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Stabilizing Postwar Europe: Aligning Domestic and International Goals

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Abstract

This paper looks at the historical developments that led to the Schuman Plan in 1950, which today is seen as a starting signal for the European integration process. It argues that this announcement by the French foreign minister constituted a genuine change of strategy that can only be understood in the light of the preceding historical chain of events. The first steps of European integration were part of a search for suitable institutions capable of dealing with Europe's economic and political problems, which also involved the Bretton Woods institutions, Marshall Aid and the OEEC, and, finally, the ECSC. These organizations' respective fate depended on the strategies of key states, which in turn were driven by domestic concerns. Aligning their interests took several steps and was only completed when all three organizations existed in parallel. Throughout this process, all states had to abandon their preferred course of action and learn to settle for second best.

Zusammenfassung

Dieses Papier betrachtet die historischen Ereignisse, die 1950 zur Bekanntgabe des Schuman-Plans führten, der heute als Startschuss der europäischen Integration angesehen wird. Es argumentiert, dass Schumans Initiative ein dramatischer Strategiewechsel zugrunde lag, der nur vor dem Hintergrund der vorangegangenen historischen Sequenz verstanden werden kann. Die ersten Schritte europäischer Integration waren aus dieser Sicht Teil einer umfassenderen Suche nach institutionellen Lösungen für Europas ökonomische und politische Probleme. An ihr waren die Bretton Woods-Institutionen, die Marshall-Hilfe und die OEEC sowie schließlich die EGKS beteiligt. Der Erfolg dieser Organisationen hing vom Verhalten der wichtigsten Staaten ihnen gegenüber ab, welches wiederum durch innenpolitische Überlegungen bestimmt war. Ihre Interessen in Einklang miteinander zu bringen, benötigte mehrere Anläufe und war erst abgeschlossen, als alle drei Organisationen nebeneinander bestanden. Im Verlauf dieses Prozesses mussten alle Staaten lernen, dass die von ihnen bevorzugte Entwicklung nicht mehr länger möglich war, und aus ihrer Sicht zweitbeste Lösungen akzeptieren.

Contents

1 Introduction [1]

This paper looks at the formative phase of European integration in the immediate postwar years. It seeks to explain the historical development leading to the Schuman Plan. With the benefit of hindsight we know that Schuman's speech in 1950 inaugurated a long European integration process. At that time, however, it was part of a larger effort to stabilize postwar Europe that involved the Bretton Woods institutions, Marshall Aid and the Organization for European Economic Cooperation (OEEC), and finally the European Coal and Steel Community (ECSC). Their consecutive creation was closely related and European integration resulted from the successes and, more importantly, the failures of earlier attempts to resolve its economic and political problems. Thus, to understand the origins of the European integration process we have to look at the preceding historical sequence that preceded it. The "uniting of Europe" neither started from scratch nor was its future course foreseen.

The claim is that institution-building in Europe crucially depended on aligning the domestic and international goals of three leading states, the United States, Great Britain, and France. Each followed its own strategies based on domestic politics. Thus, this paper agrees with those authors who conceive of European integration as driven by national interests. However, although integration at first meant mainly economic integration, the founding states did not follow commercial interests alone as the liberal intergovernmentalist approach maintains (cf. Moravcsik 1998: 3, 18, *passim*). In fact, the French initiative to pool coal and steel resources ingeniously combined economic interest with foreign policy concerns.

Furthermore, this article stresses that neither the institutions chosen nor the fact that European states opted for integration in the first place can be understood without reference to anteceding developments. Thus, it shares the recent concern of historical institutionalist writing on sequences and temporality (cf. Lieberman 2001; Büthe 2002). Rather than aligning national interests through a single, separate lowest-common-denominator bargain, it was achieved sequentially by creating new institutions in response to the (partial) failures of preexisting ones: [2] Marshall Aid and the OEEC were an answer to the shortcomings of the IMF for postwar reconstruction; the OEEC was supplemented after two years by the European Payments Union (EPU) to overcome Europe's deadlocked economic situation and by the ECSC to reconcile German and French reconstruction; and the stabilization of Western Europe was completed only after the IMF, OEEC, and ECSC existed side by side. No single state had been able to realize its preferred institutional order but all had to settle for second or third best. Yet, in retrospect, these second best solutions led to success.

Aligning national interests turned out to be decisive for the institutional order of postwar Europe. It also gave European integration a specific form, that is, economic integration. While this kind of integration developed dynamically, the "road not taken" (Scharpf 2002: 2-4) meant that later attempts to move beyond market integration proved difficult. As early steps increased the probability of further steps being taken in the same direction, it seems worthwhile to better understand why and how the initial steps were taken in the first place.

Outline of the Paper

This paper is organized in three sections dealing with the Bretton Woods' blueprint for an international economic order, Marshall Aid and the OEEC, and the run-up to the Schuman Plan respectively. Thus, in the first section the earliest attempt to foster a viable international economic order - the Bretton Woods agreement - will be discussed. Though this agreement sought to devise a set of rules and organizations matching domestic and international aims, it failed to deliver these results in practice, mainly because it lacked sufficient means to support economic recovery. Hence, to sustain the domestic reconstruction efforts of European governments a more comprehensive approach was needed.

This was forthcoming with the European Recovery Program (ERP) or Marshall Aid, which is dealt with in Section Two. American policymakers tried to conjugate financial assistance with setting up a political framework for cooperation. In response to their demands, the Organization for European Economic Cooperation (OEEC) was created for distributing Marshall Aid. It was reasoned that only a joint recovery effort could work and the OEEC was to fuse national economies into a common market. Moreover, economic integration was supposed to become a vehicle for political integration. During the first two years of its existence, however, the OEEC failed to produce anything of the sort. Distributing Marshall Aid meant intense haggling, which heightened tensions between the states involved. In 1950, though, an important step towards remedying Europe's economic problems was taken by establishing as part of the OEEC the European Payments Union (EPU), which allowed for multilateral clearing. This institution succeeded in facilitating intra-European trade. Prior to that, dwarfed trade had been a central obstacle to Europe's economic recovery - unresolved by the Bretton Woods institutions. Whereas the OEEC succeeded in economic terms it never came close to being a vehicle for political integration. Limited to intergovernmental cooperation, it also failed to ease France's foreign policy concerns about Germany. Again, a different institutional framework was needed.

Section Three deals with those developments leading to the Schuman Plan for pooling France and Germany's coal and steel resources. It will be argued that this step was not taken for the ideal of European unity but rather because France's preferred alternatives had faltered as its allies, Great Britain and the United States, followed a different course of action. In fact, it was a fairly dramatic change of strategy deemed necessary to achieve two essential goals: controlling Germany and securing access to the Ruhr's resources vital to France's domestic reconstruction efforts. [3] At home, the Monnet Plan rested on the assumption that France could make use of the Ruhr's resources to modernize its industries in advance of Germany's recovery - as a safeguard against the latter's potential dominance. Hence, France's security concerns were linked inseparably to its economic objectives.

2 Bretton Woods: Designing Multilateralism

The most important lesson drawn from the interwar period had been that any international order would have to take into account its national consequences as well. As Karl Polanyi (1978: 309-311) argued, the price for re-establishing the gold standard had been to preclude any meaningful social policy and thus a failure to mitigate social hardship brought about by increased market dependency. Subjugating domestic politics to a monetary order in the end led to the collapse of democratic political institutions in many states as well as of the international economic order since states turned towards protectionist and nationalistic strategies instead. Hence, building the postwar order entailed a dual task: re-establishing a fair measure of international trade while allowing for domestic policies to ensure social welfare for the population at large. This dual task has been called "embedded liberalism compromise" (Ruggie 1982). However, fostering this compromise in Europe was not achieved without difficulty and rested on a major effort by the prime architect of the postwar order, the United States.

While the U.S. had already been in the ascendancy prior to World War II it only attained a dominant position through the war. In terms of military and economic capacity America was second to none after the war, outdistancing any potential contestant by far. Traditional European powers as well as the Soviet Union had been severely hit by the war and were partially struggling for survival (cf. Cox 2001: 314-315). Thus, the only candidate left to shape the postwar world was the United States. Although clearly in a dominant position, it still needed the assent of those states that were to be included into the new economic and political order. Hegemonic leadership does not touch upon other states' formal sovereignty and depends on a certain degree of legitimacy (Gilpin 2002: 165-166). [4] Accordingly, the question at the time was how to accommodate the need for states to comply with the rules of the international order without emasculating their capacity to satisfy the demands of their domestic societies (James 1996: 30).

