

## The Come-Back of Europe

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Mr. President, I thank you for your very kind words to me. It is a great privilege for me to be back here in Dublin. Some of the most agreeable days of my life have been spent in this city. I have often been present at meetings of this Society, and I deem it a great honour to have been invited by you to give this talk here to-day.

As Mr. President has already mentioned, we are going to consider to-night the question of the come-back of Europe. Ladies and gentlemen, the very words selected as the title for this talk are an affirmation that Europe has made a come-back, has raised itself out of the morass resulting from the war. A year ago I spoke on a similar subject at the Federal Reserve Board in Washington, and I told my American friends, and the many Europeans living in that great city who had come to the lecture, that Europe was once more regaining a position of importance economically and even politically; and I can only say to-day that at that time the general feeling there was one of almost total scepticism. A year has now passed, and I think there would at present be more readiness in the United States, and particularly in Washington, to admit that economic conditions in Europe have undergone a remarkable improvement; but of course there are still some people who are highly suspicious about developments on this side of the Atlantic and who want to see—as they put it—how things are going to turn out in the end before they pass final judgment. But I must add that it is not only Americans who are sceptical about us. I have just come from London, and there I had an opportunity of seeing the full text of a series of addresses given on the B.B.C; and I found in particular certain remarks about conditions in Europe which, in their way, were very interesting. It was said, *inter alia*: “Now Europe is no longer pre-eminent; it is divided, impoverished and weak.” We must, I think, all admit that Europe is no longer pre-eminent; and if one takes the whole of Europe, it is, of course, “divided” between east and west. As far as western Europe is concerned, however, I believe it has never been less divided than it is to-day; and I am certain of one thing: western Europe is no longer “impoverished” and no longer in the state of “weakness” which was suggested by the wireless talk. I had an opportunity of discussing this matter with some friends in London a few days later, and I gave them my own views on conditions in Europe. They replied that there was nothing they would like better than to be convinced that they had been wrong in what they had thought about Europe, for they certainly hoped that this continent had been able to stage a recovery. I, therefore, propose to start by giving you some evidence concerning the

returning strength of Europe. We must distinguish between the aspects which are primarily economic and those which are more of a political nature, although, of course, the two often go together. As regards the economic situation, it is fortunately possible to quote a series of figures which may be regarded as sufficiently reliable to give us a true picture. There will always be a certain margin of error, but I do not think it will be so great as to falsify the picture which I shall try to present to you

*The question of production*

By the beginning of the year 1954, industrial production in western Europe was about 40% and agricultural output some 20% higher than before the war. The real national income of the whole of western Europe—as far as such a thing can be estimated—had increased on an average by 20 to 25% in comparison with the pre-war level. During the same period the increase in population amounted to about 10 per cent., so there had in fact been an increase in the real national income per head of population. That was the situation at the beginning of 1954. With regard to what has happened since then, the Organisation for European Economic Co-operation in Paris, the O.E.E.C., has estimated, on the basis of the available figures for the index of production, that in 1954 industrial production has risen by about 10% above the figures for 1953. As far as agricultural output is concerned, we all know that it was a terrible summer this year, but even so, it does not seem that agricultural output in 1954 has been on an average any lower than last year. France, for instance, had a wheat harvest which was about one million tons larger than in 1953.

I now come to *the question of the balance of payments*. The year 1947 was a very difficult one for Europe. Western Europe had a deficit of six to seven million dollars on current account in its balance of payments. In 1951 there was still a deficit of 2½ million dollars, but in the following year there was a slight surplus of 700 million dollars, and in 1953 a surplus of 1,400 million dollars; in 1954 there will probably also be a surplus on the current account of the balance of payments, although it will perhaps not be so large as in 1953. Now such a western European surplus can be used either to lend money to other continents or to increase the European monetary reserves in gold or dollars. The British have continued to invest almost as much as they can in their Commonwealth. The Swiss also lend most of their current balance-of-payments surplus, providing loans to the extent of about 500 to 600 million Swiss francs a year out of an annual current surplus which amounted to something like 1,000 million Swiss francs in 1954. Most other countries in western Europe have added substantially to their *monetary reserves*. The value of these gold and dollar reserves was down to 7.9 million dollars by the end of 1947. At present they are worth over 14 million dollars—having increased by 6 million dollars in seven years, which is quite a remarkable performance. The French now have reserves equivalent to more than 1 million dollars—the highest they have had since the end of the war—and in addition they have made substantial repayments of foreign debts. To-day western Europe (and by western Europe I mean the countries of O.E.E.C., thus leaving out of account

the countries belonging to the Soviet sphere of influence in eastern Europe) probably has larger monetary reserves than it has ever had before in its whole history. These reserves are in gold and dollars. The dollars may not have the same purchasing power as they had before 1940, but even so the figures are impressive. They show that the idea that Europe is an impoverished area is out of date. Western Europe has lost a great deal of its foreign or overseas investments, but it has added to its own productive capacity; and the latter is the safer form of asset. I will not fatigue you with many more figures, but will go on to a few other matters which may be of interest.

Let us first have a look at *the exchange values of the various European currencies*. You know that there are the official rates for the pound, the mark, the French franc, etc., and that these are the rates accepted by the International Monetary Fund in Washington; but besides these there are the rates quoted on the black market and the officially recognised free foreign exchange markets; there are, therefore, in addition to the official rates, certain other quotations such as those for bank-notes in New York and Switzerland and for special brands of a currency such as transferable sterling, certain types of Belgian francs, etc.; and it is, in particular, these free-market rates that people have been looking at in order to find out what is the real value of the various European currencies. When we examine these free-market quotations we find that the discount in relation to the official rates is rarely more than 5, 4 or even 3%. In other words, when currencies are sold in the free markets the discount is nearly always less than 5% in relation to the official values, whereas a few years ago it was as much as 25 or 30%. It is also interesting to examine the development of *the market price for gold*. In France and in other countries, people were still within a few years ago to pay very high prices for gold in order to get something of stable value instead of their own currencies. Frenchmen still went on saving, but for some years they did not entrust their savings to the government or to the banks or invest them in enterprises in their own country—they bought gold, with the result that the price of gold in the private market (which in France was—and still is—a legal market) rose to as much as 50 or 60% above the official price. To-day the premium is less than 10%. The market price has at times been almost down to the official price—\$35 for an ounce of fine gold—and now it rarely rises above \$36 or \$37. This means that, in so far as the market price for gold may be regarded as an indication of real currency values, the French franc is almost back at the official valuation.

A further point concerns *the liberalisation of trade*. Only a few years ago we, in Europe, had a variety of quotas, with all their resultant difficulties, and many other kinds of import restrictions to contend with; we still have a lot of quantitative restrictions on the import of goods from the dollar area, but inside Europe up to 90% of the trade between the various countries has been freed from quota restrictions. By the autumn of 1954, France had still only freed 65% of its trade but, according to M. Mendès-France, it will within a few weeks raise the trade liberalisation figure to 75%. All this means that inside western Europe, goods are now moving practically without restriction, and once there is freedom to import, there nearly always is untrammelled freedom to export. I do not think that any-

body can listen to all these figures and ponder upon them without coming to the conclusion that in recent years there has been a very remarkable change for the better in the fortunes of western Europe ; and I should now like to make a few general observations on this development, to examine what may be the reasons for it, and to comment on the curious relationships that are discovered when one begins to analyse conditions in western Europe to-day.

