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DANISH ECONOMY POLICY AND THE EUROPEAN COOPERATION ON TRADE AND CURRENCIES, (1948 - 1950)

by
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BADIA FIESOLANA, SAN DOMENICO (FI)
In August 1950 the Danish Social Democratic Government decided to resign from government when it failed to secure support in parliament for the reintroduction of import restrictions to meet the balance of payments crisis that had developed over the spring and summer. The party's decision was a direct result of Denmark's participation in the European negotiations on trade and currencies in 1949 and 1950 and meant a major shift not only in economic policies but also in the general perception of the economy's position in the international division of labour.

The defeat of the Social Democratic (SD) Government also meant the defeat of the expansionist economic policy introduced by the government in 1947 to reconstruct and modernize the Danish economy and the victory of traditional deflationary policies which, given the hard economic facts of trade liberalization and the European Payments Union, seemed the only option to keep the balance of payments deficit within limits. The deflationary measures were introduced by the Liberal-Conservative Government (1950-53) in November 1950 to fight the balance of payments deficit and they were taken over (albeit in modified form) by the SD party when it returned to power in 1953. Throughout the 1950's the balance of payments deficit kept the Danish economy in a strait jacket of contractive measures, forcing the government to limit upswings in economic activity and confining the Danish economy to low growth and high unemployment until the latter part of the decade.

In retrospect, it may seem ironic that the one Danish party which had welcomed the Marshall Plan and the ideas of European integration as they were embodied in the OEEC Convention of 1948 without reservations should be defeated in its domestic economic policy as a direct result of the course taken by European integration. Under the auspices of the Marshall Plan, trade liberalization and the convertibility of currencies had seemed
both desirable and attainable by 1948 and it seemed likely that all European countries would embrace such policies in the future. But already by the summer of 1949 it was obvious that Europe was no closer to the attainment of these goals than in 1948. Moreover, it was becoming painfully clear that American pressure for trade liberalization and viability with the Dollar Area would entail economic sacrifices and perhaps also a severe dislocation of production and economic policies in the national economies if these goals to be fully attained.

For Denmark, the situation in 1950 was especially problematic as the OEEC program for trade liberalizations did not include agricultural products which in 1950 made up approximately 70% of Denmark's total exports. The European reluctance to open markets to agricultural imports and the OEEC decision that the EPU system should be constructed so as to favour creditors more than the debtors, meant that Denmark's commitment to European integration through the Marshall Plan lead to major changes in both its production structure and economic policies during the 1950's.

This paper will discuss the Danish attitude to trade liberalizations and the EPU 1949-50 and the effects and restraints of European integration on Danish economic policy.
Social Democratic Economic Policy

The SD post-war economic policy was influenced to a high degree by Denmark's structural economic problems. In 1947 the SD government had inherited an economy that was not only in a situation of immediate crisis due to an acute scarcity of dollars, but exhibited some alarming symptoms of long term structural problems. Since the 1880's Denmark's high percentage of foreign trade and the dominance of its agricultural sector (producing almost exclusively for exports and dependent on cheap imports of feeding stuffs for the animal production), had placed Denmark among the staunch supporters of free trade. A result of this commitment to free trade was very low tariffs on imports; but because the concept of free trade had been a concept adhered to more in theory than in practise by most European countries since the 1920's Denmark had built up a comprehensive system of currency and import restrictions to protect its balance of payments. And behind this system there had developed an industrial sector producing almost exclusively for the domestic market.

The Danish prewar balance of payments was built on a deficit with all areas except the Sterling Area and was heavily dependent on the British willingness to convert Sterling into Dollars. Up to 1947 the agricultural sector had earned enough Sterling to finance both its own Dollar imports of feeding stuffs as well as the Dollar imports of the industrial sector, a fact that explained the agricultural sector's dominance in domestic politics and in all discussions involving the distribution of national income. The British stop for convertibility in August 1947 therefore not only had an immediate catastrophic impact on the balance of payments, but more importantly, it did away with the very foundation of agriculture's dominant position in the economy.
The SD government was very aware of the structural problems of the Danish economy and had already opted in 1945 for a reconstruction policy to diminish the economy's dependence on agricultural exports and the British market through the modernization and expansion of the small export-oriented part of the industrial sector. Though the party in general recognized that the Danish economy with its heavy dependence on foreign trade would best function in the future under a system of free trade, its actual economic policy was to a great extent influenced by the desire to protect employment in an industry that, since the 1930's, had been highly protected from foreign competition on the domestic market. It was SD policy, strongly supported by the trade unions, that Danish industry under the protection of import restrictions should slowly be adapted to compete on international markets through the introduction of productivity encouraging measures. This development was to be facilitated through an expansionist monetary policy to increase activity and investments in the industrial sector. (1)

Though Danish industry agreed with the SD government on the question of maintaining import restrictions, it in general opposed the party's economic policy and the changes in the industrial sector such a policy would introduce. It was clear that the planned expansion of the industrial export sector, as it was outlined in the long term programme, would have a devastating effect on the existing structure of industrial production and on the system of industrial relations as well. Any alliance that might have been possible between the SD and industry based on the question of import restrictions was completely overshadowed by this basic conflict on how to conduct economic policy and over the role of the state. Should the state resign itself to simply creating a framework for the functioning of
the economy or should it interfere and try to regulate the fluctuations of economic activity?

For industry and agriculture, together with the opposition parties, the answer to this question was clear: the economy only functioned at its optimum when left to the free play of market forces. Throughout the period 1945-50, this conflict took on strong ideological overtones which completely ignored the fact that both nationally and internationally the Danish economy was strongly depended during this period on state intervention in the form of import restrictions, the distribution of scarce resources, foreign aid, bilateral trade agreements and so on.

Already by the beginning of 1949, the conflict over the role of the state in the Danish economy had crystallized in a disagreement on whether the reconstruction of the Danish economy was best taken care of through deflationary measures to reduce the level of activity in general or by a more expansionist fiscal and monetary policy. Though the SD government throughout the period pursued a relative tight fiscal policy, its expansionist monetary policy of high liquidity and low interest rates to encourage investments was strongly opposed by both the Conservative and the Liberal Parties. Thus, the European debate on trade liberalization and a new payments system became imbricated with the general conflict over economic policy already existing in Denmark.

The Dollar Problem

Denmark's most serious problem after August 1947 was how to earn enough Dollars to pay both for the imports of feeding stuff for agriculture and for raw materials and machines for industry. Apart from the shipping sector, Denmark had no direct income of Dollars, having relied heavily in the past on the British willingness to convert the
Danish Sterling surplus into Dollars. In the 1930's, the shipping sector and other services had provided the Danish economy with a currency income that had far exceeded the net deficit on the balance of commodity trade. But in spite of rapid reconstruction of the mercantile marine after the war, the sector could not cover the large deficits in 1946 and 1947. Up to 1947 the Dollar problem had therefore been managed with the help of Britain and with loans from the IMF, and after August 1947 not many options were left. Unlike many other European countries the allied armies withdrew very quickly from Danish territory and thereby denied Denmark a reliable source of Dollar income. After August 1947 both the government and the Central Bank were extremely reluctant to increase Danish borrowing abroad. It was strongly felt that an improvement of the short-term situation in terms of Dollar loans would only aggravate the prospects for economic growth in the future. In 1947, the only possibility was to gamble that the Marshall Plan would actually result in substantial Dollar aid for Denmark in the near future.(2)

The Marshall Plan was especially important for the SD government that came to power in September 1947. The government recognized that its reconstruction policy was wholly dependent on Marshall Dollars to finance the huge balance of payments deficit that such a policy would inevitable produce. Not only the SD reconstruction policy, but also Denmark's position in the international division of labour depended on the Marshall Dollars, and leading Social Democrats admitted openly that the alternative to the Marshall Plan would be serious economic and political dislocation. In an economy oriented towards foreign trade such as Denmark's, autarchic policies would result in serious disruptions. While industry (which covered 60% of the domestic market) might have adapted to drastically reduced imports, the structure of the agricultural sector and its
importance for the economy made such a development inconceivable for both political and economic reasons.

The SD government recognized that the nature of its economy (with no natural resources and no basic industries of any importance) would naturally place Denmark on the side of the staunchest supporters of free trade and as such the government welcomed the aims of trade liberalization and the convertibility of currencies as they were set out in the OEEC convention of 1948. But in 1948, free trade was not on the agenda in most European countries and this confirmed the SD conviction that trade liberalization would follow naturally once a settlement of the European payments situation had been reached.