2.1 Drafting the Postwar Order: The Bretton Woods Agreement

Through 1943 and 1944, when it had become clear that Walther Funk's proposals for a German dominated international financial order would not materialize, discussions between British and American officials took place outlining the postwar economic order. [5] This marked the transition of power from the old hegemon to the new one, with the compromises struck reflecting who was to set the tone thereafter. The leading figures at the time were John Maynard Keynes and Harry Dexter White. Both had written proposals for a postwar economic order and personally headed the respective delegations negotiating these issues.

Keynes and White disagreed on a number of substantial points, probably due to differences in the situation and prospects of their home countries (Boughton 2002). Most importantly, they had quite different ideas about the new institution that was to be created. Whereas the British proposal emphasized balance-of-payments assistance, the American placed the emphasis on exchange rate stability. [6]

Keynes proposed an International Clearing Union (ICU), acting much like an international central bank, inserting liquidity into the international economy and creating an international currency ("Bancor") which should allow for multilateral clearing. The value of Bancor was to be fixed in terms of gold; national currencies in turn were to set their par value in terms of Bancor. According to the underlying diagnosis, international trade was hampered by continuing bilateralism. Inconvertible currencies meant that a country A that had surpluses with B but trade deficits with C could not settle the latter with the former. As a consequence, the overall volume of international trade remained far below its potential size. An obvious cure would have been a return to the gold standard, but this was haunted by a "deflationary bias." If a country had a persistent trade deficit - importing rather than exporting net value - there were few alternative mechanisms for adjustment other than to shrink its imports by deflationary measures. Adjustment costs fell on the debtor country unmitigated by the expansionary policies of the creditor. Bancor was conceived to enhance multilateral settlements as well as to provide additional liquidity (cf. on these points Triffin 1957: 93-99).

White, on the other hand, favored setting up an international stabilization fund that buffered stable exchange rates (Bordo 1993: 33). [7] Accordingly, the key institution of the plan was the United Nations Stabilization Fund equipped with five billion dollars by member states' contributions. Currencies were to be declared in terms of "Unitas", an international unit of account rather than an international currency, and member countries were to be obliged to keep their par value constant except for a fundamental disequilibrium in their balance of payments. Countries facing a trade deficit with a particular country up to a certain limit would be able to sell their own currency to the Fund against that of the country in question, thus allowing for a higher level of bilateral trade. Exchange rates could be altered by ten percent after consulting the Fund; any greater change would depend on a three-quarter majority in favor of it within the Fund.

Thus, Keynes' and White's plan differed on two crucial points. First, the amount of liquidity to be provided covered a range between $5bn and $30bn respectively. Second, the former plan allowed for multilateral clearing, while the latter did not since countries did not have to make their currencies convertible into third currencies (Mikesell 1994: 13). [8] Continuing bilateralism and a severe lack of resources for reconstruction would turn out to be lasting problems for the European states not resolved by the Bretton Woods institutions and eventually necessitating a new approach within different organizations. However, by the time the *Joint Statement by Experts on the Establishment of an International Monetary Fund* (Horsefield 1969b: 128-135) was finally published in 1944, White's ideas had prevailed. The Americans feared the inflationary consequences of Keynes' ICU, which in their eyes failed to limit the amount of credits the U.S. would have to provide (cf. Mikesell 1994: 14-15). Whatever the intellectual merits of the two proposals were, only the U.S. government had the muscle to promote its ideas effectively. [9]

In spite of these differences a remarkable degree of "expert consensus" (Ikenberry 1992) prevailed throughout these negotiations, paving the way for the agreement to be finally reached. This consensus rested on a shared Keynesian understanding of the economy, which called for active intervention and demand management to control business cycles. Four points in particular deserve attention (cf. Cohen 2001):

(1) Neither floating exchange rates as in the 1930s - perceived to carry the risk of competitive devaluations as well as discouraging investment and trade - nor too rigid an exchange rate regime as the gold standard of the 1920s seemed acceptable any longer.

The aim of reconciling a smooth functioning of the international economy with national welfare politics generally was supported.

(2) If exchange rates were not to float freely and thus could not be used for national macroeconomic adjustments, a higher level of international liquidity would have to be guaranteed, forestalling the spread of deflation as had happened in the past. Again, any new international monetary order would have to allow for expansionary policies at home.

(3) At the same time as national governments should retain the right to pursue welfare policies, this freedom of action was circumscribed by a set of rules maintaining a liberal international order. After a brief transition period states were expected to move towards currency convertibility, allowing for trade in goods and services, and to remove related trade barriers (e.g. tariffs, import quotas).

(4) Lastly, after the experience of the thirties, a more institutionalized form of dealing with international monetary matters was needed badly. Binding governments to common rules was supposed to prevent nationalistic strategies.

Thus, the quest for building an international economic order can be summarized as follows:

> "The architects of the Bretton Woods system wanted a set of monetary arrangements that would combine the advantage of the classical gold standard (i.e., exchange rate stability) with the advantage of floating rates (i.e., independence to pursue national full employment policies). They sought to avoid the defects of floating rates (destabilizing speculation and competitive beggar-thy-neighbor devaluations) and the defects of the fixed exchange rate gold standard (subordination of national monetary policies to the dictates of external balance and subjection of the economy to the international transmission of the business cycle). As a consequence, they set up an adjustable peg system of fixed parities that could be changed only in the event of a fundamental disequilibrium." (Bordo 1993: 5)

The Articles of Agreement [10] establishing the International Monetary Fund (IMF) formulated in July 1944 at Bretton Woods embodied these aims, and yet, due to a misapprehension of the situation the world economy was in and several inconsistencies within the agreement, the provisions proved inadequate to deal with problems still to come. [11]

According to the Articles, each member country defined a par value of its currency in terms of gold or any currency convertible to gold (U.S. dollar) and committed itself to keep exchange rate fluctuations within the range of one percent on either side of the parity. However, each state was able to depreciate - as well as appreciate - its currency up to ten percent after informing the Executive Board of the IMF. As under the White Plan, larger changes were also possible to correct a "fundamental disequilibrium" - a term never properly specified - but the changes depended on IMF consent. These rules were intended to apply symmetrically to all countries, i.e. in principle to the United States too. Yet, by 1950 this adjustable peg currency regime had turned in fact into a "fixed-rate dollar standard" without symmetry (McKinnon 1993: 14-15).

Furthermore, the Articles wanted to limit trade and exchange restrictions. Whereas international capital movements could be regulated to minimize currency speculation, members were not allowed to introduce any restrictions on payments and transfers for current international transactions (Art. VIII.2.a) and they should abstain from discriminatory and multiple currency arrangements (Art. VIII.3). At the same time, however, the transitional arrangements (Article XIV.2) stated that members may "… maintain and adapt to changing circumstances […] restrictions on payments and transfers for current international transactions." Ideally, the transitional period was to end after five years, yet in reality it lasted until 1958, when 15 European countries finally moved to currency convertibility (Horsefield 1969a: 466). Prior to that, only a few currencies - not a single European one - were convertible.

Finally, the borrowing facilities of the International Monetary Fund resembled White's ideas - and American interests - much more closely than Keynes'. The total sum of funds available was around $ 8.8 billion made up of member countries' quotas (Bordo 1993: 36). This system operated as follows: a quota was assigned to each country roughly according to its economic power, obligating it to pay into the Fund a subscription of an equal amount, with one quarter in gold and three quarters in its own currency. From this pool, members were allowed to "borrow" - selling their own currency against a specific other currency needed to settle a deficit with that country - up to a certain limit defined by the quota. These provisions failed to allow for multilateral clearing since currencies were still purchased bilaterally. In the absence of convertibility, deficits with one country could not be balanced by surpluses with another, rendering it impossible to settle balances of payments cross-nationally.

Taken together, these were not just minor issues but meant instead that the very blueprint for an international economic order did not address some of the most pressing problems Europe faced after the war. As one commentator has remarked: "In retrospect, the belief that this system could work was extraordinarily naive" (Eichengreen 1998: 98). Most importantly, the intensity and length of the transition period were grossly underestimated by the U.S. government. The architects of the Bretton Woods system thought that international trade would cure Europe's immediate problems, yet not the least of their problems was the fact that these states were not ready for international trade - or, rather, not willing to liberalize at the expense of domestic reconstruction efforts and welfare policies. It is quite possible that the provisions made at Bretton Woods might have worked at a different time, but there was little the IMF offered that was capable of transforming the dismal state in which the European economy found itself into a functioning liberal market. [12]

The next section will look at some of the problems in Western Europe, which damaged the initial Bretton Woods system so badly that it died of "… infant mortality, or, if a harsher view is taken, of infanticide by its European parent" (Milward 1984: 466).