Let me first mention a few facts about *the relationship between politics and economics*. For years people used to say that western Europe would be politically in such a bad state after the war that no great economic progress could be expected ; but no other conclusion can be reached from the experience of recent years than that political fears and apprehensions have scarcely done anything to retard the progress made by Europe. Allow me to give you a few examples. For twenty-two months without interruption—if I am not mistaken—western Germany has had a surplus in the monthly settlements of the European Payments Union. Part of this surplus is attributable to the repatriation of funds Germans held abroad ; capital has thus been flowing back to Germany—to a divided country, the eastern part of which is still occupied by Russia. For seventeen months Austria, too, has had a surplus in the European Payments Union, and Austria is also a country still occupied by foreign powers, one of which is Russia. Austria is occupied and divided and yet funds have been flowing back. My third example concerns “Sperrmarks.” In 1931 Germany introduced a system of exchange control, and since German banks and other institutions could not then pay their debts to other countries, an arrangement was come to in respect of bank claims and certain other claims whereby blocked marks—so-called “Sperrmarks”—were created ; and this arrangement remained in force for over twenty years. In the second week of September, 1954, the “Sperrmark” was abolished. As far as residents of European countries were concerned, full and free transfer of their “Sperrmark” balances was permitted and via transferable sterling “Sperrmarks” could also be converted, at a slight discount, into dollars. This decision was announced, I beg you to note, in the second week of September. Only a fortnight before, on 30th August, the French Parliament had turned down the proposal for a European Army and the newspapers were full of articles prophesying a political disintegration of Europe and goodness knows what else. But the Germans, unperturbed in the financial field, went ahead and freed the “Sperrmark,” and I cannot think of a single newspaper which regarded that as being in any way an extraordinary event. Now why was this so ? People in the business world seem to have convinced themselves that there would be no war, and they may have also argued that if there were a war, nobody could tell in this atomic age what it would be like, so the best thing to do was to forget about it and carry on as if there were no possibility of war now or in the future ; this really seems to be what has happened, and thus the business world has excluded this kind of fear and apprehension from its calculations. In response, for instance, to differential interest rates business people have transferred their funds to countries where they could get a fair income from their investments ; and this is one of the reasons why some western Germans and Austrians have repatriated amounts

they held, for instance, in Switzerland ; they needed their money at home and, fortunately for Europe, they did not allow political fears and apprehensions to influence their economic decisions. This means that we have got back to a situation in which the ordinary economic stimulants provided by differential interest rates are once more having their normal effect irrespective of political fears and apprehensions ; and I think that if it had not been for this remarkable development, Europe would not be enjoying the fair state of business to-day that it is in fact enjoying. You can ask me any questions you like about this point when we come to the discussion. I shall be pleased to answer them. I can give you plenty of other examples. It is a very strange development, but a very important and fortunate one for Europe. But we are living in a strange world at present, and while I am on the subject, I may as well tell you of another odd thing that has happened.

I mentioned earlier on the increase in industrial output in Europe. According to the indexes of production, output in 1954 seems to have been about 10% higher than in 1953. While this has been happening in Europe, the United States has been going through a recession in which the indexes of industrial production showed declines varying from 7 to 10%, taking each month in 1954 and comparing it with the corresponding month of the preceding year. It used to be said that Europe had become so dependent on the United States that when America sneezed, Europe got pneumonia. And yet in the past year, America has been going through this process of a relatively mild recession, while western Europe has not only been unaffected but has, indeed, staged a recovery of its own and has, moreover, at the same time been able to increase its monetary reserves of gold and dollars—a thing which is clearly contrary to past economic experience in this respect. The Americans are very much astonished about this development, and—to tell the truth—so are we here in Europe.

Now we may ask ourselves *why things have gone, comparatively speaking, so well for us Europeans?* There are some general reasons. We must not forget Marshall aid, which was of great help to Europe in very difficult days and, indeed, made it possible to restore a state of balance of which we would otherwise not be enjoying the benefits, as we are to-day. We must also remember all the great efforts which have been made by the European countries themselves, but having said all that, there are *a few specific reasons* which I should like to speak of to-night.

In the first place, it must be pointed out that there has been *no general fall in commodity prices* on the world markets, and that this price stability is to a large extent due to the American policy of cheap money and the other anti-cyclical measures which were taken in 1953-54 in the United States in order to keep the country's economic activities going, and thus to maintain the price level during the period of recession. There has, I think, been in Europe a growing admiration for the present American administration's policy in this respect ; we Europeans must admit that without this policy we ourselves should probably not have been able to stage an almost uninterrupted expansion in our own economies.

In the second place, there are now *no deficits in the current account of the balance of payments* of most European countries, and there

no longer exists any particular world-wide scarcity of dollars. This is due partly to American policy (including military outlay in different parts of the world), but also to the fact that internal balance has been established in most countries of Europe thanks to the application of a flexible credit policy and to the other steps that individual countries have taken to put their internal affairs in order; for the restoration of balance in the internal economy usually results in equilibrium or even a surplus in the balance of payments. You may have heard the saying: "Take care of the pounds and the dollars will take care of themselves."

In the third place, I should like to emphasise that there has arisen *no serious disequilibrium between costs and prices in most European countries*. This is due partly to the steadiness of prices, but also to the pursuance of a rather careful wage policy in most countries. Here, I think, it is proper to give the trade unions their share of the credit, for in most countries they have refrained from putting forward exaggerated claims and have instead tried to exercise caution in their negotiations regarding wage rates so that full employment could be maintained. This would not have been possible if wage costs had been pushed up more rapidly than the increase in productivity and the prevailing circumstances warranted. There has fortunately been a distinct improvement in production, but it must always be remembered that a part of the increase in the real income of western Europe had to be earmarked for filling gaps in the balance of payments, another for armament and a third part for the requirements of the welfare state, and that these commitments limited the amounts which could be paid out in the form of wage increases. Conditions vary from country to country, but, in general, it can be said that the leaders of trade unions appreciate that there are limits to the possibilities of raising wages and thereby increasing costs.

Now, the fourth point is one which I have already touched upon, namely, that most European countries have begun again to pursue *flexible credit policies*. After the war there were many who thought that the era of cheap money would go on for ever, and that there was no need to bother about the flow of savings or even to think about monetary policy. But in this respect there has been a great change since the early post-war years. The change started perhaps in Belgium, and in this connection I should like to point out that it is wrong to think that the cheap and inflexible money policies have always been in favour in Labour circles. From 1945 to 1949, Belgium had governments led first by Van Acker and then by Spaak—both members of the Labour Party—and it was during those years that the flexible credit policy was so decisively reintroduced in Belgium. In Europe it will now generally be found that a flexible credit policy is pursued almost irrespectively of the political orientation of the different countries.

Various other interesting conclusions may be drawn from an examination of recent political changes. In the Belgian elections in 1954, Labour gained more than the other parties, and there is now a Coalition Government, led by the Socialists, but the Minister for Finance and the Minister for Economic Affairs belong to the Liberal Party. In France, the premiership of M. Mendès-France may be said to have signified a certain shift to the Left as compared

with that of his predecessor, M. Laniel, but M. Edgar Faure is the Minister of Finance in the new government, as he was in the previous one. In Italy, the premiership of Signor Scelba also meant a certain shift to the Left as compared with the premiership of Dr. Pella, but Professor Vanoni remained in charge of the public finances. Something similar happened in Austria. The elections in 1954 resulted in certain gains for the Socialists, but Dr. Kamitz retained the office of Finance Minister. When I asked informed persons in the countries concerned if it had been difficult for the political parties concerned to agree on these appointments, I was told that there had not been any very great difficulty. It seems that the Labour parties are anxious to exercise a distinctly political influence, as is only natural, but that they do not generally ask to take over the Finance Ministry. There is, in fact, less difference of opinion to-day with regard to monetary and financial policies than there was, for instance, five or six years ago, and, in the great majority of countries, these questions regarding interest rates do not give rise to any real controversy in the various Cabinets. I might mention that in Germany and Austria during the years from 1950 to 1952, when the official discount rates were increased to as much as 6%, practically all the members of the Boards of the two central banks concerned (including those who belonged to Labour Parties) voted for the increase. I think it is a very fortunate thing that, irrespective of political persuasions, a flexible credit policy is coming to be accepted in European countries as the correct monetary policy to be pursued. This is also important from the point of view of international co-operation: for it is only when proper emphasis is laid on credit and monetary policies that it becomes possible to abstain from introducing quotas on imports and other forms of direct control over trade. With such flexible policies it is thus possible to extend the liberalisation of imports, and it is only if we refrain from imposing direct import restrictions that we shall eventually be able to achieve that economic integration in Europe to which we all look forward.