In 1938 Denmark had a deficit with the Dollar area of 160 mill. d.kr. (in 1947 prices equivalent to $ 140 millions) that had been financed through Danish Sterling receipts:

<table>
<thead>
<tr>
<th>Conversion of Denmark's Sterling income in 1938 (3)</th>
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<tr>
<td>Surplus export to Britain</td>
</tr>
<tr>
<td>Surplus import from Dollar area</td>
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<tr>
<td>Surplus import from Germany</td>
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<tr>
<td>Surplus</td>
</tr>
</tbody>
</table>

The question after August 1947 was then how to finance a Dollar deficit that would inevitable increase in the post-war period?

The Danish long term programme in 1948 estimated that even in the event of receiving the maximum amount of Marshall aid ($ 400 millions 1948-52), Denmark would still have an uncovered deficit with the Dollar area on $ 50 millions in 1952/53. This estimate was based on the optimistic preconditions of Sterling convertibility and an increase in
Danish exports to the Dollar Area during the four year period of over 600%.(4)

There was very little in the long term programme that pointed to an improvement of Denmark's structural problems. This was not surprising given that the only exports in 1948 were agricultural products, notably butter, bacon and eggs. While expansion of industrial exports demanded large investments over a longer period, agricultural exports could be stepped up within a 1–2 year period through imports of large amounts of feeding stuffs. But the basic problem with agricultural exports was the very limited range of products. Specialization in Danish agriculture had channeled all production resources into the production of the two main products, butter and bacon. It would be an improvement to achieve a greater diversification of both export products and markets during the reconstruction period, but the conditions in 1948 did not seem especially conducive for such a development. Internationally, the postwar priority given to domestic agriculture in several European countries, the increased competition for the British market with members of the Sterling Area and the American reluctance to open its economy to agricultural imports made the success of such a strategy seem very doubtful. In Denmark, a diversification of agricultural exports would touch on the solidly entrenched economic interests of the butter and bacon producers and would be met with strong political opposition.

The small export oriented sector of Danish industry did show some encouraging signs of a greater diversification of exports (especially on the former German markets in Latin America) but as this sector covered less than 25% of Denmark's total exports (in spite a remarkable progress since 1945) it was not an viable alternative to agriculture in 1948.
Though the SD government saw the increased diversification of industrial exports as a sign that, with the help of government measures to encourage rationalization and productivity, industry could be induced to bear a greater part of the balance of payments burden at some point in the future, it also recognized that to manage the immediate economic problems of recovery it was of utmost importance to build up agriculture to full capacity and increase its competitiveness through investments in productivity improvement. The importance given by the SD to the reconstruction of agricultural production capacity was clear from the investment plan in the long term programme. Investments in agriculture were given greater priority than in any other sector except for housing and building, an area the SD government put great weight on for both political and economic reasons.

<table>
<thead>
<tr>
<th>Total planned investments 1948-1952, $ mill.</th>
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</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>301</td>
</tr>
<tr>
<td>Industry and crafts</td>
<td>208</td>
</tr>
<tr>
<td>Transport</td>
<td>255</td>
</tr>
<tr>
<td>Electrical power stations</td>
<td>36</td>
</tr>
<tr>
<td>Ports, gas and water works</td>
<td>52</td>
</tr>
<tr>
<td>Stockpiling</td>
<td>171</td>
</tr>
<tr>
<td>Housing and public building</td>
<td>494</td>
</tr>
<tr>
<td>Other investments</td>
<td>42</td>
</tr>
<tr>
<td>Total investments</td>
<td>1559</td>
</tr>
</tbody>
</table>

As a general policy statement the long term programme was a result of a compromise between government, industry and agriculture which had opted very early on for continued dependence on the British market and for the convertibility of Sterling. Agriculture, supported by industry which was heavily dependent on agriculture's currency earnings, decided that it was preferable to gamble on convertibility than to undertake the major
structural changes needed to manage the Dollar deficit in a world of non-convertibility. Consequently, one of the recurrent demands made to the British Treasury in all the negotiations on agricultural exports to Britain from 1947 to 1949 concerned compensation for Denmark's Dollar expenses, either through direct convertibility or through the Danish use of Sterling in trade agreements with third countries.(7) Although Denmark was allowed an increasing use of Sterling in trade with both participating and non-participating countries in the Marshall period, Britain refused to enter into any permanent agreement on this issue.

The government's attempts to induce a greater diversification of agricultural exports to increase Danish dollar earnings were opposed by agriculture interests. They successfully opposed the government's plan to use an increased part of Danish butter exports to acquire Dollars from European third countries (when this was still possible in 1947-49) by tying 75% of butter and 90% of bacon exports to the British market through long term contracts signed in 1948 and 1949. Another conflict with agriculture arose from the attempt made in the context of the long term programme to commit agriculture to increased butter exports to the USA. Though the possibilities in 1948 and 1949 for Danish butter exports to enter the American market were extremely limited, this move was an attempt to force agricultural leaders to realize that, if agriculture wanted to maintain its position as the dominant export sector, it would have to take responsibility for the huge Dollar imports of fodder and become more competitive on the American market through a reduction in production costs. (Another motive, of less direct relevance to this discussion, was the government's attempt to confront the USA with the duplicity of its policies; that is, the contradiction between the latter's general demands
for free trade - expressed through the pressure for liberalizations of trade - and, its demand that the participating countries increased their Dollar exports. This was in fact prevented by the strict American import policies which made it increasingly difficult for Western European countries to compete on the American market.) But the most important opposition confronted the government when it tried to encourage a wider diversification in agricultural exports; that is, an increase in the production of soft cheese and canned meat(ham), the two products that Danish agriculture could sell on the American market in spite of high US tariffs. The production of soft cheese and canned meat in Denmark was not very large as both were by-products of bacon and butter production and an increase in cheese and canned meat production would mean a transfer of resources and investments from these dominant products. (8)

The government had to accept that the Danish economy was based on a very few but highly specialized products; was geared towards international competition in a system of general convertibility and free trade; and that if Denmark was not allowed the luxury of continued convertibility after the end of the Marshall Plan, all attempts to remedy the structural problems of the economy would be bound to fail in the long run. The prospects for Denmark in such a situation would be a continued balance of payments deficit on a scale that only tight deflationary policies could control. And such a policy would inevitably confine the Danish economy to low growth in the post-war period.

Denmark's Position In a European Payments System

In the absence of free convertibility, the only realistic alternatives after August 1947 were the creation of a European payments
scheme that would allow Denmark to continue its prewar position as a "structural creditor" within Europe, or some kind of special attachment to Sterling that would allow a continued conversion of Danish Sterling earnings into Dollars. The fact that the British stop for convertibility in August 1947 also applied to Danish Sterling income was only recognized very slowly in Denmark. Both agriculture and industry found it hard to accept Britain's lukewarm interest in Danish exports and throughout 1947-49 pressed for a solution of Denmark's currency problems with Sterling that would allow some kind of convertibility, either directly or through use of Sterling in trade with third countries. Though the SD government repeatedly pressed Britain for conversion of Sterling during the whole period 1947-50, it was more inclined towards solving Denmark's balance of payments problems through the creation of a European payments scheme that would allow Denmark to finance its Dollar deficit through a general surplus with Western Europe. Such a solution would be more accommodating to an expansion of Danish industry, while special arrangements with Britain would tie Denmark closer to Britain and strengthen the agricultural sector. (9) The short term goal as a prelude to a general system of free convertibility was the development of an inter-European payments system in which Denmark's special position as a Dollar saving producer would be recognized, while it was considered that trade liberalization would follow naturally once such a system had been created. But the achievement of this short term goal was to require a long term policy.

Two hard facts stood in the way of such a development. First, American insistence on equilibrium in the national Dollar balances (a prerequisite for continued Marshall Aid) and that an inter-European
payments scheme should not develop into a soft currency area protected from the Dollar area, increased disagreement among Western European countries and delayed still further the creation of a Western European payments system. (10) Second, there was the inescapable fact that Denmark in 1947 was not a creditor but a debtor within Western Europe. This meant that Denmark had to improve its Dollars balance while simultaneously trying to create a general surplus with Western European countries, a task that in 1947 seemed almost impossible. It was the SD government's firm conviction that priority should be given to reconstruction during the Marshall Plan period and, consequently, that imports of capital and goods to support reconstruction should have priority over measures to improve the Danish balance of payments.