2.2 Economic Situation after the War

With memories of the collapse of the world economy in the thirties still vivid in their minds, the architects of the postwar order wanted to secure an international framework that effectively prevented moves towards economic autarchy. Mundane as this may sound, the stakes in reconstructing European economies were high. Fostering embedded liberalism entailed domestically the task of increasing welfare for the population at large - not just as a desirable objective but as an imperative if capitalism was not to be discredited permanently as an economic and social order (Maier 1987b: 161). [13] Achieving rapid economic reconstruction meant that the short-term actions of governments quite frequently contradicted the rules and aims of the Bretton Woods system.

The immediate economic prospects were rather dire. By 1947 the United States had already spent some $ 9 billion on aid programs, but most European countries still depended on substantial amounts of foreign aid. Agricultural production in Western Europe stood at 83 percent of its 1938 value, industrial production at 88, and exports at a low of 59 percent (Hogan 1987: 30). Three interrelated problems in particular hampered further progress: balance-of-payments difficulties, the dollar shortage, and continuing bilateralism.

2.2.1 Balance-of-Payments Difficulties

As a consequence of the war, Europe's production in 1947 was at a lower level than in 1938. At the same time, however, reconstruction efforts produced a considerable demand for resources such as raw materials, in particular coal and steel, agricultural products, and capital goods. With damaged or obsolete industries and a shortage of both manpower and food after an unusually severe winter, most European states desperately depended on overseas imports since intra-European trade had virtually collapsed. The United States, on the other hand, emerged as the prime supplier of these goods since wartime efforts had raised productivity and industrial output enormously. Hence, Western Europe was rapidly building up a balance-of-payments deficit with the U.S., peaking in 1947.

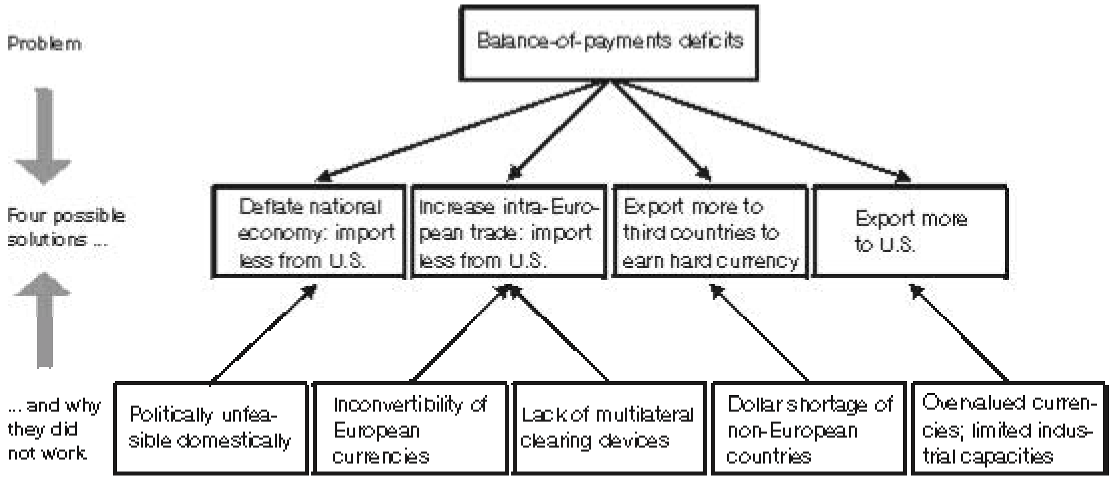
Table 1: Balance of Trade of Western Europe with the United States

Year	1937	1938	-	1946	1947	1948	1949	1950	1951
Billion dollar	-0.655	-0.898	-	-2.356	-4.742	-3.345	-3.491	-1.755	-2.510

Source: Milward 1984: 27.

Theoretically, a number of solutions to this problem existed for the European states: to diminish imports from the U.S. by deflating the economy, to increase intra-European trade, to earn hard currency by trading with countries other than the U.S., or, finally, to increase exports to the U.S. so as to achieve a more favorable balance of payments. However, each one of these "solutions" was beset by further problems and European governments proved unable to solve them at that time (cf. Graph 1).

Graph 1: Unresolved Problems of Trade and Payments in Western Europe, 1947



[click on graph to enlarge]

2.2.2 Dollar Shortage

As their balance-of-payments situation deteriorated, the reconstruction efforts of most governments were put into question. As Tsoukalis (1993: 14) points out, Europe's trade deficit resulted from the success of its industrial recovery and "… the ambitious growth strategies pursued by European governments." However, with limited international reserves available, these states were unable to import as much as they needed to rebuild their economies. Lower levels of production blocked the possibility of increasing the exports which in turn could have financed further imports (cf. Eichengreen 1993: 11).

Any measure that remotely questioned the standard of living of the population - either deflating the economy by lowering investment or depreciating a currency, which would have meant contracting purchasing power for imported goods - seemed politically infeasible. Traditionally Western Europe had financed its trade deficit with the U.S. by surpluses with other regions. Yet, these countries, too, depended on U.S. imports and needed their limited reserves to finance those. Moreover, overvalued currencies obviously meant a serious obstacle to stimulating exports.

2.2.3 Continuing Bilateralism

In the light of these alternatives, instigating intra-European trade seemed attractive as an option since it would have eased a number of problems. Greater intra-European trade would have lessened the dependence on U.S. imports; it would have allowed production to be stimulated, possibly with the benefit of scale economies, which in turn would have increased competitiveness and exports. Finally, by earning more through trade, the European economies could have gone on to finance the import of further capital goods. Yet, trade within Europe was limited seriously by a prevailing inconvertibility of currencies (q.v. Diebold 1952: 16-17). Most currencies - with the exception of the Swiss franc - could not be exchanged freely for other currencies and soft currencies could not be used to pay for imports. Thus, as countries were reluctant to spend scarce reserves, they tried to limit imports from other European countries as much as possible or, contrariwise from the point of view of an exporting country, they accepted payments only if effected in hard currency. To make matters worse, if country A exported more to B than it imported, it was not able to use its surpluses to pay for debts with country C. Hence, intra-European trade did not move beyond bilateral patterns that clearly limited its overall size. In sum:

> "Almost every Western European country faced a twofold foreign exchange problem: first, it was unable to earn enough by exporting to pay for the imports it judged necessary, and second, it often could not use the money earned by exporting to one country for purchases in another country." (Diebold 1952: 15)

Taken together, these problems meant that Europe was not moving towards the kind of international economic order envisioned at Bretton Woods. On the contrary, trade restrictions were maintained and sometimes even new ones were added, currencies remained inconvertible and overvalued, and government spending was kept at levels unsustainable without massive foreign aid. The Bretton Woods remedy to these problems, removing monetary impediments to trade and adopting convertible currencies at official rates - which basically would have meant substantially depreciating most European currencies - was resisted staunchly by European governments because they feared its politically destabilizing consequences as worsening terms of trade and declining living standards might trigger labor unrest (Eichengreen 1998: 100-101).

Arguably, Western Europe was not ready to be integrated fully into the world economy. Domestic political priorities such as a speedy recovery through high investment, growth and full employment fitted ill with quick moves towards international liberalism. Consequently, Europe did not approach a liberal capitalist order but rather fostered elaborate systems of trade restrictions and controls, blatantly at odds with the strategic aims of the United States. The situation in 1947 showed that the tools devised at Bretton Woods were insufficient to root Europe in a liberal economic order. In the words of Robert Triffin (1957: 141): "The early blueprints for international monetary reconstruction failed utterly to cope with the real problems confronting the postwar world." Once this point was appreciated, the realization led to a change of strategy in 1947.

3 The Marshall Plan: Breaking the Deadlock

As any quick transition towards integrating Europe into a liberal economic order had become illusionary, the United States concluded that intermediary steps would have to be taken first. Stabilizing Europe was a primary objective even at the price of violating Bretton Woods' principles. This objective become increasingly important because Western Europe was considered a bulwark against the Soviet Union as the Cold War intensified. It meant that Europe had to substitute a joint approach to its problems for conflict-prone national strategies.

