although many both in Europe and in the US were not aware of this.

This raises another interesting problem: would a US post-war recession have helped Europe? In the forties there was a widespread fear in Europe of the cyclical instability of the US economy, and those who opposed an open world economy mainly did so on the grounds that such an organization of world trade would have made Europe too vulnerable to a US depression. Ironically enough, if the analysis presented here is correct, a US recession would have had quite a few redeeming features for Europe.

As mentioned, Europe had always exported very little to the US and therefore a fall in US demand would not have had a significant effect on employment in Europe. A recession would have significantly reduced the purchasing power of US consumers, and caused a fall in prices. This would have meant that with her reserves Europe would have been able to buy more goods while US consumers would have bought less, all this out of reduced volume of US production.

A comparison with the first post-war period may be instructive to underline some differences. After the First World War there was a very sharp but short depression, with the consequent collapse in prices. This helped Europe inasmuch as it increased the purchasing power of its gold reserves. There were however two negative aspects: one was that Europe had enormous

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war debts with the US, and the real value of these debts was increased by the fall in prices. The other was that the US depression had a negative effect on Europe through its impact on colonies and other tropical countries. At that time these countries had a trade surplus with the US and a deficit with Europe (54). The US depression had in this way an indirect negative effect on Europe's dollar position. In a direct way, however, it reduced the dollar value of the trade deficit of Europe with the US.

After the Second World War the situation was very different from the point of view of colonial and other countries, as they also had a dollar deficit. A US recession would probably have reduced their demand for dollar goods. And a fall in dollar prices would have reduced their dollar deficit, while after the First World War it had reduced their dollar surplus. Furthermore they would have been much more willing to sell to Europe against soft currencies had there been a recession in the US. But all these are unfortunately hypothetical discussions, and it was not necessary to have the pain and misery of a recession to restore some equilibrium in Europe's payments. What cannot be doubted is that the lifting of controls in the US in 1946 had a dramatic effect on Europe, reactivating inflation in many countries and aggravating the balance of payments.

All this teaches us once more that to understand what happens in a country or group of countries it is not enough to study them. It is essential to look at what happens in the centre of the world economy. The dollar was the world's key currency. An abrupt change in the commodity value of the standard had, as

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always, an enormous impact on the world economy.

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