From the start of the Marshall Plan it was considered neither possible nor desirable that Denmark achieved an equilibrium in its Dollar balance by 1952/53. The strategy pursued was to argue Denmark's special position within Western Europe as a Dollar saving producer. This policy was already laid down in the long term programme and was stressed continuously both with respect to the OEEC and the ECA:

"Such a policy (viability with the Dollar area by 1952) would hardly be in accordance with the intention to recreate the natural division of labour within Europe which is a precondition for European economic reconstruction. Especially for a small country with a highly specialized production structure, a solution based on regional autarchy and bilateral balances with other currency areas would create very serious problems, and would not be in accordance with the original intentions of the ERP and would necessitate far greater investment expenditures and import of capital equipment through the ERP." (11)
But as the precondition for continued Marshall aid was progress towards Dollar equilibrium it became necessary to reconsider the structure of Danish exports and reorientate it towards a larger Dollar income in the future.

When in the summer of 1948 the Danish OEEC delegation reported the discussions of a European clearing union and the possibilities to earn Dollars through such a union, the way seemed open for Denmark to finance its Dollar deficit through surpluses within Western Europe. With the aid of the Marshall Plan Denmark would "within a couple of years" be able to achieve a creditor position in Western Europe.(12)

But the problems involved in becoming a creditor country proved to be greater than the government and the Central Bank had first thought. With very low Dollar reserves, Denmark's only chance of becoming a creditor within Europe without resorting to deflationary measures and cut backs in the reconstruction programmes at home was to contract huge amounts of Dollar aid. When in August 1948 the ECA cut back the Danish 1948 programme from $ 140 millions to $ 110 millions (while increasing both the Swedish and the Norwegian programmes) the Danish delegation protested vigorously in the OEEC claiming that the cut would mean a transfer of imports from the Dollar area to Western Europe and result in a shift in the Danish currency position from that of a creditor into that of a debtor within Western Europe.

The effects of the cut on the Danish payments position was discussed in the central coordinating body for the government's economic policy, the Ministerial Committee for Economy and Provisions (MCEP) in August. The Central Bank underlined that it would be very unfortunate if Denmark became a debtor already during the Marshall period. The implication that
through harder cuts in the reconstruction programmes Denmark could keep its position as a creditor within Western Europe, was rejected by the MCEP. Though the long term goal was to become a creditor, this should not be at the expense of the domestic reconstruction programmes designed to serve as the foundation for future increases in economic growth. Danish reconstruction had priority over the payments position as long as Marshall Dollars secured continued imports of capital and goods. (13)

Beyond the problem of reorientating imports and exports, further difficulties in becoming a creditor within Western Europe derived from Denmark’s dependency on its largest market in Western Europe, Britain. After 1945 it had proved increasingly difficult to return to the trade surplus Denmark had enjoyed with Britain before the war.

First, the huge deficit of 800 millions d.kr, which resulted from the Liberal government’s (1945-47) early liberalization experiment in trade with Britain, made it difficult to achieve a surplus. Though Britain never demanded any gold/Dollar payments and was relatively lenient with the Danish debt, this situation made it increasingly difficult to achieve the planned Sterling surplus on trade with Britain. It was the government’s intention to pay back the debt during the Marshall period, but at the end of 1949 the debt still amounted to 530 mill.d.kr. (14)

Second, Britain was reluctant to allow Denmark to develop a major surplus through the trade agreements in 1947-49 and tended to insist on a trade balance in the bilateral agreements, although Denmark was allowed to use Sterling in its trade with certain third countries.

But the basic problem of being highly dependent on the British market was that Denmark and Britain had quite different interests in terms of how a European payments scheme should function. Danish interests were best
served by free convertibility or the convertibility of Sterling as foundation for a new payments scheme, while Britain with the consequences of the convertibility experiment in July and August 1947 fresh in mind opposed any proposals that would endanger the international position of Sterling.

An example of the opposing interests was the reaction to the US proposal in the spring of 1949 that part of the drawing rights allotted through the Inter-European Payments and Compensation Agreement were made transferable between the participation countries. Each country could decide where to use up to 75% of its drawings rights. Britain was against such a decision as it would have some of the same effects of convertibility. The British feared that the consequence would be settlements in gold/Dollars between the participating countries, especially an increase in Belgian claims on Britain. The instruction from the Danish government to the delegation in Paris reflected Danish reluctance to support Britain on this question. The delegation was instructed "to a certain extent" to argue for transferability of drawing rights, but to give in and back the British position if the other Scandinavian countries supported Britain. As Sweden and Norway both supported the British position, Denmark had to accept that dependence not only on the British market but also on British willingness to convert Danish Sterling earnings in the future, made it difficult openly to oppose the British position on important issues in the OEEC. The government also realized that it was in many ways unwise to support measures whose effect could be to weaken the British economy as long as Denmark was still strongly dependent on the British market for the major part of its exports.(15)
Up till Autumn 1949, the Danish economy in general improved and in spite of a slow increase in investments, this gave reason for optimism both in agriculture and industry. Development in the balance of payments and especially the Dollar deficit seemed to go according to plan. But then this progress was halted completely by the British devaluation of September 1949. In August, Danish agriculture had signed the last of three long term contracts for bacon, eggs and butter, accepting a 15% price reduction in return for long term security. All three contracts had prices fixed in Sterling. The Danish government's decision to follow Sterling through a full devaluation was motivated to a high degree by the necessity of protecting agricultural export prices. The immediate result of the devaluation was a deterioration in the terms of trade on approximately 20%: while prices on imports from the Dollar area increased 44% there was no possibility of increasing export prices to Britain and at the end of 1949 and beginning of 1950 this was followed by a general increase in import prices from Britain.

The Liberalization of Trade

The detrimental consequences of the British devaluation coincided with increased American demands for trade liberalization. These were provoked by the slow progress made by the European countries towards free trade under the Inter-European Payments and Compensation Agreement in 1948 and 1949. American pressure for trade liberalisation was partly supported by Britain whose concern for Sterling's international position made progress through trade liberalization seem preferable to any premature multilateralisation of payments.(16)
During the summer of 1949 the Danish government had responded relatively positively to the proposals for increased liberalization that had been discussed in connection with the Inter European Payments and Compensation Agreement. The fact that both Britain and Sweden were more inclined towards a liberalization of trade than to changes in the existing payments system, and that continued Marshall Aid now seemed to depend on a positive attitude towards trade liberalization made it clear for the government that some relaxation of restrictions were necessary. This coincided with domestic political pressure to remove some of the more severe war time restrictions and during spring and summer Denmark opened some of its markets to imports. As long as the Marshall Aid was still contributing considerably to Danish recovery, the economy would have to bear the financial burden of a minor relaxation of restrictions.

The British devaluation completely changed the previously positive outlook for the Danish economy and consequently also the government's positive attitude towards liberalization. The devaluation not only had an immediate negative effect on the terms of trade, but equally important it meant that Danish hopes of becoming a creditor within Europe were dashed and had to be postponed, perhaps indefinitely. The deterioration in the Danish economic situation meant that the inherent conflict between measures to keep the balance of payments in check and measures to facilitate the policy of reconstruction became more acute. Consequently, import restrictions became a more important element in conducting economic policy.