3.1 European Recovery Program and OEEC

In a speech delivered at Harvard University on June 5, 1947, Secretary of State George C. Marshall stated that Europe was in need of "… substantial additional help or [it would] face economic, social, and political deterioration of a very grave character" (Marshall 1997: 258). In the light of this analysis the U.S. government set up the European Recovery Program (ERP), commonly known as the Marshall Plan. [14] Financial aid provided by this program allowed European governments to continue their strategy of promoting rapid recovery through high investment. It enabled Europe to keep importing vital goods while at the same time maintaining the living standard of the population. More specifically, there were three key economic goals of the Marshall Plan: the restoration of multilateralism, price stability, and the recovery of production (cf. Block 1977: 89). Hence, the ERP intended to ease the balance-of-payments problems depicted above in Graph 1 in three ways. First, by infusing dollars into European economies it would immediately improve their balances-of-payments. As a second objective, ERP planners wanted to induce the "politics of productivity" (Maier 1987a), which today appear as the virtues of a Fordist production model. Thirdly and most importantly, U.S. policymakers wanted to tackle directly the reasons that held intra-European trade at such a low level, by providing incentives to move towards more cooperative forms of economic policy, eventually resulting in multilateralism. [15]

To reach this third aim, the U.S. demanded that a "permanent organization" be created that would be responsible for jointly distributing ERP means. Already in his Harvard speech, Marshall insisted that the United States was not going to set up a program for European recovery unilaterally. Instead these states themselves would have to come to an agreement on distributing Marshall Aid. [16] Underlying the demand for a new, genuinely European organization was a far-reaching vision for Europe's future. This organization should not simply facilitate economic recovery but rather pave the way for some form of political unity that would overcome traditionally hostile relationships on the Continent (James 1996: 74). From this time onwards, and in spite of negative attitudes on the part of both the French and the British governments, the U.S. pushed for steps towards European integration. Well in line with later neo-functional arguments, economic integration was seen as a means of achieving the ultimate goal of political integration. [17]

The promotion of integration emanated from a changed attitude towards Germany's future in particular. The Morgenthau Plan had advanced the idea of a deindustrialized, agrarian Germany. By 1947, however, it had become clear that Europe's economic recovery depended a good deal on that of Germany. As foremost supplier of industrial goods before the war, German exports were difficult to replace. Since the U.S. alone was able to meet this demand, this situation increased Europe's dependence and exacerbated its balance-of-payments problems. Moreover, replacing damaged equipment often required parts by those German companies that had delivered the product in the first place (Buchheim 1990: 172-173). Thus, allowing Germany to partially play its old role would help reduce the need for American imports as well as accelerate European recovery. A crucial task, however, was to make sure that economic recovery would not lead to reinvigorated German nationalism or any form of dominance over its neighbors. From an American point of view, therefore, creating an overarching institutional framework for Europe served economic as well as political goals: It would speed up economic recovery and become a mechanism to control Germany on a permanent basis.

France and Great Britain responded to America's proposition by calling for a conference, which opened in Paris on July 12, 1947. This conference led to the establishment of the Committee of European Economic Cooperation (CEEC). However, French and British plans for the CEEC were distinctively different from those of the United States. Neither one of them wanted to confer too many competences to a supranational organization and even less so to give birth to a future European government. Consequently, their interests were in stark contrast to those of the U.S. at the Paris conference:

> "During the conference American policy on the objectives of Marshall Aid and the methods of its administration was elaborated in detail. The rather vague role which the European organisation was originally to play came to be defined in such a way that CEEC was seen in Washington as an extremely important potential step towards West-European political integration, indeed as a West-European government in embryo. […] The State Department wanted that conference to give birth to a permanent European organization which would quickly bring together the West-European countries into a close economic association, and it wanted that association to be a stepping-stone towards some form of political integration." (Milward 1982: 517-518)

Formally, the European states met U.S. demands. The work of the CEEC led in April 1948 to the signing of the Convention for European Economic Cooperation, which established the requested permanent organization, the Organization for European Economic Cooperation (OEEC). [18] At the final count, this Organization's achievements were ambivalent. In terms of promoting multilateralism and liberalizing trade it was mainly successful through the work of the European Payments Union. With regard to any moves towards political integration or, at least, supranationalism, it fared very poorly. In fact, its very failure to solve the "German problem" satisfactorily for France eventually led to the Schuman Plan. Hence, it is either a rather warped view or sophisticated dialectics to regard the OEEC as "… perhaps the opening step to the Treaty of Rome" (Barbezat 1997: 35).

In particular the distribution of aid turned out to be more of an instrument for separating the participating countries than a device for integration. They were asked to draw up annual plans for the distribution of aid as well as a four-year plan. These plans were supposed to be based on an assessment of the respective needs of each country and, crucially, on a common strategy as to how the means provided could maximize the reconstruction effort. Rather than planning separately, OEEC member countries should view themselves as part of a larger common market. Progress towards this aim remained disappointing, though. The first report on the ERP acknowledged openly that all national programs had been "… drawn up independently, without full knowledge of the contents of the others" (OEEC 1948: 13). As a result, the total sum requested for the next four years amounted to some $ 29 billion (Block 1977: 86). This sum was certain to upset Congress and to raise doubts about its willingness to support the ERP.

From the start American Congress was skeptical about providing large amounts of foreign aid and pressed for a number of safeguards. For example, aid would not be provided for the whole period at once but instead be authorized on an annual basis. Through the years that Marshall Aid was provided there was a constant struggle between the Economic Cooperation Administration (ECA), set up specifically for administering the ERP, and the OEEC members over the latter's insufficient cooperation. Prolonged haggling went on between the recipient countries only to increase the ECA's worries about Congress' consent. [19] Thus, on a number of occasions, ECA officials stressed that nothing but decisive moves towards economic integration would secure Congress' approval of further aid. [20] Nonetheless, distributing aid never turned into something else but a painful procedure occasioning a fair amount of misgiving. Only substantial U.S. pressure combined with a system of arbitration procedures (a "committee of wise men" finally drew up aid distribution) could secure any agreement at all. Since a settlement was so difficult to reach, the recipient countries decided after two years not to reopen the negotiations and stuck to the percentage shares of aid for each country (Schelling 1955: 618). [21]

The principal reason why the OEEC did not become a stepping-stone towards European political integration was the opposition encountered from two crucial players, Great Britain and France. Great Britain objected to being involved in any kind of supranational organization that brought into question its role in world politics. It did not see itself as equal to the countries on the Continent and rejected being treated as such (Hogan 1987: 49). For France, on the other hand, the OEEC was not an appropriate way of achieving its main goals: access to German resources (mainly coal and steel) and, related to this, firm political control over Germany. Nonetheless, short of promoting integration, the OEEC after 1950 was remarkably successful in facilitating multilateralism and trade liberalization through the work of the European Payments Union (EPU).

3.2 European Payments Union and Trade Liberalization

Under Marshall Aid, around $ 13 billion were provided over the course of four years. This clearly facilitated reconstruction and eased prevailing economic problems. Yet, the underlying causes still had to be tackled. An obstacle to European exports was that most currencies were overvalued. This problem became all too obvious when the United States ran into a recession in 1948/49. With a diminishing U.S. demand for imports from Europe the latter's balance-of-payments deficits rose sharply and Marshall Aid alone did not suffice to close the widening dollar gap. The United Kingdom especially suffered from falling export opportunities and was losing international reserves at an intolerable rate. Hence, the pound was devalued on September 18, 1949. Another 23 countries followed suit, which meant a notable adjustment of their exchange rates. Although these devaluations did have a positive effect by alleviating immediate pressures, they fell short of eliminating the dollar gap (Eichengreen 1998: 105-106). The key to Europe's economic stabilization was to be found in increasing intra-European trade by way of superseding bilateralism.

Bilateralism meant that the overall trade volume between two countries was determined by government authorization. Payments were conducted indirectly through central banks: importers paid in their national currency the value of the goods purchased to their national central bank. In turn, the central bank of the country being traded with paid an equal amount in its own currency to the exporters. Any overall settlement took place between the two banks. If the net debts of one country reached a ceiling agreed to in advance, that country was obliged to settle the difference in gold or U.S. dollars (Triffin 1957: 144). Since European countries were guarding their gold and dollar reserves anxiously, trade with the country in question would come to a halt whenever that ceiling was reached.

Already in 1947, CEEC countries had debated multilateral clearing without, however, reaching a conclusion. Five countries - Benelux, Italy, and France - went ahead nonetheless, signing the First Agreement on Multilateral Monetary Compensation on November 18, 1947. [22] The scope of this agreement remained very limited since it only allowed for "first category compensations" of the following kind: if A owed B $3m, B owed C $ 5 million, and C owed A $ 4 million in turn, the "agent" (the Bank for International Settlements, BIS) could cancel A's debt to B, reduce B's to C to $2 million, and C's to A to $ 1 million (Diebold 1952: 24).