Ladies and gentlemen, you will probably already be thinking that I look at these matters only through rose-coloured spectacles, and that I am giving you a picture of Europe which is much too optimistic. You may even ask me whether, indeed, we have any difficult problems in Europe at all. Of course we have *many difficult problems which still harass us*. *Italy's* working population is increasing at the rate of more than 200,000 a year. A few years ago it was as much as 400,000 a year. In that country, with its scant supply of domestic raw materials, it is difficult to avoid unemployment when the working population is expanding at such a tempo. Italy has its difficulties, but this year (1954) it seems that industrial production has increased very satisfactorily indeed—by 8% (or more)—and that, after taking account of off-shore orders and grants, there has been no deficit in the balance of payments. I will not say that the same favourable results will always be possible in the future, but the Italians have very able men, both in their government and in their central bank, who have the situation well in hand. *France* is suffering from budget deficits; costs of production are high; there are difficulties of many kinds about which you can read in the newspapers; but the present government is trying to overcome these handicaps,

and several foreign firms operating in France (I could mention certain Swedish and English firms) have this year (1954) had the best profits that they have ever recorded. France has experienced no increase in the general level of prices for over two and a half years, and that has furnished a basis on which the rationalisation of the country's economic life has been carried forward. In *Germany*, one of the country's difficulties is that too much of the financing of enterprise and building is done by the commercial banks. The reason is that the German people have lived through two periods in which their money lost almost all its value. It is very hard to induce them to lend once more against bonds with thirty or forty years' currency and if they do lend they expect rather high rates of interest—7 to 8%. In such circumstances it is extremely difficult to restore properly-functioning capital markets. The problems arising in this connection have to be solved, and the solutions are not impossible to find. In the cases to which I have referred, the countries can do a lot by their own efforts; I should add that it has been our experience in western Europe that if a country really tries to restore equilibrium, it does not need thousands of millions of dollars in order to do so; success can be achieved with much less money. An interesting example occurred in the case of Germany. In 1950 the European Payments Union extended to Germany a credit of \$120 million in connection with a programme of rehabilitation. I remember some of my American friends saying to me: "How can you hope to restore such a big country with so little money?" The answer was, that it is not the amount of money which is decisive but the steps taken inside the country itself; and as the Germans took the proper steps to put their budget in order and restore balance in their credit system, the \$120 million proved sufficient, and, as you all know, Germany has increased its industrial production and staged a recovery that has astonished everybody (including the Germans themselves).

Of course, there are other problems; for instance, we have to *return to convertibility* if we are to restore full confidence in our currencies. This return is evidently to be achieved by proceeding step by step. We must also remember that a new generation is growing up which has never experienced a real crisis or depression. The men and women who have reached maturity, let us say, since 1938—almost twenty years ago—do not know how serious are the troubles which a possible setback in business activity might bring at some future time. We must continue to observe the utmost vigilance when dealing with these matters. We still have a boom in Europe. Let us suppose that there is a recovery in the United States and that its influence extends to Europe, as indeed it might. The boom which is now so apparent on the stock exchanges may then get out of hand. It may be that we should have to apply a restrictive credit policy, that interest rates would have to be raised somewhat—though not necessarily very much—in order to curb those excesses of the boom which might otherwise become dangerous and lead to serious maladjustments and, finally, to a grave crisis.

I have a friend in London whom I asked a few months ago what he thought about the rise in prices on the stock exchange and the other signs of boom conditions. His answer was that he felt he



really ought to be nervous and perturbed, but that somehow he could not yet feel this way about them. We in Europe have experienced so many difficulties in the past that now, when things are going well, we are simply grateful for the fact, and hope that the good times will last ; but, as I just said, we must show, as always in these matters, the greatest degree of vigilance.

Ladies and gentlemen, I have spoken about the economy of Europe. I shall now say a little on the subject of *political developments*. This topic lies somewhat outside my field, but it nevertheless belongs to the general picture. I have already told you that the business world does not seem to have been troubled much by the possibilities of war, but has gone about its affairs thinking that, since one cannot in any case foretell what a war would bring, it is perhaps better to ignore such an eventuality as far as business is concerned, and to act on the assumption that there will be no war ; and in this respect the European business world has perhaps been wise in its judgment.

During four months of this year—from July to October—there was an extraordinary succession of political agreements in the international field. Let me mention a few : the agreement on Indo-China ; the agreement on the Suez Canal ; the Persian oil settlement ; the Trieste settlement ; the agreement between Russia and China concerning Port Arthur—a problem which had given rise to war in 1904 ; the London agreement concerning the restoration of sovereignty to Germany and its rearmament as a member of N.A.T.O. ; the Paris agreement supplementing the London agreement ; and the United Nations agreement concerning the private use of atomic energy. Never before within the space of four months have there been so many international agreements ; and the majority of them have already been ratified. In this connection I might even add that people used to say that Moscow could never accept any settlement of the Trieste question, since it was thought to constitute a welcome source of dissension between European countries. Six days after the settlement had been announced, however, Moscow declared that the Soviet government was in full agreement with it. How are we to account for such strange developments ? Is it that the diplomats and statesmen have suddenly become much more reasonable and prepared to make extraordinary concessions all along the line ? I think that their willingness to compromise may have helped, but the real reason, I fancy, is to be found elsewhere ; it is that public opinion is strongly in favour of peace and does not mind if some concessions are made, since it thinks that peace is the most important consideration.

But what of the other vital questions which are still outstanding ? There is, for example, the French-German problem, and the East-West problem not only in Europe but also in the Far East. It is with Europe, however, that I am concerned at the moment. The French-German issue was thought to have reached a most alarming stage when the French Parliament suddenly turned down the proposal for a European Army on 30th August, 1954—just about three months ago. This decision took many by surprise, but I am convinced that in many countries besides France there was greater opposition to the proposal for a European Army than is often realised. The main arguments of its opponents may perhaps be stated as follows :

The European Army, as it was planned, would, we were told, have been a bad army technically. Swiss experts made a very thorough study of the proposed scheme and came to that conclusion; and I have not come across anybody who has disagreed with it. A second argument against the European Army scheme was that France could not really be expected to counterbalance the might of Germany, in view of France's frequent internal political conflicts which so often led to changes of government; and it may be remembered that in the 1930's, Hitler tried to make his moves coincide with periods of cabinet crises in France. A third objection was that the establishment of the European Army meant "Europe without England," and for many this was the decisive factor. When the problem is looked at from these various points of view it becomes apparent that the recent London agreement concerning the admission of western Germany to N.A.T.O. is an improvement upon the original proposals for a European Army. One advantage of creating a German army within the framework of the large Atlantic Organisation is that the combined forces will constitute, from the technical point of view, a much better army than the proposed European Army could have been; and in addition, Germany will become a full member of N.A.T.O., as it undoubtedly would have done sooner or later even if the original scheme had been adopted. Moreover, France will have the Anglo-Saxon powers at its side, and British influence will play a more active part in the affairs of the Continent than under the original proposals. But will the new agreements be ratified? We do not yet know for certain, but, judging from the newspaper reports of the results of the recent German elections, it seems, after all, as if we may expect the ratification to take place; and in this way a solution may yet be reached which will settle for our generation the problems which divide the French and the Germans.