In August, the OEEC decided that participating countries should report on the state of liberalization before 1 October 1949. The Government decided that the Danish free list had to exclude Belgium,
Italy, West Germany and Switzerland as an increase in imports from these four countries would lead either to loss of gold/Dollars or hinder the importation of goods considered more important for reconstruction purposes. As an alternative, the government offered to expand the regional free list to all East European countries except for the Soviet Union. The average liberalization percentage on the Danish free list was 22%:(18)

<table>
<thead>
<tr>
<th>Danish liberalizations in % of private imports Oct.1949(19)</th>
<th>% mill.d.kr.</th>
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<tbody>
<tr>
<td>food and feeding stuffs</td>
<td>40 81</td>
</tr>
<tr>
<td>raw material</td>
<td>23 182</td>
</tr>
<tr>
<td>semi-manufactured goods</td>
<td>18 183</td>
</tr>
<tr>
<td>total</td>
<td>22 446</td>
</tr>
</tbody>
</table>

At its November meeting the OEEC agreed on a resolution, following a British proposal, which stated that all participating countries should liberalize 50% of their inter-European trade before 15 December 1949.(20) The Danish Foreign Minister argued that the rules laid down as the basis for liberalization were unequal and that a country's ability to liberalize should be analysed instead through separate investigations into the economic structure of the different countries. He claimed that liberalisation would not increase Denmark's agricultural exports. Rather, because of a lack of Dollars, Denmark would receive increased imports from the participating countries, possibly resulting in serious disruptions in the economy and seriously affecting domestic employment:

"If the stability of the Danish economy is disturbed, it will counteract measures to maintain the high level of employment that is of utmost importance for continued social and political stability. According to the Danish government special weight must be put on the importance of high employment when measures of liberalization have to be decided upon."(21)
The Danish government was exposed to strong pressures both from Hoffman, ECA, who stressed the importance put on liberalization in the US, and from the General Secretary who stressed the importance of Denmark accepting the OEEC resolution and the wide interpretations of the escape clause built into it. The Danish answer was a provisional until the government had time to reconsider liberalization in light of the new developments. The Foreign Minister stressed that Denmark was favourable towards measures of economic integration, the principle aim of which until the summer had been economic reconstruction and progress towards viability in 1952/53. But as the main instrument for increasing European integration had become the liberalization of trade, Denmark would be forced to opt for continued reconstruction if a choice between reconstruction and viability by 1952 became necessary. (22)

The OEEC examined the Danish liberalization proposal in November. Denmark was exposed to harsh criticism and accused of conducting a protectionist economic policy through import restrictions. Reference was made especially to the low degree of liberalization in semi-manufactured goods of 18% (suggesting the protection of Danish industry and employment) and the OEEC stated that only in Belgium and Italy did there exist unemployment that would justify special consideration. The OEEC therefore concluded that the Danish argument was a cover for protectionist policies. (23) Denmark replied that it did not wish to adapt its industry to the rest of Western Europe by importing unemployment created by tight economic policies in other member countries. But its claim that it preferred a gradual reduction of restrictions and adaption of industry and employment did not satisfy the OEEC. The discussions showed quite clearly...
that, by end of 1949, the initial OEEC priority on the reconstruction of the Western European economies was being superseded by a priority on trade liberalization which was creating certain disagreements on economic policy in the OEEC. Denmark would not give up the priority on reconstruction if the alternative was a liberalization of trade which entailed an increase in domestic unemployment.

Back in Copenhagen, the government realized that because of the US insistence on liberalizations, the only possible course was to accept the 50% liberalization and rely on the escape clause in future negotiations in the OEEC. (24) By November, Denmark revised its import restrictions again, bringing liberalization up to 33% (figure 1). In order to expand liberalization to 50%, goods for another 560 million kr. would have to be transferred to the free list and this the government was very reluctant to do. In an internal memorandum, the government admitted that the creation of the free list was done with every consideration for domestic production and employment. None of the extensions were in areas where Danish production would be threatened, but were confined to goods that Denmark needed to import in order to produce. (25)

But the government was deeply worried about developments in the OEEC, and the need to present the OEEC with a well argued Danish case was discussed with the administration, the Central Bank and the trade unions throughout November and December. It was felt that it would be necessary to present a more positive Danish attitude to the negotiations in the OEEC and to increase Denmark's goodwill with the Americans, given the very meagre liberalization results that Denmark was going to present in the forthcoming OEEC meetings in Paris. The result of these discussions was a decision to launch a major offensive and present the OEEC with Danish
views on how European integration should develop in the future. This would be done on two levels: first, through a memorandum on discriminations towards Denmark under the present system of liberalization; and second, through a proposal for a European payments system that would tie future liberalizations to the successful conclusion of a payments scheme. In an attempt to influence opinion in the US the Danish trade union organization DsF presented the AF of L and the CIO with the Danish labour movement's view on liberalizations. This was done in close accordance with the government. (26)

In its memorandum on liberalization the government strongly criticized using the 50% rule as the basis for further liberalization as it did not take the different structures of Western European economies into account. The present system discriminated against Denmark in several ways:

a) The fact that Denmark was without natural resources and had a volume of foreign trade which, in relation to the national product, or measured per capita, was among the largest in the world, made the country very vulnerable to international economic fluctuations and the impact of liberalization would have a relative greater influence on the whole of the Danish economy than on many other countries.

b) Denmark had for political reasons no tradition of government imports (which were not included in the OEEC decisions on trade liberalisations). In 1949 only 3.9% of total imports had been on the government's account. Consequently, Denmark had no possibility of avoiding major liberalizations through government imports like Britain and other participating countries.

c) As Denmark traditionally had a high percentage of imports from participating countries, liberalizations of 50% of imports from participating countries would exert a much stronger influence on the Danish balance of payments than in the case of countries with small imports from member countries. In 1948 imports from participating countries amounted to 62% of total Danish imports, a figure that was expected to rise to 71% in 1950/51.
The memorandum also referred to the high tariffs in other countries, dual pricing and the low currency reserves of Denmark as specific problems that increased Danish difficulties in following the present path of liberalization. It was therefore suggested by the Danish that continued liberalization should follow a different path which took the above-mentioned problems into account. National plans for liberalization should be submitted to the OEEC before 1 July 1950 and based on the assumption that import restrictions should be abolished in successive stages giving the participating countries an opportunity to evaluate each step before proceeding to the next. (27)

The proposal for continued liberalization was closely connected to the Danish proposal for a new European payments union. This was presented to the OEEC 15 December 1949. (28) The basic intention of the proposal was to create the foundation for a continued economic expansion in Europe and counteract the tendencies to deflationary policies that were not only a strong element in the US attitude to European recovery but also present within the OEEC countries themselves. As such, it was a proposal to reassert the importance of European recovery against the priority of viability in discussions on liberalization and payments systems in Europe. The main points of the proposal were the following:

a) For a transition period the payments relations between the participating countries should be equalized on a bilateral basis through the Inter European Payments and Compensation Agreement and through extended bilateral credits between the countries. Increases until July 1950 on the accounts following this procedure should be settled separately over a period of years.

b) Before 1 July 1950, agreement should be reached on a new payments settlement built on the following principles:
   - creation of a European Monetary Council
   - general convertibility of the participating countries' currencies.
- current payments between participation countries should be settled over bilateral payments agreements without credit limits and the participating countries committed themselves to sell and buy each other's currencies at fixed exchange rates.
- the guarantee for the necessary transfer of capital should be undertaken by the Monetary Council.
- creation of a certain coordination of the participating countries' fiscal and monetary policies.

The Danish proposal was not very explicit on the question on how an equilibrium with the Dollar area should be achieved. The basic idea of the proposal was the creation of a common Dollar reserve administered by the Monetary Council and coordination of the countries' Dollar export-import programmes. But as this in reality would mean the creation of a Western European currency area protected from the Dollar area (opposed by the USA which insisted on the direct introduction of Dollars in the payments relations between the Western European countries) the Danish proposal referred this question to bilateral negotiations between the participating countries. (29)

Though very vague on this question, the Danish proposal was the very opposite of the American proposal presented to the OEEC in early December. (30) The foundation of the American proposal was that countries with a deficit of a certain size should settle these deficits in gold/Dollars - a principle that very quickly would lead to the introduction of deflationary measures in the debtor countries. For the SD government it was obvious that continued European integration would lead to a general harmonization of the participating countries' economic policies. But it was just as clear that with the American proposal this adjustment would take place through contractive measures, at the expense of employment as was the case in West Germany and Belgium.
For the SD government, it was important to state that all participating countries should conduct a fiscal- and monetary policy that would secure the high level of activity that was necessary to achieve reconstruction and develop the Western European export sectors without exacerbating inflation. As long as employment and production were not geared to full capacity, it was the obligation of the creditor countries to increase economic activity and consequently also their imports. Trade liberalization would only be possible through a payments system that would secure a high level of activity in both creditor and debtor countries.