Unfortunately, debts rarely followed such a neat pattern, as there were countries with either deficits or surpluses with all others. Moreover, if any country that was theoretically part of such a chain did not participate, no progress could be made. In fact, most conceivable compensations depended on the voluntary consent of an "occasional member" - which, invariably, was not forthcoming. As a result, of the total $ 762.1 million of existing bilateral debts, the procedure merely permitted a compensation of $ 39.2 million. Because of the reluctance of member countries only a tiny $ 1.7 million actually were compensated (Bean 1948: 408). [23] This sum could have been expanded markedly by allowing for "second category compensations," which provided for an increase in bilateral balances beyond the agreed ceiling. Yet, second category clearings depended on the agreement of all the parties involved (cf. Oatley 2001: 956). In many cases this condition was not met, however, as the following example shows:

> "Suppose that by the terms of a payments agreement Belgium agrees to hold sterling balances up to the equivalent of $ 5 million while England agrees to convert anything over that amount into dollars. Belgium is already holding $ 4 million worth of sterling. Norway owes Belgium $ 2 million and has sterling equal to that amount. If Norway paid Belgium in sterling, Belgium would hold $ 6 million worth of British currency and the British would be obliged to turn $ 1 million of it into dollars. Not wishing to do this, Britain would refuse permission for the transaction … and there could be no clearing of the Norwegian-Belgian debt." (Diebold 1952: 24)

A second attempt was made in October 1948 with the Intra-European Payments and Compensations Scheme, which involved all OEEC countries except for Portugal and Switzerland. It was based on estimates of the expected surpluses and deficits of each country. Debtors were granted "drawing rights" up to an amount equal to their forecasted deficit by the creditors, who in turn received the same amount as "conditional aid" from the ECA. The idea was to create an incentive for the surplus countries to provide credits. Yet, this would have worked only if conditional aid had been granted in addition to the amount a country received under Marshall Aid. This was not the case, however. As with the First Agreement, automatic settlement was limited to cases where it did not augment the overall balance (Kaplan/Schleiminger 1989: 25). Thus, its effects remained very modest. By 1950, the end of the ERP was in sight but Europe was not even close to any self-sustaining economic order. Hence, the United States pushed vigorously for a functioning settlement mechanism of multilateral clearing.

Pressure in itself, however, did not suffice. Only when the U.S. decided to back the clearing system financially could Europe's resistance be overcome. In fact, without the injection of $ 350 million working capital by the United States, European governments would probably not have risked moving towards multilateral clearing (Diebold 1952: 107). [24] On July 7, 1950, the Council of the OEEC agreed to the establishment of a European Payments Union (EPU). [25] EPU differed from earlier attempts in two ways: (1) it truly was a multilateral compensation system which overcame bilateralism; (2) additional credit, hence liquidity, was provided for.

(1) Rather than settling balances bilaterally, each country now reported its net balances with all the other countries at the end of each month to the BIS, which would then cancel offsetting claims automatically. Moreover, an overall balance was calculated for each country against the Union as a whole. As a result, deficits with any particular country could move well beyond former ceilings (credit margins) as only the trade balance with EPU countries taken together mattered. In this way, inter-convertibility of the currencies of participating countries was achieved (cf. Travers 1983: 10). [26]

(2) In addition to full multilateral clearing, EPU also comprised a credit mechanism. In

line with its trade volume a quota was assigned to each country. This quota defined the credit made available to deficit countries. As a country accumulated debts the percentage share of gold used to settle it increased gradually. Whereas small deficits - up to 20% of a country's quota or the first "tranche" - were covered entirely by EPU credits, gold payments by debtors thereafter would rise successively to 20, 40, 60, 80, and 100% of the debts. When a country had piled up a deficit as large as its quota, each additional credit would have to be paid for entirely in gold. Surplus countries, in turn, had to grant credits to the Union. The EPU obligations towards them were settled in 50 percent gold and 50 percent credits after the exhaustion of the first tranche. [27] The merits of this credit mechanism were twofold. First, liquidity was inserted as countries with balance-of-payments deficits were able to draw further credits. Second, the gradual growing obligation to repay one's debts in gold kept a check on payments imbalances.

Since bilateral balances with EPU clearing became less important, another obstacle to intra-European trade could be removed. European countries used to deploy a strict set of import quotas to control the outflow of hard currency. Through initiating multilateral clearing these measures could now be tackled. Hence, in conjuncture with EPU, the OEEC countries accepted a Code of Liberalization, which obliged them to remove import quotas by a number of steps. The first one required freeing 60 percent of imports of their quotas by October 1950 - in general across three product groups, food and fodder, raw materials, and manufactured goods (Asbeek Brusse 1997: 128). Further steps followed, requiring a liberalization of 75 and 90 percent in 1951 and 1955 respectively. Although there were setbacks and continuous wrangles over the pace of liberalization, member countries eliminated the largest part of their import quotas during the first half of the decade.

Taken together, the arrangements of the EPU resolved a number of economic problems Europe had faced. Multilateralizing payments meant that far higher a volume of intra-European trade could be realized than it could with bilateral agreements. Consequently, existing trade restrictions, mainly import quotas, could be removed, which further stimulated trade. Perhaps crucially, Western Germany was reintegrated into Europe's trade system through the framework of the EPU. It became a major supplier of industrial goods at a very rapid pace, partially replacing the United States. In sum, these developments greatly reduced the dollar gap and eased Europe's balance-of-payments deficit with the U.S. (cf. Dickhaus 1997: 185-186; Buchheim 1990: 174).

3.3 In Summary: The Art of the Possible

From the point of view of economic stabilization, the OEEC's accomplishments are noteworthy. It was mainly through the work of the EPU that intra-European trade had been multilateralized and liberalized. By 1958, intra-European trade by and large was freed from import quotas and most European currencies were freely convertible. Postwar reconstruction turned into a postwar boom, which was so exceptional that the third quarter of the century is commonly referred to as the "golden age of capitalism." [28]

However, prior to 1958/59 Western Europe's economic order was not characterized by "embedded liberalism" but instead by "postponed liberalism." Though eventually convertibility was realized, it was fourteen years after the Bretton Woods agreement was signed. Intra-European trade was liberalized but at the price of discriminating against third countries, notably the United States. In fact, it was one of the merits of the more limited EPU framework that it was flexible - or toothless - enough not to jeopardize domestic policies. As James (1996: 76-77) argues:

> "The IMF had as a major objective the restoration of convertibility and the elimination of discrimination; while the raison d'être of the EPU was discrimination against the dollar as a way of restoring a limited convertibility (albeit in the context of a code of trade liberalization)."

U.S. concessions as well as financial aid helped to minimize the costs of adaptation as Europe was shielded against international market pressures. EPU substituted a more appropriate framework for the ambitious, albeit unrealistic one drafted at Bretton Woods (cf. Milward/Sørensen 1994: 7) - a framework that not only contradicted some of the latter's goals, however, but actually harmed its institutions.

Marshall Aid and the OEEC pushed the IMF decisively to the sidelines long before the kind of economic order it was supposed to govern ever came into existence in Europe. First of all, the inauguration of the European Recovery Program proved that the means available to the IMF were inadequate for the kind of reconstruction policies European countries followed. The IMF was underfunded and could not resolve bilateralism. Marshall Aid was seen as a substitute for the IMF revenue, and recipient countries did not have access to short-term borrowing from the Fund. Secondly, France's decision to adopt a multiple system of foreign exchange rates of the franc and Britain's devaluations in 1948 and 1949 respectively, both violated the IMF principles and dealt a blow to any authority it might have enjoyed before (cf. Mundell 1969: 476-478). Thirdly, continuous trade discrimination against non-EPU countries was not the kind of liberalism that had been envisaged at Bretton Woods. Lastly, multilateral clearing operations were conducted by the Bank for International Settlements rather than the IMF (Bean 1948: 406, note 9). None of this happened by accident. The incongruence of domestic and international aspirations led to a procrastination of the latter in favor of the former.

For all of those who considered a quick return to liberalism to be the best remedy for postwar Europe's ills its prolonged reconstruction period definitely meant - if anything - a second-best solution. Yet, European governments feared that any early move towards convertibility would have come at economic, political, and social costs they were not ready to bear. Thus, EPU was "… the art of the possible" (Diebold 1952: 110).