Another important question, however, is that of the *relations between eastern and western Europe*, and this is perhaps the more difficult problem. I am speaking to-day of Europe only, and do not intend to discuss the position in the Far East. In Sweden and Finland, the two countries with which, on account of my birth, I have the closest personal links, great importance is attached, for geographical reasons, to the problem of the relations between Russia and the west; in fact, this is regarded as a more vital matter than any questions concerning the possibility of a conflict between France and Germany. That may, perhaps, surprise you; but I have many friends, in particular in France, who think the same. One of my friends asserts with great conviction that the danger of a further clash between France and Germany has been exaggerated, while, on the other hand, people have forgotten the existence of the more important conflict between east and west in Europe, between the Teuton and the Slav. We must remember, for instance, he says, that the shot in Sarajevo which touched off the first world war was a result of the conflict between the Serbians and the Austro-Hungarian Empire. The second world war began with an attack on the Polish Corridor. Here again a war began with a clash between Slavs and Teutons. My French friend contends that France was brought into the two world wars not as a result of a direct involvement of interests but really for balance-of-power reasons—for very much the same reasons

as those which brought in Great Britain and ultimately also the United States. One leading statesman in Finland has told me repeatedly that in his opinion the possibility of avoiding a third world war will depend upon whether or not we can bring about a peaceful settlement of the national frontiers in eastern Europe. I think it is fair to say that, among American journalists, Walter Lippman realises particularly clearly the importance of the Slav-Teuton question; he comes back to it again and again in his articles. But I must add that I have the impression that many people—not only in America but also here in western Europe—forget that the frontier between Teuton and Slav has moved backwards and forwards for over a thousand years and that the rivalry between these races is one of the most fundamental conflicts in Europe. At present the question takes the form of a divided Germany, and I often wonder if a country can ever forget the fact that it is divided against its will.

We cannot know when or how these problems will be dealt with, but I believe that public opinion on the continent of Europe—both in the west and in the east—is strongly in favour of peace, and would prefer these matters to be dealt with by negotiation. My task to-night is not to try to indicate any solutions but to concentrate on my theme: “The Come-back of Europe”; for this very reason, however, I had to mention this problem, since it is one of the main difficulties which we still have to solve.

At the same time, as we continue to devote our attention to the problems arising from our relations with eastern Europe, we must persevere in our efforts to achieve a *European integration* which will enable the countries of western Europe, in particular, to work more closely together. At one time it looked as if such an integration would centre upon the six countries of the Coal and Steel Community—France, western Germany, Italy, Belgium, the Netherlands and Luxembourg—but the refusal of the French to ratify the agreement regarding the European Army has probably cut short further development along these lines. As far as *monetary matters* are concerned, the proposal to establish a Union which would be confined to the six countries in question could, in any case, not be regarded as a sound approach. We Europeans must belong to a monetary system which is able to facilitate our trade with other countries and continents. If we had to compete merely amongst ourselves we should eventually reach a stage at which our mutual competition would be so intense that we might well destroy one another. Trade with overseas countries is essential for us. It must not be forgotten that in the European Payments Union, payments are settled not only between European countries but also with the whole sterling area (including Australia, New Zealand, India, and a number of other countries), as well as with the French and the Belgian franc areas, the Portuguese escudo area, and what is left of the guilder area. This means, for instance, that the E.P.U. settlements cover our payments relations with the Belgian Congo and, via Amsterdam, even to a large extent those with Indonesia. In fact, the European Payments Union effects settlements corresponding to about 60% of the world's foreign trade. If convertibility were established, the area of possible settlements might be extended still further; and we

Europeans must certainly never accept a system that would narrow the area of international settlements as far as Europe was concerned.

I must add that, at the O.E.E.C. headquarters in Paris, representatives of European countries have not only discussed such questions as the liberalisation of trade, which I have already mentioned, but they have also proceeded to review together the economic and financial position of the individual countries. These studies began in 1950-51 with western Germany; and there were some who told me at the time that Germany had only agreed to such a review because it was used to having foreigners within its borders, and therefore did not mind, but that it would be a different matter when other countries were approached. But it appears, on the contrary, that a new tradition has grown up with regard to these matters, so that the British, for instance, now send their best officials from the Treasury and the Bank of England when the economic and financial position of Great Britain is being reviewed in Paris, and other countries are doing the same. The various countries here in Europe are beginning to forget many of the old taboos connected with the concept of national sovereignty. New traditions are becoming accepted as normal features of our common European mode of life.

It is not quite clear yet how these traditions will develop. I do not think, however, that European co-operation will suffer any setback; and in all these common efforts Great Britain is playing its full part, and Ireland, too, is of course a member of the O.E.E.C. in Paris. In this connection I would remind you that the military organisation, N.A.T.O., embraces the Atlantic community, and not just the countries of western Europe; in economic matters also Europe must maintain its links with overseas areas. As you know, the United States and Canada are represented in the O.E.E.C. as associated powers. This is a definite advantage, because there are many European problems that can best be solved when examined from the point of view of the wider Atlantic community. As I see it, we are now in the midst of a *constructive period* in western Europe. We have regained a fair measure of material prosperity and are regaining a position which enables us to demonstrate that Europe is certainly not doomed to a decline. We have begun to develop common institutions, and we will continue to do so. It is true that there are difficult and delicate matters to be settled with the countries of the east, and that these are undertakings which will test the capacities of our statesmen. Let us hope that the Europeans will be no less ready to make wise concessions now that they are conscious of their renewed strength than they would have been in the more difficult days when they required outside aid—aid which, fortunately enough, was supplied through the Marshall Plan.

We must try to show as much wisdom in success as we did in times of adversity, and we may perhaps feel called upon to take the wiser course in this as in other respects in view of the ever-present knowledge that failure to agree among ourselves may expose us to terrible trials in this atomic age.

It is not written in the stars that Europe has played out its role. Its main strength lies in its infinite variety, but this variety needs to be balanced by a more harmonious co-operation than we Europeans have been able to achieve in the past.

## DISCUSSION

Professor G. A. Duncan proposed the vote of thanks.

In seconding the vote of thanks, *Mr. McElligott* paid a tribute to the very informative and comprehensive lecture to which they had just listened, and referred to the fact, not mentioned by the lecturer himself, that he was the prime mover in many of the financial reforms that had taken place in various European countries. Since the Second World War, as Economic Adviser and Head of the Monetary and Economic Department of the Bank for International Settlements, Dr. Jacobsson has been playing a leading role in the economic and financial resuscitation of Europe, and particularly of West Germany, where the monetary and fiscal reforms planned by him and Professor Cairncross set that country on the road to an astonishing progress, which testifies to the recuperative power of a devastated economy when proper measures are taken. The Annual Reports of the B.I.S. also bear witness to Dr. Jacobsson's energy and learning. In the course of these reports, and in the discourses which he has given before many learned bodies, the question of savings and investments and the proper relationship between them has loomed largely.

This topic has become the happy hunting ground of economists obsessed by fears of a recurrence of the great depression of the inter-war period. Dr. Jacobsson's fellow countryman, Knut Wicksell, was responsible for the first formulation of the "savings-investment" approach to the problem of monetary stability, which was subsequently developed by Lord Keynes in Britain and Alvin Hansen in America. It was then seized upon with avidity and sometimes with little understanding by economists and others. The Keynesian theory rightly stresses that the basic requirement of monetary stability is that genuine current savings should be fully translated into current investment. This view brought joy to many hearts, especially to those who by a peculiar quirk of reason concluded from it that the proper way of ensuring this equality is through deficit government spending. It is in no small measure due to Dr. Jacobsson's writings in the Reports of the B.I.S. and elsewhere that the correct view of this equation is being accepted: it is not only necessary that current savings should be currently invested; it is equally necessary that total investment should not exceed total current savings.

Mr. McElligott then proceeded to compare the experience of Europe as compared with Ireland in recent years, particularly since 1939. There was on the Continent an appalling and irreparable loss in human life and suffering which had no counterpart in Ireland. In addition, there was enormous damage to property of all kinds; here in Ireland we had to put up with enforced neglect of repairs and maintenance and impoverishment of the soil. As regards foreign investment, as a result of two world wars, France practically lost its status as a creditor nation. Great Britain used up some £850 million of overseas investments in the First World War and about £1,100 millions (out of a total of £3,700 million in 1939) in the Second. In addition, during the latter period some £3,000 millions were added

to the overseas sterling balances, that is, to current external liabilities (which in 1939 were £800 million). In Ireland the net external assets of the associated Banks and the Central Bank rose from £72 million at end of 1938 to £192 million at end of 1945. The rise in external assets indicated by these figures is to some extent exaggerated since it does not reflect the probable reduction in private holdings.