By the end of 1949, the OEEC had received four proposals for a new European payments agreement from the US, Britain, the Netherlands and from Denmark and a special working group was set up to reach a compromise. Very quickly it became clear that any compromise would entail the direct introduction of gold/Dollars in payments between the participating countries. This was the precondition for acceptance by the US and several other European countries and by January, the Danish government realized that its proposal would have very little effect on how the new payments union would function. The discussions in the OEEC working group resulted in some improvements from the Danish point of view in comparison to the original American proposal. But the preliminary OEEC paper on the principles for a new payments agreement (as sent out in late December) still had a strong bias towards the creditor countries. Though such an agreement would allow creditor countries to earn Dollars through the union, it did not allow debtor countries to convert European currencies into Dollars if this would mean increased debts in the participating countries, that is. Thus, as long as Denmark stayed in a debtor position it would have no possibilities of converting European currencies into
Dollars. (32) For the Danish government this meant that it became more necessary than ever to employ all efforts to become a creditor within Europe before the end of the Marshall Plan.

The increased importance of becoming a creditor and the fact that Denmark carried very little weight in the OEEC without the support of Britain and the Scandinavian countries, made it clear to the government that the attempt to introduce a debtor biased payments system as a prerequisite for further liberalizations had failed. In the future, Denmark would have to protect its balance of payments situation from further deterioration by using all its influence to obtain the highest possible credit margins within the new payments system and to keep liberalizations at an acceptable level. (33)

In the OEEC, the pressure for increased liberalization developed steadily. At the end of January, the OEEC adopted a resolution stating that a) all participating countries should remove quantitative restrictions on at least 60% of private imports as soon as a new payments system came into force; and b) that the Council after 30 June 1950 should decide on a program which increased liberalisations towards 75%. (34) At the Council meeting the Danish Foreign Minister tried to avoid a commitment to such a procedure, but was forced to accept the resolution by strong pressure from the US. (35)
Figure 1: Danish liberalizations in 1949-1950 in %

<table>
<thead>
<tr>
<th></th>
<th>Nov.49</th>
<th>March.50</th>
<th>May 50</th>
<th>Aug.50</th>
</tr>
</thead>
<tbody>
<tr>
<td>food/feeding stuffs</td>
<td>55</td>
<td>58</td>
<td>60</td>
<td>58</td>
</tr>
<tr>
<td>raw material</td>
<td>36</td>
<td>66</td>
<td>75</td>
<td>81</td>
</tr>
<tr>
<td>semi-man. goods</td>
<td>26</td>
<td>34</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>33</td>
<td>49</td>
<td>53</td>
<td>50</td>
</tr>
</tbody>
</table>

a) lists November and March does not include Benelux, Italy, Switzerland and West Germany
b) lists May include West Germany
c) lists August include Benelux, West Germany, Italy and Switzerland

Source: Udenrigs ministeriets arkiv 73C44b

At the Council meeting the Danish Foreign Minister said openly for the first time in the OEEC that import restrictions in Denmark were not only a specific post-war measure, but a recognized instrument in the conducting of economic policy. If Denmark did away with restrictions then a much tighter fiscal and monetary policy would become necessary to control the balance of payments - a policy that would harm the Danish reconstruction process(36).

The emphasis on the danger of inflation became more pronounced in the OEEC by late 1949 and early 1950, and began to combine with the pressures to which SD reconstruction policy was exposed in domestic politics. The Conservative Party had for some time been pressing for a tighter monetary policy to fight inflation. Though inflation was very low and kept in check through price and wage controls, the Conservative Party feared that the government's policy of maintaining high liquidity with low interest rates in order to encourage investments would fuel inflation. The Liberal Party (whose basic concern was agriculture) supported the Conservative Party's call for deflationary measures because of its insistence on liberalizations. Danish agriculture found it increasingly difficult to
present its case for increased liberalizations on agricultural products in the OEEC as long as the Danish government itself maintained a protectionist system of import restrictions.

Exposed to pressure both from the opposition in Denmark and in the OEEC, the government realized that increased liberalizations had become inevitable. In March and in May the free list was extended to cover 53% of Denmark’s private sector imports. At the same time the government tried to raise the question of dual pricing and customs tariffs in the OEEC as a precondition for further liberalization. The question of dual pricing had been raised often in the OEEC, but, as it involved important economic interests in the different participating countries, nothing had come out of these discussions. Denmark accused Britain and West Germany especially of practising dual pricing on their exports of coal, iron and steel and claimed that the price differences were as high as 15-30% which meant a serious increase in Danish production costs in relation to the countries in question.(37)

The Danish attempt in the OEEC to link increases in liberalization with a reduction of the European customs tariffs was opposed especially by Britain and France who had no interests in any immediate reduction in tariffs and therefore referred the question to discussions in GATT. Danish industry was particularly in favor of linking compromises on trade liberalization with reductions in tariffs and advised the government to use the threat of tariff increases to withstand the OEEC demand for liberalizations. But since agriculture and trade were absolutely opposed to any increase in Danish tariffs, this was hardly a realistic strategy. Furthermore, when negotiations in Geneva on a British initiative led to the general agreement that tariff concessions agreed to in Annecy in 1949
should be prolonged until January 1951, it meant that Denmark was cut off from any increase in tariffs until 1951. Consequently, the Danish government was prevented from using it as a threat in the OEEC.(38)

In the first quarter of 1950, the Danish balance of payments showed a considerable deterioration in relation to the 1950 forecast. From January to March, the foreign exchange debt increased by approximately 130 mill. d.kr, which was 3/4 of the total increase predicted for 1950. Increased imports from the Sterling area and the participating countries were the principle reason for this trend.

As increases in imports were expected to continue due to the liberalizations in March and May, the increase in foreign exchange debt from 1951-1953 was estimated to 1700 mill. d.kr. in early 1950 compared to the Marshall Aid estimate of 700 mill. d.kr.(39) As the external conditions for the Danish economy were not expected to improve in the Marshall period, drastic measures to reduce the deficit had now to be considered.

The Balance of Payments Committee, which was in charge of the payments forecasts, recognized that the most obvious and effective measures would be a tight monetary policy. But such a policy was ruled out because of its effects on investments and employment.(40) An alternative option were measures to increase industrial exports as agricultural exports could not be expected to provide the necessary increase after the end of the Marshall period.

The most obvious way to reduce the level of costs in Danish industry compared with those in foreign industries was a devaluation of 10 or 15% which would increase Danish competitiveness towards all other countries. Apart from increasing agriculture's income, the basic problem of a devaluation was considered to be the consequent price increases that would
undermine Denmark's automatic regulation of wage and prices. This had to a certain extent been the case after the devaluation in Autumn 1949 and, as foreign wages in general were expected to rise, it was considered important to keep domestic wages and prices stable in the future. The committee's conclusion, shared by the government and the trade unions, was that the only alternative to a devaluation was drastic limitations on imports combined with a tightening of fiscal policy to limit inflation. The committee recognized that import restrictions in the long run could have very unfortunate effects on production costs in the industrial export sector, but in the spring 1950, import controls were still considered a lesser evil than an immediate deterioration of employment.

<table>
<thead>
<tr>
<th>Year</th>
<th>Balance of p.*</th>
<th>Gross nat.income**</th>
<th>increase</th>
<th>ERP/MSA*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>-179</td>
<td>18.278</td>
<td>3.4%</td>
<td>135</td>
</tr>
<tr>
<td>1949</td>
<td>-351</td>
<td>18.948</td>
<td>3.7%</td>
<td>646</td>
</tr>
<tr>
<td>1950</td>
<td>-695</td>
<td>20.432</td>
<td>7.8%</td>
<td>461</td>
</tr>
<tr>
<td>1951</td>
<td>- 88</td>
<td>20.604</td>
<td>0.8%</td>
<td>439</td>
</tr>
<tr>
<td>1952</td>
<td>439</td>
<td>20.737</td>
<td>0.6%</td>
<td>66</td>
</tr>
<tr>
<td>1953</td>
<td>221</td>
<td>21.899</td>
<td>5.6%</td>
<td>64</td>
</tr>
<tr>
<td>1954</td>
<td>-327</td>
<td>22.450</td>
<td>2.5%</td>
<td>8</td>
</tr>
</tbody>
</table>


The increasing balance of payments deficit did not make it easier for the government to withstand the political pressure exerted by the opposition. In May, the government succeeded in passing its counterpart proposal in Parliament, securing part of the counterpart funds for investments in agriculture and industry. But this was achieved only after
a painful compromise involving major concessions to the opposition in terms of a state loan to counterbalance the increase in liquidity resulting from the freeing of part of the counterpart funds. The political difficulties involved in achieving this compromise convinced the government that any attempts to improve the balance of payments through non-deflationary measures would be met with opposition and the government was consequently extremely wary of increasing in import restrictions.