4 European Integration: Changing Course

In terms of economic stabilization, the OEEC was successful. With regard to its second goal, at least as envisaged by the United States, it must be judged a failure. It was not a device to promote European political integration, let alone a government in nucleus. When at first the U.S. promoted integration through the OEEC neither Great Britain nor France was keen to follow. Britain objected to any transfer of sovereignty to an international organization and France was concerned primarily with circumscribing Germany's room for maneuver without limiting its own. In fact, only after France had been forced to learn that its strategy towards Germany was running aground did it turn instead to integration as a means of control. This was not done out of some kind of European idealism but rather out of necessity given its own goals. The OEEC, however, was seen as ill-suited to this purpose.

4.1 France: Controlling Germany

France's postwar policies were driven by two considerations. On the one hand, the international order should not call into question domestic economic objectives. Rapid economic progress was required to pacify society and to overcome existing social cleavages (cf. note 13). On the other hand, there had to be safeguards for France's security. These two points were linked closely since France's security depended on achieving an economic advantage over Germany. Domestically the Monnet Plan of 1946 promoted both points. It strove to modernize the French economy through investment in key areas such as infrastructure, coal, steel, and agriculture. Defined output targets were to be met by improving technology and increasing productivity. Successful steps in this direction would make exports more competitive, thus enabling French products to replace German ones. If these goals were to be met, though, it was mandatory that French economic progress would have to precede German reconstruction (Dinan 1999: 19).

The problem France faced, however, was that it lacked the resources for achieving the aims of the Monnet Plan. Most importantly, France depended on imports of coal and coke. It was from this that its claim to the Saar region was derived, as was the demand to detach the Ruhr from Germany and the call to control it internationally. The importance of these points can hardly be overestimated since only access to these resources would allow domestic needs to be satisfied and economic strength to be built up. From this point of view, it seems impossible - even analytically - to separate economic interests from foreign policy and security matters as Moravcsik (1998: Ch. 1) claims. France's strategy as well as the first steps towards integration can only be understood as a conjuncture of both.

Recently it has been argued that there were three possible ways to secure French interests: direct control of Germany in alliance with other states, namely the U.S.; combined Franco-British leadership to prevent German dominance; pooling of sovereignty in some form of supranational organization, specifically the promotion of partial integration with Germany (Parsons 2002 356: 57-58). All of these positions could command considerable support in the French Parliament. Because of a peculiar ranking of preferences within each supporting group, the government was able to foster a majority for whatever course it chose. [29] What tipped the balance in favor of the third option, Parsons argues, was the integration-mindedness of leading figures such as Robert Schuman. Yet, this interpretation hinges on the assumption that all three strategies "… were viable domestically and internationally" (Parsons 2002: 60). A look at the chronology of events casts doubts on this interpretation since the choice for integration only came *after* the French had realized that both other strategies were blocked.

In 1946, in the Allied Control Council, France demanded that the Ruhr area be separated permanently from Germany so that its resources would be accessible to neighboring states. [30] The *Ruhrgebiet* should be turned into an internationally controlled state ("Ruhr-Rhénanie") detached from the rest of the country. This included direct control over output and allocation of the Ruhr's resources. Yet, these ideas met with little support from Britain, which instead proposed putting the mines under state control by the regional government of the *Land*. [31] Both plans were opposed by the U.S., not least by the military occupation regime in Germany, which was most vigorous in its opposition. Already in 1947, the ECA as well as the Benelux countries and Italy supported the hastening of German recovery. Consequently, American policymakers wanted to include Germany in the Marshall Aid program and in 1947 came to an agreement with Britain to permit a higher level of industrial output in the bizone of Germany. This seemed utterly unacceptable to the French as it questioned their plan to improve competitiveness well before German reconstruction got under way. When France in response threatened not to participate in the CEEC, an uneasy compromise was struck on permitted output levels. Nonetheless, the "German question" remained unresolved. In 1948, at the London conference, the discussion on Germany's future was taken up once more. Retreating from their initial demand the French gave up the idea of a separate Ruhr state but requested "internationalization" instead. To them this basically meant foreign (French) management of the actual mines as well as the right to allocate their output (Milward 1982: 520). Again, this was not acceptable to United States officials. They did agree, though, on the establishment of the International Authority for the Ruhr, which, however, had more limited objectives and hardly represented a suitable tool for French control of Germany (Hogan 1987: 364).

Much to French dismay, American policy towards Germany had by 1948/49 turned into one of benevolent control. U.S. policymakers regarded reintegrating Germany into Western Europe as vital for Europe's economic reconstruction - and for its own aim of containing the Soviet influence on Europe with the Cold War intensifying. Security concerns, from their point of view, were best met by integration through the OEEC. As Allied control over Germany did not promise to serve its purpose, France was left with a second option, closer cooperation with Great Britain to control Germany. However, mainly for domestic reasons - Britain wanted to maintain its economic relations to the sterling area - the British were constantly opposed to involving themselves too closely in any purely European organization. [32] They preferred containing Germany through transatlantic cooperation in NATO. In fact, after two years of the OEEC, it was obvious that Britain would stay clear of any heavy European entanglement. It wanted to remain the principal ally of the U.S., maintain its international role within the Commonwealth, and keep London the center of the sterling area (Bullen 1988: 201).

By 1950, two formerly conceivable strategies had ceased to exist. Neither did the U.S. support France's stance towards Germany nor would Britain substitute its global role for a European one. At the same time, however, France had not managed to achieve its economic goals. Even intense efforts to modernize its own coal industry had not diminished its dependence on coal imports to any adequate extent. France remained the world's largest importer of coal and coke and the prime supplier again was Germany (Lynch 1988: 119). Hence, the German problem was very far from being solved.

> "By mid-1950, then, all lines of French policy had been stymied. The French had not been able to forge a European union balanced between Britain and Germany, nor a continental system that excluded the Germans. They were certain that Germany's power would continue to grow as the United States pushed forward with plans to loosen the remaining restriction on German production. […] Time was running out for the French. They had to strike a deal with the government in Bonn while they still had the upper hand, and they had to do so even if it meant risking the future of Anglo-French cooperation on which they had earlier pinned the hopes for security against the Germans. The result was a dramatic reassertion of French leadership on the Continent." (Hogan 1987: 365-366)

This reassertion of leadership was, of course, the Schuman Plan. It constituted a considerable break with previous strategies and meant that France was changing course. The Schuman Plan, announced on May 9, 1950, proposed to pool German and French coal and steel production under a common supranational agency ("High Authority") whose decisions were to be binding for both governments. Whereas earlier plans had aimed at permanently circumscribing Germany's sovereignty, none of them meant to impinge on France's. Joining a new organization on equal footing with Germany was a change of strategy incomprehensible without the knowledge of the defeat of preceding ones. Yet, it was but a change in *strategy*, not objectives. Gillingham (1987) shows that France's principal goals did not change in the postwar era though the *means to achieve* them were adapted to changing circumstances. On the objectives of this move towards sectoral integration the declaration was very clear: politically, pooling these basic industries would make war between France and Germany impossible; economically, it should guarantee a modernization of production and, crucially, secure the "… supply of coal and steel on identical terms to the French and German market," thus ending the German practice of dual pricing considered harmful to France. Its main addressee was Germany but other countries were invited to participate as well. In line with earlier American reasoning, the Schuman Plan considered sectoral economic integration as "… the realization of the first concrete foundation of a European federation indispensable to the preservation of peace." [33] Whether this was merely a rhetorical reference or more substantial a claim, the driving force behind the declaration certainly was not European idealism but material interests. [34]

The U.S. welcomed France's initiative although it had not been consulted fully in advance whereas Britain responded negatively (Bullen 1988). By then, however, British participation was no longer considered indispensable. In June 1950, Belgium, France, Italy, Luxembourg, the Netherlands and West Germany signed the Schuman plan. These states also signed the Treaty of Paris establishing the European Coal and Steel Community on April 18, 1951, which came into force July 1952.

4.2 Integration and Interdependence

There is much to be said about the period from 1952 onwards until the Treaty of Rome was signed. This is not the focus of this article, however. After six European states established the ECSC, the organizations looked at in this paper - the IMF, OEEC, ECSC - existed in parallel and at last a set of institutions had been established that stabilized postwar Europe.

The IMF's importance was already significantly reduced by the time the Marshall Plan was launched. It became more meaningful again between 1958 and 1971 with a large number of countries adhering to currency convertibility - even though, by then, the Bretton Woods system had turned into a fixed-rate dollar standard which depended primarily on the behavior of the United States, whose actions were beyond the IMF's reach. This system crumbled, consequently, when the U.S. perceived a growing gap between national aspirations and the international order (Block 1977: 203; Zimmermann 2001: 56-64).