As regards Marshall Aid, the net amount received by Western Europe in the form of economic aid from July, 1948 to June, 1952 was about \$14 milliard. This form of aid may be said to have furnished on an average about one-fourth of the capital resources which Western European countries were able to utilise for net investment in this period. In Ireland, Government borrowing from the U.S.A. under the European Recovery Programme from 1949 to 1952 amounted to £41 million approximately, and U.S.A. Grant under E.R.P. in these years amounted to £6 million, making a total of £47 million or an annual average of about £12 million, which works out at about one-quarter of total domestic physical capital formation.

In Western Europe, by the beginning of 1954, industrial production was some 40% above pre-war, while agricultural output had increased by about 20%. Real national income was up by 20 to 25%, and the gold and dollar holdings of Western European countries, which had fallen to \$7.9 milliard in 1947, rose to \$13.1 milliard at end of 1953. In Ireland, industrial production in 1953 was 80% above the 1938 level, while agricultural gross output is estimated to have risen by 6% in the same period. Real national income was estimated to be running at about one-fifth above the 1938 level—an increase of the same order as in West European countries. The estimated current deficits in the Irish balance of payments from 1947 to 1953 amounted to £167 million, and in this respect we compared unfavourably with European experience.

The post-war period inherited a money supply grossly incompatible with the internal price levels, while the price levels themselves were incompatible with the exchange rates, the whole being kept in some kind of working order by a complex system of controls and restrictions, rationing, etc. This discrepancy between money prices and exchange rates was perhaps the most serious economic consequence of the last War, and is still largely with us. It is in fact, the chief obstacle to-day to the return to convertibility of currencies. Although not actively engaged in war, Ireland bore the full brunt of the latent inflation accumulated during the war years elsewhere. This was reinforced by a variety of domestic developments, mainly in the shape of Budgetary deficits and of unremunerative capital investments by the State.

Recovery after the War, with the price mechanism out of gear, was made more difficult by the survival of ideas generated by the inter-war depression period. A recurrence of severe depression was thought inevitable unless it was countered by a "cheap money" policy. Even now, when this "coming depression" has proved a myth and we have entered a period of rising prices, it has proved singularly difficult to apply policies designed to cope with the twin problems of inflation and external payments deficits. Developments similar to those abroad have taken place in Ireland where "cheap money" seems particularly venerated. We have not yet learnt

the lesson that inflation cannot be made to serve as a basis for sustained economic expansion. Increased domestic savings are the essential basis, and recourse to inflationary credit expansion should be avoided if we are to benefit from the lesson learned, sometimes at great cost, by other countries. The lecturer has made us aware of the paramount importance which other countries (e.g. Germany, Austria, Belgium) attach to monetary rehabilitation and to the liberalisation of the economic system on the widest possible scale. In addition to these requirements, there is moreover a need here for freeing the cost-price structure throughout our whole economy from the distorting effects of controls, guaranteed prices, subsidies and excessive and prolonged protection. We have been wedded to restrictionism in various forms ever since we gained independent control of our economic life, without significantly reducing the long-standing problems of unemployment and emigration or achieving the hoped-for increase in real income. The examples of post-war economic development in other countries quoted by the lecturer show the valuable results to be gained by pursuing more courageous policies, and the Society was indebted to him for his contribution.

*Dr. Per Jacobsson*, in reply : Mr. President, I wish to thank you for your quite overwhelming words of welcome and for the kindness you have shown me. I can only say that some of my happiest days have been spent in this country. I loved being here, and my activity here in the years 1934 to 1938 gave me an outlet for my energies—in contrast to the frustration which some of my colleagues in the B.I.S. had to endure in the midst of the Continent of Europe during those sad years of the 1930's which preceded the second World War. For that reason it was for me a great relief mentally, at that time, to feel that I had useful work to do here in Ireland. Thank you very much for all you gave me during those years and for your kind words to-day.

Professor Duncan and Mr. McElligott are old friends of mine, and that being so, you may perhaps realise that you should duly discount some of the flattering expressions which they used in their statements about me.

Now I must try to answer as well as I can a number of rather difficult questions which have been put to me. Professor Duncan's first point was on the subject of the vitality of Europe. Is it true, he asks, that this Continent of Europe possesses a real vitality of spirit, or is our recent come-back due merely to a concatenation of fortunate circumstances? I believe that there *is* a great deal of vitality in Europe. Europe has been able to go on fighting hard in two World Wars, and nobody can say that the Germans, and most of the other people on both sides, did not fight as valiantly as they could for their countries. There has been no diminution in the fighting spirit of the Europeans, whatever else one may say about the first fifty years of this century. I might even add that if one examines what happened during these two wars, one discovers that there have never been less "traitors" on either side. It was very remarkable in Germany; I passed through several German towns early in the war and talked to ordinary people, and I found that many of them did not believe that Germany could win; but all the same they went on struggling, and showed a doggedness that was truly

remarkable. France may have been an exception, because it lost  $1\frac{1}{2}$  million in the first world war, which was a very great loss of blood for a country that had not had an increase in population for a long time; but a very strange thing began to take place just before the outbreak of the second World War—and that was an increase in the birth rate in Europe generally, and especially in France. The population of France has been increasing by several millions since 1945 owing to a natural increase in births; indeed the difference between the birth rate and the death rate has been the highest since 1816. You have to go back to the Napoleonic period to find something comparable; and the tendency has been a persistent one. It is, moreover, to be found in several other countries. There are many signs of an increase in vitality in Europe: there is the fighting spirit to which I have just referred; there has been an acceleration of the natural increase in population; there has also been the remarkable economic recovery; and in view of these facts I should like to have proof to the contrary before I abandon any opinion that Europe still has plenty of vigour.

To go on to the next point: physical productivity has admittedly increased, says Professor Duncan—but has there been any increase in wisdom? What about the politicians? Is it not so that a great deal of the improvement has been achieved in spite of the politicians? I think that to some extent this is true; but, even so, I think that it can at least be said that some countries have been fortunate. Take Germany: the appearance of a man like Adenauer is certainly a rare thing for any country; but he has not been the only one. The Minister of Finance, Dr. Schaeffer is an excellent man, and Professor Erhard, the Minister of Economics, is an outstanding personality who has believed steadfastly in a free economy, and has demonstrated in practice much of what he believed in—which is a rare occurrence. Dr. Vocke, at the Bank deutscher Länder, has managed the country's currency affairs very ably, and Herr Abs negotiated the foreign debt settlements. It would be hard to find at any period in history five persons together mentally better equipped or better suited in character to their tasks than those who have carried western Germany forward in these post-war years. With regard to Italy, I have known and worked with Professor Einaudi, who was first of all Governor of the Banca d'Italia, and who later also became Finance Minister. In 1947 he put into operation a very stiff credit policy at a time when such a measure was not at all popular; his country had hardly any choice, however, but to follow his advice. The business people were at first very angry. I remember seeing a number of them in Milan at the beginning of 1948 and they told me that Professor Einaudi would ruin Italy, and he had no right to apply such a harsh policy under the prevailing conditions. But he managed to give Italy a stable price level. People soon began to have confidence in the lire, and business recovered; within a year, Professor Einaudi was elected the first President of his country, and he is to-day one of the most honoured men in Italy—because he had the courage to do the right thing as a member of the Cabinet and as Governor of the national bank. I asked him once how it was that he was able to carry it through, and he told me that if it had not been for the constant support of De Gasperi, as Prime Minister, he could



never have carried his proposals in the Cabinet and not have got them accepted by the country.