In May, the government presented its case in the OEEC and requested an increase in Denmark's drawing rights for 1950 on $10.5 millions in order to avoid gold/Dollar payments in settlements with several participating countries.

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount (mill. d.kr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 49</td>
<td>590</td>
</tr>
<tr>
<td>September 49</td>
<td>460</td>
</tr>
<tr>
<td>December 49</td>
<td>360</td>
</tr>
<tr>
<td>April 50</td>
<td>530</td>
</tr>
<tr>
<td>June 50</td>
<td>700 (estimate May 1950)</td>
</tr>
</tbody>
</table>

In discussing the Danish request end of May, the OEEC found that, considering its small liberalization efforts, Denmark could only be granted extra drawing rights for $1 million. The OEEC was not impressed by Denmark's argument that it would have severe domestic political repercussions if it was forced to settle foreign debt in gold/Dollars before the start of a new payments system.

By end of May the discussions of a new European payments system had progressed considerably. Britain had given up its insistence on bilateral credit margins and the discussions in the OEEC now involved the precarious
question of fixing the credit margins of the new system. (44) The European payments scheme which emerged from the discussions of spring 1950 was clearly a creditor biased system. Though a certain increase in the credit margins compared with the original US proposal had been agreed on, the system's main principle was still the transfer of gold/Dollars from debtor countries to creditor countries in the settlement of inter-European payments.

The Danish Foreign Office was very doubtful as to the payment union's function after the end of Marshall Aid as the debtor countries after 1952 could not be expected accept the automatic transfer of gold/Dollars to the European creditor countries. The Foreign Office therefore strongly recommended that Denmark's economic policy should no longer aim at converting European currencies to Dollars through the new payments system (Danish policy since 1948), but rather should direct all efforts towards increasing Denmark's Dollar exports in the future. (45)

The progress of the discussions on the new payments system raised the question of the settlement of Denmark's debt with both Britain and the participating countries. A precondition for the functioning of the payments union was the settlement of "existing resources" and their amortization over a period of a few years. The Danish debt to Britain of 530 mill.d.kr had not been settled because of the government's hope to pay back the debt during the Marshall period out of the Danish surplus with Britain. But by May 1950, it was clear that this would not be possible and it therefore became important to reach a favourable settlement before the start of the EPU. The Belgian suggestion that all "existing resources"
should be equalized over a period of 2 years meant that if Denmark did not get a settlement with Britain outside the EPU, the Danish debt to Britain would by 1952 be replaced by an equivalent debt to the payments union, taking up most of Denmark's credit margins with the EPU.

In June Britain declared its willingness to settle 22 millions pounds Sterling of the Danish debt over a 10 years period and in this way made it considerably easier for Denmark to accept its credit margins with the EPU. In the EPU agreement it would still be possible to use Sterling outside the EPU area, but not to the same extent with the participating countries. Once the EPU was in operation, this meant that the existing Danish surplus on trade with Britain (which until then had been used mainly for purchases outside the Sterling area, especially in Eastern Europe and with participating countries like France, Netherlands and Sweden) would produce a balance of payments situation in which the trend would be towards surplus with Britain and considerable deficits with all other participating countries. Such a development was precisely the reverse of the aim of the long term programme to finance the Danish dollar deficit through general surpluses within Western Europe.

To improve its balance with the participating countries, Denmark concentrated all its efforts achieving an "initial position" with the EPU. The allotment of "initial positions" was a US attempt to equalize the worst disparities within the EPU through ERP Dollars. Through the negotiations for "initial positions" it quickly showed that, although the ECA had some understanding of Denmark's difficulties, especially in relation to the lack of European liberalizations on agricultural products,
Denmark was not going to be allotted an initial creditor position unless it took drastic action to reach a creditor position in Europe before 1952. Thus, at the end of June, Denmark requested an initial creditor position of $40 millions, mainly to avoid the use of gold/Dollars in settling its deficits with participating countries. (48)

The ECA demanded "extraordinary" measures to improve the Danish position before 1952 and requested to know how Denmark would achieve this. The Danish insistence that the balance of payments equilibrium could be reached through the reintroduction of import restrictions did not satisfy the American demands for a plan for further liberalization. The ECA clearly stated that it was not willing to give Denmark an initial position just to prevent payments of gold/Dollars as long as this did not result in increased liberalization.

The ECA made it quite clear that the only measure that would make the ECA reconsider the Danish case was the introduction of deflationary policies. This position was backed by the ECA mission in Copenhagen which, by the summer of 1950, seemed to have lost its patience with the government's economic policy. (49) The government's refusal to adopt a different economic policy led to the ECA decision that Denmark did not need an initial credit position within the EPU: (50)

"It is our belief that the credit facilities of the EPU will provide sufficient flexibility in the balance of payments of Denmark to permit a vigorous program to be undertaken to the end that Denmark may reach the end of the ERP period in the surplus position envisaged in the long term programme of Denmark." (51)
The attitude of the ECA was well in line with general opinion inside the OEEC. The outbreak of the Korean war, and the priority on rearmament in the European countries which followed, led to the official decision inside the OEEC that European efforts should aim to counteract inflationary tendencies that programmes of rearmament might produce, and moreover that the fight against inflation should be given priority over European reconstruction.

In Denmark, rearmament was expected to result in a slow down of reconstruction in favour of an increase in defence expenditure throughout 1950-1953. Planned Danish defense expenditure for 1950-51 was 354 mill. d.kr - equivalent to 2% of the national income. This was expected to reach 3,6% by 1953. (52) Though Danish defense expenditure was relatively small, this growth in spending was expected to influence general economic policy through increased foreign exchange expenses. Danish industry was not expected to profit immediately from rearmament, but it was hoped that part of the specialized machine industry might gain from rearmament in the long run. But the government's general opinion was that rearmament in economic terms would be more of an evil than a blessing, increasing Danish difficulties in reaching an equilibrium on the balance of payments.

Up to the final approval of the EPU in the OEEC Cabinet meeting of 7 July 1950, Denmark had protested in every possible way against the 60% rule that forced all European countries to liberalize 60% of their private import before the signing of the EPU. Further liberalization in Denmark was expected to result in an immediate increase of the deficit on the balance of payments.
At the beginning of May, the Balance of Payments Committee had strongly emphasised that the balance of payments problems might force Denmark to reintroduce restrictions in the near future. Consequently, it was important that Denmark secured the right to reintroduce restrictions as a condition of its acceptance of the EPU. However, securing further Marshall Aid made it impossible to veto the EPU on grounds of liberalizations and Denmark consequently concentrated all its efforts on gaining an "escape clause" in the EPU agreement that would allow Denmark to reintroduce controls at the risk of losing of gold/Dollars.

At the meeting of the Chiefs of Trade in June, Denmark and the Netherlands managed to get the OEEC to accept such a escape clause. It was decided that any country could reintroduce restrictions by referring to "the safeguarding of the reserves of the Union". The British and American acceptance of the escape clause rested on the fear that if countries like Denmark were not given this option, they might delay the acceptance of the EPU. It was also generally realized that the Danish payments situation in particular did indeed look bleak by the summer 1950. Estimates in July showed Denmark's deficit for the rest of 1950 and 1951 to be 765 mill. d.kr. This would made it necessary to draw heavily on the EPU. But as Denmark's gold free credit within the EPU for the whole period was 270 mill.d.kr, this would mean making Dollar payments to the EPU. Even the use of 3/4 of Denmark's low Dollar reserves of 200 mill.d.kr. would not be enough to cover the Danish deficit through the EPU.

The Danish government was stuck in its economic policy and the scope of action had been narrowed down to a choice between deflationary measures.
or the reintroduction of restrictions. Like the government the Balance of Payments Committee was opposed to deflationary policies and had already in June stressed that Denmark now stood at a major cross-road in its economic policy, where it had to choose between continued liberalization controlled through a tight fiscal and monetary policy or the continuation of a domestic expansionist policy controlled through import restrictions. It was the Committee's conclusion that if the government chose to pursue its reconstruction policy this would require a major reorganization of the import restriction system on a more permanent basis, thereby committing Denmark to a protectionist policy in the future. (56)

In July, the opposition's pressure for a tighter monetary policy had forced through an increase in interest rates of 1% as a result of the effects of Marshall Aid and the balance of payments deficit on the general level of liquidity. The SD expansionist policy of low interest rates and cheap money to boost investment and employment was slowly crumbling away.