The OEEC was transformed into the Organization for Economic Cooperation and Development (OECD) in 1961; the U.S. and Canada became full members. The OEEC's most successful arm, however, the EPU, fell prey to its own success. After payments had been multilateralized, trade restrictions removed, and both actions had contributed to an astounding increase in intra-European trade, the Union was not needed any longer. Thus, in 1958 it was dissolved. By then, Europe's economic stabilization had been achieved and, in the absence of any further aid being distributed, the OEEC was designed to lose influence. Especially since alternative forums for political cooperation existed, most notably those connected with the European Economic Community.

Today we know that the Monnet Plan and the ECSC were but the beginning of European integration. As the preceding sections intended to show, this development had not been predetermined but resulted from a specific historical sequence. During the formative phase of stabilizing postwar Europe it was not clear which institutional shape eventually would prevail. The path of European integration became predominant as an institutional forum was created that allowed for deals to be struck which proved advantageous for those involved. The road taken, though, was a very different one than the Americans had hoped for when they first promoted integration. Already the OEEC had replaced a worldwide regime by much narrower a focus. The EPU became the pivotal institution for economic reconstruction, the ECSC the institution for political stabilization, by addressing France's economic and political needs. Regional integration was an inferior solution compared to worldwide multilateralism from an American point of view. Integration was not seen, however, as contradicting the aim of interdependence but rather as a vehicle towards it. Establishing a liberal economic order within Europe would pave the way for a more liberal regime worldwide. In accordance with this reasoning, the U.S. accepted trade discriminations against the dollar. Once a common external tariff was established it would be possible to push for lowering it through the General Agreement on Tariffs and Trade (GATT).

Yet, integration came with some strings attached. First of all, the "Little Europe" of the six was a far cry from any sort of integration based on OEEC membership. Secondly, it came at the price of excluding Great Britain. Up until the point when the Schuman Plan was announced, it had been taken for granted that any form of closer European cooperation would have to include Britain as the largest trader of that time and America's principal ally. [35] Thirdly, sectoral integration could also be used to permanently shield a geographical area from the pressures of outside competition. Integration in that case would point only selectively towards interdependence. In fact, protecting agriculture from outside competition has been a central part of the integration process until today. As economic exchange gravitates predominantly towards intra-European trade there is no automatic mechanism feeding into more liberal relations with third countries. Lastly, to choose a different organization for pursuing integration meant to diminish American influence. The OEEC had been established in response to American demands and was considered by the U.S. as a channel through which to influence European politics. Marshall Aid provided some leverage by which to influence European governments - and proved remarkably successful in the case of the EPU, hardly so with regard to political integration. The new cooperative framework created within Europe thereafter worked against direct American influence.

These points lead to a noteworthy conclusion. For those European states that chose the path of integration it was not the Bretton Woods system that allowed for domestic welfare policies and industrial adjustment. Instead, it was the creation of a protected regional space in Western Europe that finally reconciled domestic and international goals (Romero 1994: 180). If we regard the task of postwar stabilization as the struggle to find an international framework that did not violate domestic welfare ambitions, one cannot but wonder at what point subsequently this objective vanished from sight. It is one of the more startling conversions that "integration for protection" turned into "integration for liberalization" once the golden age had ended. [36] The very same institutions created to shield national welfare arrangements from adamant outside pressure became in due course instrumental in disembedding the latter from the 1980s onwards. As the virtues of market forces moved center stage once again, the specter of Polanyi's negative utopia of the self-regulating market apparently reappeared.

5 Conclusion

There has been a debate over the question of whether Marshall Aid really was necessary for Europe's economic reconstruction. Alan Milward, probably the most authoritative source on these questions, takes great pains to show that the 1947 economic crisis in Europe was caused by unjustified economic policies and that reconstruction would have been possible even without Marshall Aid - albeit at a slower rate (cf. Milward 1984: 54-55, 107). Yet, the counterfactual that governments could have procrastinated "delivering the goods" (Maier 1987b: 161) to their constituencies seems questionable. Moreover, to focus on the *economic effects* of Marshall Aid in isolation risks missing the point. Rather, the ERP was part of a larger effort to stabilize Europe economically as well as politically (Berger/Ritschl 1995: 474). Stabilization - as used in this paper - refers to three points. First, successful economic reconstruction rested on transcending purely national strategies. Unable to come to grips with their problems independently of each other, European states had to cooperate. Second, cooperation in turn depended on a political framework that was able to meet their security needs. This meant basically that a way had to be found to control Germany. Third, any solution to the first two points had to meet the precondition not to jeopardize the ability of governments to pursue national welfare aims. Taken together, these three points explain much of the early postwar history and the fate of the organizations involved.

Short-term strategies by European states for a speedy economic recovery proved incompatible with the set of rules devised at Bretton Woods. It was mainly for domestic reasons - postwar governments depended on economic success for their legitimacy - that these states did not adhere to the principles conceived of in 1944, such as currency convertibility and trade liberalization. Marshall Aid, then, helped to maintain a high level of investments and continued imports from the United States. Yet, only the EPU provided a framework to increase intra-European trade and reinstall Germany as both a supplier of capital goods and a market for European products, thereby facilitating subsequent steps of trade liberalization. With regard to solving the "German problem", the OEEC could have succeeded if only Great Britain had accepted joint political leadership with France. Moreover, as U.S. policymakers began to see Germany as an important factor in Europe's economic recovery and as a bulwark against the Soviet Union, the very success of this approach increased France's security concerns. If Germany were to have exclusive control over the Ruhr's resources this would not just call into question the Monnet Plan's domestic ambitions but at the same time create the danger of German domination. The OEEC, however, was ill-equipped to control Germany effectively as it had never become more than an intergovernmental organization, and Great Britain remained skeptical at best about greater involvement in Europe. As neither transatlantic ties nor cooperation across the English Channel had promoted its interests, France turned towards a different strategy, namely incorporating West Germany into a continental European framework. Sectoral integration served both its economic and security needs. In addition to foreign policy goals the Schuman Plan also saved the Monnet Plan of modernizing French industry.

Early postwar history in Europe was shaped both by American pressure - employing sticks and carrots - and by reluctant cooperation from leading European states. Whereas the EPU on the one hand would not have been created without its pressure and financial backing, the U.S. on the other did not manage to positively influence political integration. It never convinced Great Britain to agree to any kind of European political unity and eventually settled for a geographically more limited concept of integration, excluding Britain, which in the past had been considered devoid of any meaning. "Little Europe", moreover, was promoted by France outside the OEEC framework, in defiance of direct American influence.

The principal reason for the resistance of European states can be found in domestic politics. After the abysmal experiences of the inter-war period, many governments concluded that full employment and social protection against the vagaries of the market were vital to uphold legitimacy: their own legitimacy as well as that of a capitalist social and economic order. Stabilizing Europe therefore depended to a large degree on the question of whether this aim could be achieved or not. The search for a suitable international framework mirrored this concern. In retrospect it seems that by 1958 this attempt to stabilize Western Europe had succeeded.

This paper has taken another look at the formative postwar years when the agenda was set for European integration. It has stressed the importance of national interests, their domestic underpinning and, crucially, the historical sequence that led to three international organizations existing side by side. Since the particular "road taken" shaped Europe's integration and any divergence from this path in line with the growing diversity of member states became increasingly costly, the initial institutional choice was a crucial one. Unfortunately, approaches which aim at explaining institutional continuity by referring to path dependency have concentrated much more on factors that reinforce a given path than on those which explain *path formation*.

Making a strong case for a path dependent development usually rests on three elements [37]. First, the beginning of the path is contingent, i.e. in a formative phase there is more than one path possible and the one that prevails is chosen quite by chance or at least for reasons not systematically related to its properties. Second, once this critical juncture is passed, the costs of diverging from the path increase constantly. A chosen path reinforces itself and is altered only in case of exogenous shocks. Third, the outcome of that path is inferior to alternatives. Although it clearly is suboptimal, changes are blocked by the costs of switching paths. Whenever these three elements are present, they offer an elegant argument for the prevalence of dysfunctional institutions (cf. also Mahoney 2000: 510-511).