Now, these are rather remarkable achievements by two countries defeated in the War, and I think that we should not write them off as having been merely due to some chance circumstance. For they were the result of quite deliberate action by people who really knew what they wanted to do and had the courage to put their plans into practice even though their policies were at first unpopular. I once asked Professor Einaudi what was his hardest task. He said that it was not the raising of interest rates, because this was a measure which mainly affected the financial community, which did not represent the majority of the nation; but he also had to balance the budget, and to that end abolish food subsidies almost all along the line, and that affected everybody. It was a harsh measure to have to take in a country that was so impoverished, but he could never have succeeded in restoring the stability of the currency without taking action to balance the budget; and this, he said, was his hardest task, from both the personal and the political point of view—but all the same, he did not shrink from it.

I could also mention what happened in Belgium and Austria. I have been able to follow Austria's fortunes and policies very closely. Although foreign troops still occupy Vienna, the Austrian people are maintaining their independence. The Austrians have continued to go to the theatre and the opera; they have tried to create for themselves a civilised western way of life, although they often feel that their personal liberty is constantly threatened. They have pursued, on the whole, a very sensible monetary policy and have succeeded in rehabilitating their currency. It has taken a great deal of pluck and courage to do these things.

I could have spoken more about the countries on the frontier of central Europe. You might say that in France, with all the changes in government, we have seen something different. Maybe the French have not always proceeded along the right lines, and they have certainly had their difficulties; but France, too, is making progress now, and it may be that their present Prime Minister will succeed in putting them on the right track. The French have had no increase in prices for three years, and that in itself may be regarded as a sign of a return to equilibrium; after all, French industrial production is now about 50% above the pre-war level.

The British have had their austerity period under the Labour Government. It is true that they have created a welfare state, but they have also avoided a deficit on the current account of their balance of payments in most of the post-war years, and have made very large investments in the Commonwealth; and they have honoured the sterling balances without default—which has cost the ordinary British consumer a good deal. It has proved possible to hold together the sterling area, the largest area in the world in which funds and goods can move comparatively freely; and after a second World War, that is a considerable achievement.

I believe that when the history of this period is written, a number of names will be mentioned as reflecting credit on western Europe. Much serious work has been done, and many politicians, although they have had to face unpopularity, have nevertheless pressed through

the measures which were needed for the good of the nation. I sometimes think that the countries which were not involved in the war have taken things rather too easily, and have not realised what great difficulties had to be overcome in other lands. It is invidious to make comparisons, but I do not think that the former belligerent nations need to be ashamed if they compare their record with that of the non-belligerents.

Mr. McElligott referred to a few things I have written in the past. Over 90% of all my written work has been of an official character, and if in my more carefree moments I have blossomed forth in lighter vein, you must forgive me. When I was younger it was detective stories, but nowadays I only have time for economics, and the only thing I can do now is to try, when I am not obliged to adopt an official style, to give a more human touch to what I have to say.

With regard to what has been said about savings and investment, I think that the great depression left behind it an unfortunate idea that the important thing to do was just to go on spending and investing, it being believed that the necessary savings would somehow appear of their own accord. One country after the other very soon found out, however, that when they went on spending and investing without due regard to the available savings, there arose a deficit in the balance of payments to cover which they had to use up their monetary reserves or their holdings of other foreign assets. The savings did not appear by themselves, but instead the expenditure led to inflation at home or to losses of reserves; and I find that because of this experience there has been a sobering-down of ideas on these matters throughout Europe. It is very important to remember that Lord Keynes himself, in his last article, published after his death, and also in his famous speech in the House of Lords, made it quite clear that he knew that in the post-war period we should be in a very different situation from that which existed during the great depression, when it was hard to find suitable opportunities for investment. After the war this difficulty no longer existed, it being necessary, on the contrary, to encourage the formation of savings on which the prosperity of the nations could be built and to avoid relying simply on credit expansion. It has now become accepted that there is no easy way of achieving recovery just by spending money. It is very interesting to note that in the past two years the Netherlands and western Germany, and in 1953 Austria, had surpluses in their budgets—even over-all surpluses—and that these were at the same time among the four countries whose indexes of production showed the greatest increase in the years in question. So the idea that the attainment of a budget surplus would slow down development has proved completely wrong, since the experience of a great number of countries can now be quoted as evidence to the contrary. It is clear that there were so many opportunities for the employment of savings that the factor which limited investment and development was the amount of savings available, and not any unwillingness to invest funds. It seems to me that the sobering-down of European opinion on these matters in recent years is one of the reasons for the improved monetary situation at present. The nations of Europe now have much more confidence in their currencies—a confidence that had to be restored if we were ever to achieve

that freedom of trade and payments which is an absolute necessity for so densely populated a continent as Europe, largely dependent as it must always be on its trade with other continents for its prosperity and even for the satisfaction of its immediate daily needs. We here in Europe must "import or die," and if we propose to trade on a large scale with other parts of the world, we must see to it that we have sound currencies, and that we are really in a position to export to other continents our surplus products.

Among the other questions put to me, there was one from Mr. Byrne, who asked, if I understood correctly, to what extent an increase of 20 to 25% in the real national income over the pre-war figures had led to an improvement in consumers' standards, and whether we could expect wage stability in the future. It is very difficult to calculate consumers' standards, partly because of the effects of the Welfare State. In France, for example, a worker who has three or four children for whom he gets children's allowances, can enjoy a definitely higher standard of living than he did before the war, whereas a bachelor, who has to pay his share of these social charges but does not get the same social-security benefits, usually finds that his standard of living has declined. To judge the average change is one of the more difficult things to do correctly. On the whole, however, it seems from all the data available that the wage earner in Great Britain, for instance, has clearly improved his standard of living.

And now for the question of wage stability. This is obviously a question which requires the greatest care on the part of each individual country; it may be useful to point out, however, that if those concerned with these matters in Holland and in western Germany had not been so careful as they have been, their countries would not have achieved such a great improvement in production. They have found it profitable to produce and to export, and I think that most people, including the Trade Union leaders, will realise that any sharp wage increase is a dangerous thing. We have to remember here in Europe that the average American wage is \$75 a week; in Sweden it is \$40 to \$45 a week; in Switzerland \$35 to \$40, in the United Kingdom \$28 to \$30, in Germany roughly \$25 a week. There is a great gap between European wages and those in the United States, and the question is whether or not this gap will continue to exist; it may be that, with improved methods of production, we in Europe will be able to reach a wage level that will not be as high as that of the United States but perhaps gradually rising. Wage rates can safely be raised only if we improve our methods of production. Now, however, studies of U.S. production methods are being made, and even if the American methods cannot be adopted in Europe without major adjustment, these methods are no longer secret, and the countries which are able to utilise them (or other methods more suited to their particular needs) may be able to bring about a worthwhile improvement in real wages over a period of, say, ten or fifteen years. Here again, I think that European countries have great opportunities if they know how to make use of them; we must realise that we are at the threshold of an industrial revolution; with the use of electronics and plastics and other new inventions, we are going to see great changes in methods of production. We may have to undertake con-

siderable alterations in the structure of Europe in order to make European countries capable of participating in these technical improvements and no country can neglect these problems without detriment to its own standard of living. Questions of productivity are being discussed by O.E.E.C. in Paris, as you know, and we all have our own individual ideas as to what it would be best to do ; I have no ready-made solution ; I can only point to the opportunities which exist, and also to the risks attendant upon any neglect of those opportunities of achieving the technical progress and the improvement in production which new discoveries and technical developments make possible.