At the same time, the government decided to engage the opposition in a decisive battle on economic policy. At the end of July, the Danish delegation confidentially informed Marjolin in the OEEC of the Danish intention to tighten import restrictions. The OEEC declared its willingness to delay the discussion of the Danish decision in the OEEC until the domestic political condition looked more favourable. (57) But already on the 8 August, the government presented its proposal to parliament:
Economic measures presented to parliament 8 August 1950

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (mill. d.kr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Exchange debt:</td>
<td></td>
</tr>
<tr>
<td>1 July to 31 December 1950</td>
<td>110</td>
</tr>
<tr>
<td>1 January 1951 to 31 December 1951</td>
<td>505</td>
</tr>
<tr>
<td>Purchase of military equipment</td>
<td>150</td>
</tr>
<tr>
<td>Deficit 1 July to 31 December 1951</td>
<td>765</td>
</tr>
<tr>
<td>Saving of foreign exchange:</td>
<td></td>
</tr>
<tr>
<td>cut in restricted imports</td>
<td>160</td>
</tr>
<tr>
<td>transfer from free list</td>
<td>125</td>
</tr>
<tr>
<td>reduction on tourist expenditure</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>305</td>
</tr>
<tr>
<td>Rest deficit</td>
<td>460</td>
</tr>
</tbody>
</table>

Economic Secretariat Archive G5 B6

The cuts on imports were balanced by a tightening of the fiscal policy with 300 mill. d.kr. through an increase on consumer taxes.

To placate the opposition, especially the Conservative Party, the new economic measures were tied to a proposal for increased defense expenditure. The SD's alliance with the Liberal and the Conservative Parties on the question of NATO and defense had served until now to soften attacks from the opposition. But by August, both the Liberal Party and the Conservative Party were ready for the final showdown with the SD economic policy. In the future, Denmark's economic development should follow the path taken by European integration towards trade liberalization and viability.

Although the elections resulted in the continuation of the SD government until late October - when the party finally decided to resign because of the continued sniping from the opposition on questions of economic policy - it had been clear already from the spring that Denmark
as a result of the course taken by European integration would have to give up the priority on reconstruction and adapt itself to the general development of economic policies in Europe.

It was clear both for the government and the opposition that to embark on a course of deflationary policies to control the balance of payments would result in increased unemployment and neither the government nor the opposition was keen to take actual responsibility for such a development. This was to a considerable extent the reason for the deliberations in facing the severity of the balance of payments situation over the summer of 1950.

In November 1950, the Liberal-Conservative Government introduced its economic policy which aimed at a general reduction of consumption and investments. The basic proposal was a tightening of the fiscal policy of 600 mill. d.kr. equivalent to 25% of the state budget and a further tightening of monetary policy through an increase in interest rates to 5%. This increase meant that the total limitation on credit in 1950 reached 300 mill. d.kr. (58)

In spite of its pledge on liberalization, the government was unable to free imports that had been restricted by the SD government in August. Over the period 1950-55, Denmark managed to increase liberalization up to 78%, but still claimed its right to protect its balance of payments as long as European liberalization did not include agricultural products. There is no doubt that import restrictions throughout the fifties continued to be an important instrument of industrial policy. In 1958, a
government report estimated that as much as 40% of Danish industry was still dependent on protection from foreign competition.

**Geographical Distribution of Denmark's Foreign Trade 1949-1955 in mill. d.kr.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sterling area imp.</th>
<th>Sterling area exp.</th>
<th>Other OEEC imp.</th>
<th>Other OEEC exp.</th>
<th>W. Hemisphere imp.</th>
<th>W. Hemisphere exp.</th>
<th>other countries imp.</th>
<th>other countries exp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>1366</td>
<td>1629</td>
<td>1314</td>
<td>1253</td>
<td>801</td>
<td>171</td>
<td>710</td>
<td>440</td>
</tr>
<tr>
<td>1950</td>
<td>1902</td>
<td>2007</td>
<td>2400</td>
<td>1779</td>
<td>1004</td>
<td>409</td>
<td>842</td>
<td>480</td>
</tr>
<tr>
<td>1951</td>
<td>1848</td>
<td>2348</td>
<td>3139</td>
<td>2200</td>
<td>1004</td>
<td>409</td>
<td>965</td>
<td>760</td>
</tr>
<tr>
<td>1952</td>
<td>1846</td>
<td>2381</td>
<td>3345</td>
<td>2219</td>
<td>834</td>
<td>568</td>
<td>581</td>
<td>638</td>
</tr>
<tr>
<td>1953</td>
<td>2026</td>
<td>2645</td>
<td>3682</td>
<td>2148</td>
<td>587</td>
<td>673</td>
<td>584</td>
<td>632</td>
</tr>
<tr>
<td>1954</td>
<td>2198</td>
<td>2541</td>
<td>4271</td>
<td>2349</td>
<td>850</td>
<td>893</td>
<td>714</td>
<td>765</td>
</tr>
<tr>
<td>1955</td>
<td>2104</td>
<td>2544</td>
<td>4227</td>
<td>3050</td>
<td>1041</td>
<td>882</td>
<td>727</td>
<td>715</td>
</tr>
</tbody>
</table>


The most important long term aspect of the problems arising out of Denmark's participation in European negotiations on trade and currencies was the gradual realization that Denmark no longer could base its economy exclusively on agricultural products. The development in the OEEC forced not only the SD Party but also the Central Bank and parts of the opposition and the administration to face the fact that the necessary improvement in Denmark's balance of payments situation could only be facilitated through a major increase in industry's ability to export. (59)

This was a development that was strongly supported by the ECA, which since the end of 1949 had exerted continuous pressure on the government for measures to increase industrial exports. This had resulted in the setting up of both a Dollar Export Board and a Productivity Committee at
the end of 1949 to improve Denmark's Dollar exports in general and to increase productivity in both industry and agriculture. Throughout the fifties, these measures supported by the ECA Technical Assistance programmes led to a major increase in productivity and exports in Danish industry in spite of stagnant investments levels, low growth and unemployment.(60)

The real loser from the course taken by European integration during the Marshall Plan was Danish agriculture. In spite of massive investments and productivity increases, the European refusal to open its markets for agricultural imports - together with the lack of free convertibility - confined Danish agriculture to stagnant export levels and overproduction in the fifties, awaiting a common European solution of the economic problems connected with liberalization of agricultural products.
NOTES


2. MCEP (Minister Udvalg for Oekonomi og Forsyning) meeting 19/11-47, minutes. Rigsarkivet, Statsministeriet, Regeringens oekonomiske udvalg af 1947, F.01-199/105.

3. Danmark's Langtids Program, København 1948, p.16.


6. The SD government set up a special committee to formulate the long term programme: the long term committee(langtidsudvalget) with representatives from the ministries and the major business organizations. The long term committee was set up under the Economic Secretariat and chaired by later prime minister V. Kampmann.

7. See minutes from the Danish-British negotiations in MCEP archive, op. cit. file 41: Danmarks og England's handelsforhandlinger.

8. For the discussions of dollar exports see: Udenrigs ministeriets arkiv, UMA, 73C84a: Export offensiv overfor $ omraadet, 73C84b: Materiale og referater fra $ export udvalget, MCEP archive, file 12: Dollar export udvalget. 10 June 1949 the MCEP created a special committee to encourage Dollar exports after strong pressure from the ECA mission in Copenhagen. The committee was set up under the Economic Secretariat with representatives from industry, shipping, trade and agriculture and the relevant ministries. The committee was chaired by V. Kampmann.

9. Consequently the Government was extremely cautious in the British-Scandinavian negotiations (UNISCAN) that took place to liberalize payments between Britain and the Scandinavian countries from December 1949 and onwards. For the UNISCAN negotiation see UMA: Skandinavisk-Britiske forhandlinger 73B33 - 73C37, MCEP archive, file 32: Uniscan, and Minister of Trade archive: 31.53 M 2g: Uniscan.