However, though elegant, this account does not provide a strong explanation for how exactly a path is selected or sustained. Therefore, the "new institutionalism" (Hall/Taylor 1996) and historical institutionalists in particular have tried to spell out different mechanisms of path reproduction and, by the same token, of institutional inertia (Pierson 2000a; Thelen 1999). Less frequently have the origins of institutions been focused on - either because their existence is explained by the functions they perform at a later point in time (Pierson 2000b) or because contingency is understood as randomness. However, emphasizing randomness deletes path selection (institutional origins) as an *explanandum* open to theorizing. While there might be instances of random path selection, there is no reason to assume this always is the case. On the contrary, there are probably many cases best explained by power, interests or ideas. Therefore, we can try to account for the outcome of a formative phase with established political science concepts.

Accordingly, the question "*Which institutions for postwar Europe?*" was not decided by chance but resulted from a sequential matching of the national interests of key players. It can be explained by self-interest, power, and adapted strategies in the face of altered circumstances. Though the outcome was contingent, it was not random.

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Notes

1

This paper originates from archival research on the OEEC and the EPU at the Historical Archives of the European Communities in Florence. It also relies substantially on the work of contemporaries and secondary analyses. For helpful comments I would like to thank Sigrun Kahl, Simone Leiber, Margitta Mätzke, Wolfgang Streeck, Oliver Treib and Amy Verdun.

2
Institutions are defined "… as the formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity of political economy. […] In general, historical institutionalists associated institutions with organizations and the rules or conventions promulgated by formal institutions" (Hall/Taylor 1996: 938). Thus, postwar institutions were embedded in and enforced by organizations.

3
Historical accounts of European integration often draw an ancestral line from persons who had supported the idea of European unity - Maximilien de Béthum Duc de Sully, William Penn, Jeremy Bentham, Jean-Jacques Rousseau, Henri Saint-Simon, Victor Hugo, Richard Coudenhove-Kalergi etc. - right down to Jean Monnet and Robert Schuman (e.g. Urwin 1995; Heater 1992). However, the somewhat Hegelian image that the idea of European unity gained momentum through the centuries until it finally was realized in the aftermath of the war is false. Instead it was a hardheaded decision by France in the light of vanishing alternatives.

4
Hegemony facilitates cooperation but also depends on cooperation rather than coercion: "To be considered hegemonic in the world political economy, therefore, a country must have access to crucial raw materials, control major sources of capital, maintain a large market for imports, and hold comparative advantages in goods with high value added, yielding relatively high wages and profits. It must also be stronger, on these dimensions taken as a whole, than any other country. The theory of hegemonic stability predicts that the more one such power dominates the world political economy, the more cooperative will interstate relations be" (Keohane 1984: 33-34).

5
Walther Funk (1880-1960) was the German Minister of Economics as well as President of the Reichsbank throughout World War II.

6
Both plans can be found in Horsefield (1969b): Keynes' plan pp. 19-36, White's plan pp. 83-96.

7
In fact, early drafts of the White Plan entailed creating an international bank that was to provide international liquidity on a large scale. Thus, on this point, his ideas were not too far from Keynes'. However, references to the bank were dropped in later drafts, probably because of anticipated resistance by Congress (cf. Block 1977: 43-46).

8
On the White Plan, see Mikesell (1994: 5-12), who was a member of the American delegation. For further details on the Keynes Plan, see Cartepanis/Herland (2002).

9
Apparently Keynes was increasingly frustrated by the negotiation style of his American colleagues. His exasperation is captured nicely in the following couplet which was found

among White's personal papers at Princeton (cf. Boughton 2002: 3):
"In Washington Lord Halifax
Once whispered to Lord Keynes
It's true they have the money bags
But we have all the brains."

10
The Articles of Agreement are reproduced in Horsefield (1969b: 185-214).

11
As James (1996: 54-55) points out, ambiguous wording in the Articles on controversial issues such as the speed of the transition towards convertibility was chosen deliberatively to facilitate compromises.

12
There is a parallel with the present time. The rules of the Stability and Growth Pact under EMU are designed for a situation when member countries' budgets are close-to-balance or in surplus (European Commission 2003: 2). Yet, they do not specify how to get there. Applying them while deficits are still high and the economic situation is deteriorating hampers the functioning of "automatic stabilizers" and their effect can be pro-cyclical, thus potentially worsening a downturn.

13
In the 1946 national elections, Communist parties gained 18.9 % and 28.3 % of the votes in Italy and France respectively. Though these states certainly were not on the verge of a revolution, the strength of these parties was a cause of some concern for national as well as U.S. policymakers.

14
Formally, the Soviet Union and Eastern European states were also invited to participate. Yet, the Soviet Union declined the offer. Only Czechoslovakia applied for aid but had to withdraw under pressure from Moscow.

15
American policymakers urged European governments to follow the example of the United States, which, in their eyes, readily proved the virtues of a large, unified market. Cf. the speech by Paul Hoffman to the OEEC Council (Historical Archives of the European Communities (HAEC), Council Minutes OEEC, C(49)176, October 21, 1949). Hoffman, a former Studebaker manager, was first head of the U.S. Economic Cooperation Administration (ECA), an autonomous agency which had been set up to administer Marshall Aid.

16
It took the European countries by surprise when they learnt that they had to put forward a recommendation on the distribution of aid themselves. Cf. HAEC, Council Minutes OEEC, C(48)60 final, July 16, 1948.

17
Neo-functionalism was spelled out most prominently by Ernst B. Haas, who, indicatively, takes as a starting point the founding of the ECSC in 1950. This paper, in contrast, conceives of the ECSC as the result of earlier developments. For his concept of "spill-over" cf. Haas (1958: Ch. 8).

18
Members were: Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the UK. The FRG became an associate member in October 1949.

19
See for example: HAEC, Council Minutes OEEC, C/M(48)8, May 10, 1948, which reports that Turkey, Greece, Norway, Austria, France, and the UK disapproved of the amount of aid allocated to them.

20
Cf. statements by Paul Hoffman on August 16, 1949, and on October 31, 1949, respectively, where he strongly supports the idea of economic integration (HAEC, Council Minutes OEEC, C(49)127 and C(49)176).

21
Thomas Schelling worked for the ECA from 1948-1950.

22
Denmark, Greece, Norway, Sweden, the United Kingdom, and the French zone of Germany joined as "occasional members" in 1947, while Austria and Portugal followed in 1948. The cooperation of the occasional members was voluntary and not enforceable. The bizone of Germany became a permanent member in 1948.

23
Robert Bean was an economist on the staff of the U.S. Board of Governors of the Federal Reserve System.

24
Why was U.S. financial support necessary? "ECA's dollar contribution will serve a triple purpose: (1) to make up any difference between debtors' gold payments to EPU and creditors' gold receipts from EPU that might arise in the course of EPU operations; (2) to provide funds for the redemption under certain conditions of existing European-held sterling balances; and (3) to constitute a separate fund which will permit ECA to intervene when a country experiences extraordinary and unforeseen difficulties in its intra-European payments relations" (Hirschman 1951: 51). Albert Hirschman was an economist on the staff of the U.S. Board of Governors of the Federal Reserve System.

25
A thorough account of EPU's history and functions can be found in Kaplan and Schleiminger (1989), who both were members of its managing board.

26
Harry Travers was an official of the OEEC from 1948 to 1961 and of the OECD from 1961 to 1982.

27
For further details, see Triffin (1957: 170-171), who was the architect of the system.

28
On the virtuous interplay of contributing economic factors, see Glyn et al. (2000).

29
This reasoning follows the Condorcet Paradox: if three groups rank their preferences the following way: ABC, BCA, CAB, whoever chooses first will be able to command a 2/3 majority since at least one of the others will prefer its second-best outcome over the least favored one.

30
On the issue of France's policy towards the Ruhr area, see Milward (1984: Ch. IV) and Gilingham (1991: 148-177) for more details.

31
Moreover, the British feared that protecting their occupation zone from economic chaos would come at an enormous cost if the Ruhr area were to be severed (Greenwood 1992: 13).

32
Cf. Monnet (1988: 354-380).

33
Both quotes are taken from the original text of the Schuman speech.

34
This is not to dispute the historical dimension of Schuman's initiative. After all, the failure to find an institutional answer to the allocation of coal and steel in Europe after World War I had had disastrous consequences, as was already foreseen by Keynes in 1919 when he analyzed the Treaty of Versailles (cf. Keynes 1971).

35
On the British policies towards continental Europe, see Milward (2000: Ch. 7) and Greenwood (1992).

36
Ziltener (1999) describes the two contrasting integration projects that characterize the history of European integration

37
These three elements are based on Arthur's (1989) account of path dependency.

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