Mr. Marsh had, I think, three different questions to put. He first asked to what extent the increase in real income had been retarded by the war, and what the real income would have been now if we had had no war. If the normal increase in production may be assumed to be 3% per annum, some countries would have a higher level of real income today had it not been for the war ; but these things are always difficult to determine. If there had been no war we would have had no Marshall Aid. We received this help in the form of capital from abroad. Moreover, the war led to certain discoveries, and in some countries to a better relationship between costs and prices. We must, of course, regret those four or five stupid years ; but in my opinion there is no great point in worrying too much about it all after the event. The important thing to remember now is that we have started on a new line of development. There is however one very interesting observation to be made with regard to the United States. In the United States, which is a very large country, when things go on well everything is on the upgrade. The true enterprising spirit of the Americans then gets an outlet. When, therefore, there is the stimulus provided by the need for post-war reconstruction, the Americans build houses and factories, make machines and improve their techniques, and everything goes well. When such a period is over and calmer conditions prevail, the Americans seem to find it more difficult to organise peacetime production than they found it to run their production in wartime and in the immediate post-war period. In the 1930's the European countries, Great Britain and the Scandinavian countries in particular were able to raise their output even though many other countries were labouring under a depression. I sometimes wonder whether, in a long period of peace, we in Europe are not just as efficient as the Americans in arranging our affairs and whether the Americans have not perhaps even something to learn from us. I know that there are several American economists, such as Professor Hansen in Harvard, to whom Mr. McElligott referred, who are alarmed by the fact that for two years now the United States has had a stagnating economy, and that there has been no real rise in the index of production. I hope, however, that all these fears are groundless, and that the Americans will learn to run peacetime production according to peacetime needs as they were able to run their wartime production according to their wartime needs. I have a feeling, however, that we in Europe are perhaps better able than that Great Republic on the other side of the Atlantic to handle the problems of peace, and this is perhaps also one of the reasons for my comparative optimism with regard to Europe.

Mr. Marsh also referred to the extraordinary number of agreements

which have been concluded in recent months, as I mentioned in my talk. As regards the question of the Suez Canal, I think that people in general were fed up with the long drawn-out discussions and wanted a solution. I do not think that the reason for the Trieste Agreement was any other than that the two countries wanted to settle a difficult problem. The general feeling nowadays seems to be that it is not worth souring international relations for the sake of small pieces of territory which were often fought over in the past. I sometimes wonder whether the development of this feeling, too, may not be regarded as giving humanity another chance of lasting peace.

After the Napoleonic Wars from 1815 to, say, 1850, there was a period of peace. Then came the Crimean War, the civil war in the United States, the wars of Bismarck, the mutiny in India, and various other minor wars. This phase lasted until 1873, but was again followed by thirty years of relative peace up to 1900. After long periods of war, humanity feels that what it needs above all other things is a period of peace. It may, perhaps, be too optimistic to think that we are now at the beginning of such a period, but peace usually does come after many years of unrest. We have certainly had a stretch of war and unrest in this century; and we ought now to be able to look forward to something else, and I think it ought not to be overlooked that public opinion all over the world, perhaps, wants to have less unrest. It may well be, because of this trend of public opinion, that the politicians have found it possible to make such an extraordinarily large number of agreements in 1954.

The third point put by Mr. Marsh raises the question whether it will be possible to settle the territorial differences between east and west. The American journalist, Walter Lippman, has often pointed out the great importance of fixing the frontiers between different "beliefs" as once between Protestant and Catholic countries. It is interesting to hear the reference to Alaska; in 1867, Russia thought that it had stretched its domain too far, and sold the territory of Alaska to the United States for a sum of \$7,200,000. The Russian Government may this time feel that the frontier in the middle of Germany is an unsuitable one. It is hard to tell what will happen, but I am sure that in the next few years great efforts will be made to find out whether there is any possibility of settlement. I heard a rumour in London that the new Chinese Ambassador is telling his colleagues of other countries that "this year is an important year, next year a decisive year." If there is anything behind this verdict, it ought to mean that negotiations will start, and that these various questions will be examined. Nobody can tell whether the negotiations will lead to fruitful results, but I believe that public opinion in Europe will be very angry if no attempts are made to find a peaceful solution of the questions at issue.

Mr. Brock was kind enough to say that the Bank for International Settlements had contributed to the rehabilitation of Europe in these post-war years. In fact, we have been associated with many of the efforts that have been made in this direction, and have perhaps made some contribution to Europe's recovery, but I should like to emphasise that when it comes to distributing the praise, the largest share must always be given to those politicians in the individual countries who

have been courageous enough to carry through what were often unpopular measures, as quite a number of them have done.

Mr. Brock referred to the fact that France and the United Kingdom have had large monthly deficits in the European Payments Union. These deficits came rather as a surprise to the two countries concerned. The British and French deficits in the Union were matched by the large monthly surpluses of western Germany, the Netherlands and Austria. It must be remembered that the three countries just mentioned never had any large foreign debts to meet such as the sterling balances which burdened Great Britain. (Germany, it is true, had incurred considerable foreign indebtedness, but for several years no transfer of the debt service was made.) When India or Ceylon, for example, used sterling to buy more goods from the Continent of Europe, the expenditure appeared as an increase in the foreign payments of the United Kingdom, very often as a larger deficit in the European Payments Union, because in such a case the Indian and Ceylonese payments often took the form of a draft on the United Kingdom's foreign resources. As a matter of fact, the increase in the United Kingdom's holdings of gold and dollars was often greater than the simultaneous increase in its deficit with E.P.U., and, as you know, this deficit is gradually being repaid. Every month it is being reduced, and now it does not come to more than between 10 and 15% of the United Kingdom's gold and dollar holdings. That is not a very large proportion; indeed, it was, in my opinion, a very fortunate decision by the British authorities in the spring of 1954 when they agreed to make an immediate repayment of \$98.75 million in respect of their debt to the E.P.U. and then continued with monthly repayments, such repayments being in addition to any surplus that the United Kingdom has in the Union from month to month. France, too, has been able to reduce its debt to a certain extent, and in recent months its gold and dollar holdings have increased to an amount much larger than its debt to the European Payments Union. In fact, a number of countries in Europe have recently had heavy dollar earnings and have generally been able without difficulty to settle part of their current payments in relation to other European countries by transfers of gold or dollars. Whether that will continue is hard to say, because there are some important elements of a novel character, such as American military spending abroad. It is not very easy to tell what the Americans intend to do, but I feel that one has to regard with satisfaction whatever one can earn in this way at the moment; if difficulties crop up in the future it may be necessary to raise the rate of discount and take other steps in the individual countries. It is the problems of the day which we have to solve, and as long as we can go on doing that fairly comfortably, without jeopardising the future, that is the most we can be expected to do.

In some countries there has, of course, been a considerable increase in the public debt in recent years. The increase has not generally been as great as people sometimes seem to think, because there has on the whole been careful budgeting. The economy and revenue has been due to the high rates of taxation, but the heavy burden of taxation in many countries is one of the greatest threats to the continued economic development of Europe. The Germans have in two years reduced taxation by 20 to 25%, especially income tax;

and I sometimes tell friends in other countries that perhaps their greatest danger is that, for political reasons, they seem unable to make corresponding reductions in their taxes. Is there not a danger that enterprise will move to countries where the earnings are not too heavily taxed; if it does, we will again be faced, as we were in the past, with international competition to attract enterprise, and the sooner people wake up to this danger the better it will be for them.

Of course, the Welfare State plays a great role here in Ireland, as it does elsewhere. It is a costly thing. It looked at one time as if the burden would really be too heavy. I think that in the future very much will depend upon the extent to which the various countries are able to use modern methods of production. If we are on the verge of another industrial revolution and are then able to increase output at a considerable rate, then we may also be able to carry quite comfortably the burden of the Welfare State; but that will be possible only for countries which really put their minds to the task and equip themselves to use modern methods of production both in industry and in agriculture. A further task is nationalisation—especially of the *distribution* of goods.