12. MCEP meeting no.65 18/8-48, minutes. MCEP archive, op.cit.

13. MCEP meeting no.66 19/8-48, op.cit.


15. ERP-Committee (ERP udvalget) meeting 24/6 and 1/7-49, minutes, UMA 73C44b: Materiale og referater fra møder.

16. Report from the OEEC delegation 19/7-48, UMA 73C44b.

17. ERP-committee meeting 8/7-49, minutes, UMA 73C44b.

18. Ministry of Trade(Handelsministeriet): Notat vdr. frigivelse af europeisk samhandel. MCEP archive, op.cit., file 16. Trade with Eastern European countries had special priority in the Danish long term programme. Danish imports of coal, chemicals and feeding stuffs from Eastern Europe was estimated to increase 45% 1948-52. The US insistence that Marshall countries should not pursue trade with Eastern Europe made it difficult for Denmark to follow this policy. For the West European/American cooperation to conduct economic warfare against Eastern Europe 1948-50 see: UMA 73C73a: Marshall plan og exporten til Osteuropa, and MCEP archive, file 40: Oest-Vest handel.


21. Statement by Foreign Minister G.Rasmussen at OEEC Council meeting 1/11-49. UMA 73C44b.

22. Foreign Office: Resolution paa OEECs Kabinet Minister moede 2/11-49. UMA 73C44b.


25. Foreign Office: Notat ang..., op.cit.
26. There seems to have been a lot of activity in both administration and government on these issues in November and December. For the letter to the American trade unions see letter J.Paldam to J.O.Krag, 17/1-50 and letter E.Jensen, DsF to W.Green, AF of L, P.Murray, CIO 31/1-50. Economic Secretariat archive, G 5, D3. For the ECA reaction to this letter see telephone conversation G.Marshall-J.Lindemann 19/1-50. National Archives, ECA, NND 857738. The original draft for the Danish payments proposal was made by P.Nyboe Andersen and first discussed in a small group: V.Kampmann, E.Ib Schmidt, E.Bartels, J.O.Krag, before it was presented to the different ministries and the Central Bank. See letter from E.Bartels to J.O.Krag 8/12-49. UMA 73C44b.


28. Memorandum vdr. forudsætningerne for liberalisering af handelen. 10/12-49. MCEP archive, file 28. The proposal was discussed between the MCEP and the Central Bank 12/12-49. The Central Bank found the proposal theoretical and unrealistic because several European countries would not be willing to endorse such a proposal and the bank therefore opposed the proposal. MCEP meeting 12/12-49, minutes. MCEP archive. See also letter from E.Bartels to J.O.Krag 8/12-49, op. cit. where the attitude of the Central Bank is explained by the bank's tight monetarist attitude. If Denmark became a creditor within Europe the Danish proposal would mean extended credits to other European countries and a general expansion of liquidity.

29. The idea of the original proposal was a European dollar pool and general coordination of economic policies, investments and export/import programmes. See: P.Nyboe Andersen: Memorandum on Establishment of Multilateral Payments in Europe. 2/12-49. UMA 73C41/4k. The Danish memorandum presented to the OEEC built on the same principles, but was a considerable weaker edition of the original paper.


32. ERP-committee meeting, minutes, 6/1-50. UMA 73C44b.


34. OEEC: Council Decision on Liberalization of Inter-European Trade. 31/1-50. UMA 73C44b.
35. Telegram from OEEC delegation. 1/2-50. UMA 73C44b.

36. "Import restrictions were introduced early in the thirties to improve a crisis of deflation coming from the US and spreading to Europe.... It will not help us (the participating countries) if we build up a system that will be vulnerable towards a crisis of deflation in the belief that deflation is a past experience and inflation the only danger. There is some truth in the saying "the worst about inflation is the deflation that follows". Speech by Foreign Minister G. Rasmussen at OEEC Council meeting 31/1-50. UMA 73C44b.

37. Foreign Office: Memorandum on dual pricing. 28/11-49. UMA 73C44b.

38. ERP-committee meeting 10/5-50, minutes. UMA 73C44b, and Finansministeriets toldforhandlings udvalg: Memorandum om genbindings spoergsmålet. September 1950, MCEP archive, file 25.


40. Calculations by the Committee showed that a general tightening of credits to reduce the balance of payments with 500 mill. d.kr. a year, would entail a fall in income on approximately 2000 mill. d.kr. and an increase in unemployment on 10%. Op.cit. p.3.

41. The government had tried to pass its original proposal both in spring and autumn 1949, but political opposition had forced the government to withdraw its proposal. This was based on the creation of a reconstruction fund that should channel the counterpart funds to investment in specific sectors of the economy. The opposition wanted no central direction of investments and therefore opposed the proposal. The proposal presented in spring 1950 only had a vague resemblance to the first proposal. Any notion of a central reconstruction fund had disappeared and investment should now go through the normal channels of finance, the banks. See in general: MCEP archive, file 26: Genopbygningsfonden, Economic Secretariat archive, G26,D5: Counterpart funds, and Ministry of Trade archive, 31-53 M 28: Local currency counterpart funds. For the ECA approval of the original 1949 proposal see: National Archives, ECA: Correspondence on Denmark's proposal for use of counterpart funds. 10-24/6-49. NND 822504.
42. Denmark had for 1949/50 calculated with total drawing rights on $24 millions, but was allotted $14.9 millions.

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<th>deficit with Eur.countries(excl Britain) after deduction of drawing rights $14.9 mill.</th>
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<tr>
<td></td>
<td>surplus</td>
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<td>West Germany</td>
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<td>Norway</td>
<td>4.2</td>
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<td>Total</td>
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The large deficit with Portugal was due to switching of imports from the Dollar area: feeding stuffs and oilseeds, etcetera.

The debt to Britain was 1/7-49 530 mill. d.kr and the Danish 1949/50 estimate calculated with a surplus on $5 mill in trade with Britain reserved for debt retirement. Estimates in May 1950 reduced this surplus to $3 mill. Foreign Office: Memorandum: Revision of multilateral drawing rights for 1949/50. 19/5-50, UMA 73C44b and OEEC: Joint Trade and Inter-European Payments Committee: Revision of Drawings Rights: Request launched by Denmark. 22/5-1950. UMA 73C44b.

43. OEEC delegation: telegram 31/5-50. UMA 73C44b

44. Britain’s new proposal was presented 19/5-50. OEEC delegation: Indberetning til Udenrigs Ministeriet ang. Europaeisk Betalings Union. 22/5-50. UMA 73C44b.

45. Foreign Office: Notat vdr. forslagene til ny betalingsordning. 30/5-50. UMA 73C44b.

46. OEEC-delegation: Telegram. 15/6-50. UMA 73C44b.


49. OEEC-delegation, op.cit. 26/6-50. The ECA mission had initially been very positive towards the SD policy. But as it became clear already
in 1949 that political opposition made it increasingly difficult for the government to implement its policy, the ECA became more critical of the government's lack of control over the economy. Concerning this change in the ECA attitude see the references in note 60.

50. ECA: Letter to General Secretary Marjolin. 4/7-50. UMA 73C44b. Six countries were allotted initial creditor positions in the EPU: Austria ($ 80 mill.), Greece ($ 115 mill.), Iceland ($ 4 mill.), Netherlands ($ 30 mill.), Norway ($ 40-70 mill.), Turkey ($ 25 mill.). For the ECA's reasons not to give Denmark an initial creditor position see: ECA-mission, Copenhagen: Review of Denmark's Program for 1950/51. National Archives, NND 857738.


54. ERP-committee meeting 22/6-50, minutes, UMA 73C44b, OEEC delegation: Betalingsordningen. 10/7-50. UMA 73C44b.


56. Balance of Payments Committee: Oversigt over betalingsbalancens udvikling. 2/6-50 op.cit.


59. Balance of Payments Committee: Foranstaltninger .., op.cit. The change in attitude can especially be seen in the minutes from meeting in the ERP-committee from January 1950 and on. UMA 73C44b.

60. ECA mission, Denmark: Monthly Report on Denmark 1949-50, National Archives, NND 857738; ECA, European Program Division: Revaluation of Denmark's economic Prospects. Oct.1950, National Archives, NND 795159; ECA
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- Economic Secretariat

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  Denmark, economic policy.
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