There was one questioner, whose name I did not catch, but who said that he did not agree with the statement that the two World Wars were caused by events in the east of Europe—by the shot in Sarajevo and the attack on the Polish Corridor. He seemed to think that there had been economic factors involved in addition to the conflict between Slavs and Teutons. The more I study these questions the more I am inclined to stick to my opinion. Nobody can deny that it was from eastern Europe that the first outbursts came, so it is, after all, a natural presumption that that was the tense area. If one studies the Colonial struggle, one finds that time and again the government agreed upon colonial arrangements. As regards the problem of the Baghdad railway, for instance, an agreement was concluded in the spring of 1914 concerning the financing of this railway. It was when such an explosive issue arose as the struggle between the different nationalities in the Austro-Hungarian Empire that it was impossible to find a peaceful solution. This seems to me quite natural; for that was a period of nationalism when, as you in Ireland will understand only too well, people of the same origin very much wanted to live their lives together in freedom, even if this meant creating new countries. The forces of nationalism were strong enough to break up many a large country. The Austro-Hungarian Empire was broken up by these forces. The Swedish historian, Professor Harald Hjaerne, had in the years 1880–1900 taught his students that the principle of nationalism was going to lead to a remaking of the map of Europe, and he said he did not believe that that could be done without war. The principle of nationalism was very explosive; and this is really what led to the conflict between the Slavs and the Teutons. As regards the Second World War, I personally think that the published documents prove that Hitler's wish was to fight a war of his own with Poland without outside interference. He felt strong enough, and when all was said and done, he did not much mind whether other countries joined in or not. His undoubted desire to have a war with Poland raised, however, the important question of the balance of power in Europe. If Hitler had been able to extend his power over

the whole of eastern Europe, the western countries would not have felt safe; they were thus brought into the conflict for balance-of-power reasons; and for the same reasons even the United States was finally brought into the two world wars. A Finnish friend of mine, who has devoted a lifetime of study to these problems, is afraid that if we do not manage to settle these eastern European frontier problems before long, we shall simply be preparing for the third world war; and I myself think that he is right.

Somebody else put the question whether the come-back of Europe had not been due to a great extent to rearmament and other "non-productive" work which had given a stimulus to the various countries' economies. My answer is that I personally do not believe this to be so; I think that there would have been enough opportunities for productive investment without having recourse to rearmament. I am not sure about the United States, because it is always difficult to judge that country's situation, but we in Europe surely had enough to do after such a terrible war without producing arms. Switzerland has not greatly increased its armaments activity, and yet it has had a sizable expansion in its production; and in France the increase in rearmaments expenditure has not been enormous, and there has been very little in western Germany; in Austria, arms production has not been allowed at all. These various countries have consequently been better able to meet the great world demand for machinery than, for instance, the British, who had to devote part of their productive power to rearmament. In fact, unproductive expenditure seems to me to have been in these post-war years more of a burden than a help to the economies.

A third point was raised about the nature of the "integration" of Europe. I personally think there must be integration which is not a very clear name for economic co-operation. Small farmers have to become members of co-operative associations, whilst the owner of a big estate can manage his affairs himself. We in Europe are like relatively small farmers, and we therefore need to have our co-operative societies, which is thus just another name for "integration." There are differences of opinion as to the lines on which the move to integration should proceed. I myself am not over-fond of supra-national organisations. I have already expressed the opinion that monetary integration should not be confined to the area formed by the six countries which are members of the European Coal and Steel Community, but should cover a wider area; I am inclined to believe that integration may be achieved through proper monetary measures and through various kinds of co-operative action, without any great transfer of sovereignty, provided, however, that in this co-operative action we allow the common organisations to examine and report on many internal questions and that we get rid of our taboos in this respect and show ourselves willing to talk freely about internal questions within the family of Europe. As regards the European Coal and Steel Community, I think that one of its chief advantages is the fact that the Ruhr mines have been brought into an international organisation. If the coal and steel people in Europe can really be brought together, I feel that something has been done for peace. Indeed in all these matters I do not think we ought to have too cut-and-dried ideas. We ought to be able to reach our solutions in the



light of the needs of each particular case, for we shall the whole time be up against a number of fresh problems.

Mr. Nagle took up the question already raised by Professor Duncan, whether this recovery in Europe would continue? Who can tell? We are trying to lay a firm basis in commercial and monetary matters through greater liberalisation of trade and by instilling more confidence, and we have seen that these policies have been successful so far. I would like to say again, as I tried to make clear in my first contribution to this meeting that irrespective of political orientation to the left or right, people in Europe have more or less agreed on certain lines of credit and currency policies; they want to establish confidence in their currencies; and I think that the best way of doing this is to go on along the same lines that we have successfully followed so far. If difficulties arise, we may have to adopt new measures. Here again we have to keep our minds flexible, especially as we may be at the beginning of another industrial revolution. I should not care to try to prophecy which policies would be the correct ones in such a case. But I am sure it would be disastrous for any country to adopt any policy which tends to undermine confidence in its currency.

Mr Nagle also raised the question of the recent weakness of sterling. I have not yet seen the figures for November, but the British have probably incurred some loss in their gold and dollar reserves—perhaps \$20 or \$30 million. The autumn is, however, seasonally the weak period for sterling, and it is normal for a draft to be made on the accumulated reserves at that time. If one deducts the amounts repaid to the European Payments Union, the monetary authorities in London had up to the end of October lost no gold and dollars at all during this year's weak period for sterling. When I passed through London I questioned my friends there about this rather strange fact. They said that this year there were a great many rather belated imports. On the whole, however, the three-months forward rates have not been weak; they have held quite well. I did not look at the quotations for yesterday and to-day, but three or four days ago the forward rates for sterling seemed to be strong, which is an indication, it seems to me, that this present weakness is essentially the usual autumnal weakness. But, of course, these questions have to be followed carefully and, if the weakness persists, stronger measures than hitherto will have to be taken.

I believe there is only one other point, which was raised by Mr. Honohan; it was about the role of the Council of Europe. At present there are in Europe a number of international institutions. There is the Economic Commission for Europe, which is part of the United Nations Organisation, further there is the Council of Europe in Strasbourg, the O.E.E.C. in Paris and the G.A.T.T. in Geneva, not to mention the Brussels Treaty Organisation which is being transformed in view of Germany's planned entry. There must obviously be some co-ordination. As you know, there have been several proposals made, and discussions have taken place between these various bodies, but as far as I have heard nobody has yet put forward a proposal which is generally acceptable. To do so will be a task for the politicians or for the people themselves in the years to come. Each one of these institutions has brought into the field of co-operative action in Europe its particular group of countries and persons. The Economic Com-

mission for Europe includes the representatives of the satellite states and Russia ; in Strasbourg there are representatives of the governments and parliaments ; the O.E.E.C. in Paris consists chiefly of government officials. Somebody has said that O.E.E.C. is an organisation for bureaucratic co-operation—but it is at the same time one of the elements of its strength that it brings together leading officials.

One thing I am sure of is that the Council of the O.E.E.C. is very useful. Governmental political power must be exercised at some level. During my work in Geneva I saw this in the organisation of the League of Nations when, for instance, the Financial Committee had worked out a reconstruction plan for Austria or for Hungary. The Committee had laid down certain financial rules, and there was also the question of a loan and certain precise obligations to be undertaken by the borrowing government. Those governmental obligations were accepted, and a governmental blessing was given by the League of Nations *Council*. It would not have been possible for the work to have been carried out exclusively by a technical committee. At some stage it was necessary to get governmental approval. The O.E.E.C. Council in Paris performs a similar function to that of the League of Nations Council. As regards the regular work of the Managing Board of the European Payments Union, for instance, this Board can act as a technical committee and can itself take decisions of a purely technical nature, but again and again it has been found that decisions of principle are necessary and then there has had to be a convocation of the government representatives in the Council of O.E.E.C. There is an interesting feature with regard to the O.E.E.C. Constitution, namely, that when the government representatives in O.E.E.C. give their approval to a certain measure within the sphere of the organisation's competence, this measure becomes, in the limited field in question, the law of Europe. There is no need for ratification by the different parliaments ; we may thus be witnessing the beginnings, so to speak, of a Government of Europe—in a limited field, it is true, but in that field effective. Had it not been for this effectiveness, I do not think that the Marshall Plan could have been made to work so smoothly. This is yet another example of the new developments—the end of which we have not yet seen. I can only hope that sufficient scope will be given to these various institutions in the future, and in particular that we may build on the basis that was formed during the time of the Marshall Aid. May Europe in its days of success, which I hope will come, show the same courage and wisdom as it did in the days of adversity.