

PRINCETON STUDIES IN INTERNATIONAL FINANCE, NO. 6

Negotiations for Benelux:  
An Annotated Chronicle  
1943 - 1956

James E. Meade

INTERNATIONAL FINANCE SECTION  
DEPARTMENT OF ECONOMICS AND SOCIOLOGY  
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PRINCETON STUDIES IN INTERNATIONAL FINANCE



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By  
James E. Meade

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DEPARTMENT OF ECONOMICS  
AND SOCIOLOGY  
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THIS is the sixth number in the series called PRINCETON STUDIES IN INTERNATIONAL FINANCE, published from time to time under the sponsorship of the International Finance Section of the Department of Economics and Sociology in Princeton University. The author, Professor James E. Meade, is at present responsible for the teaching of international economics at the London School of Economics. Before the war he was the author of the World Economic Survey published annually by the League of Nations. During and immediately after the war he was a member, and later director, of the Economic Section in the Offices of the British Cabinet. During the last few years he has given much attention to the theory of international economic policy and to the study of problems of economic union.

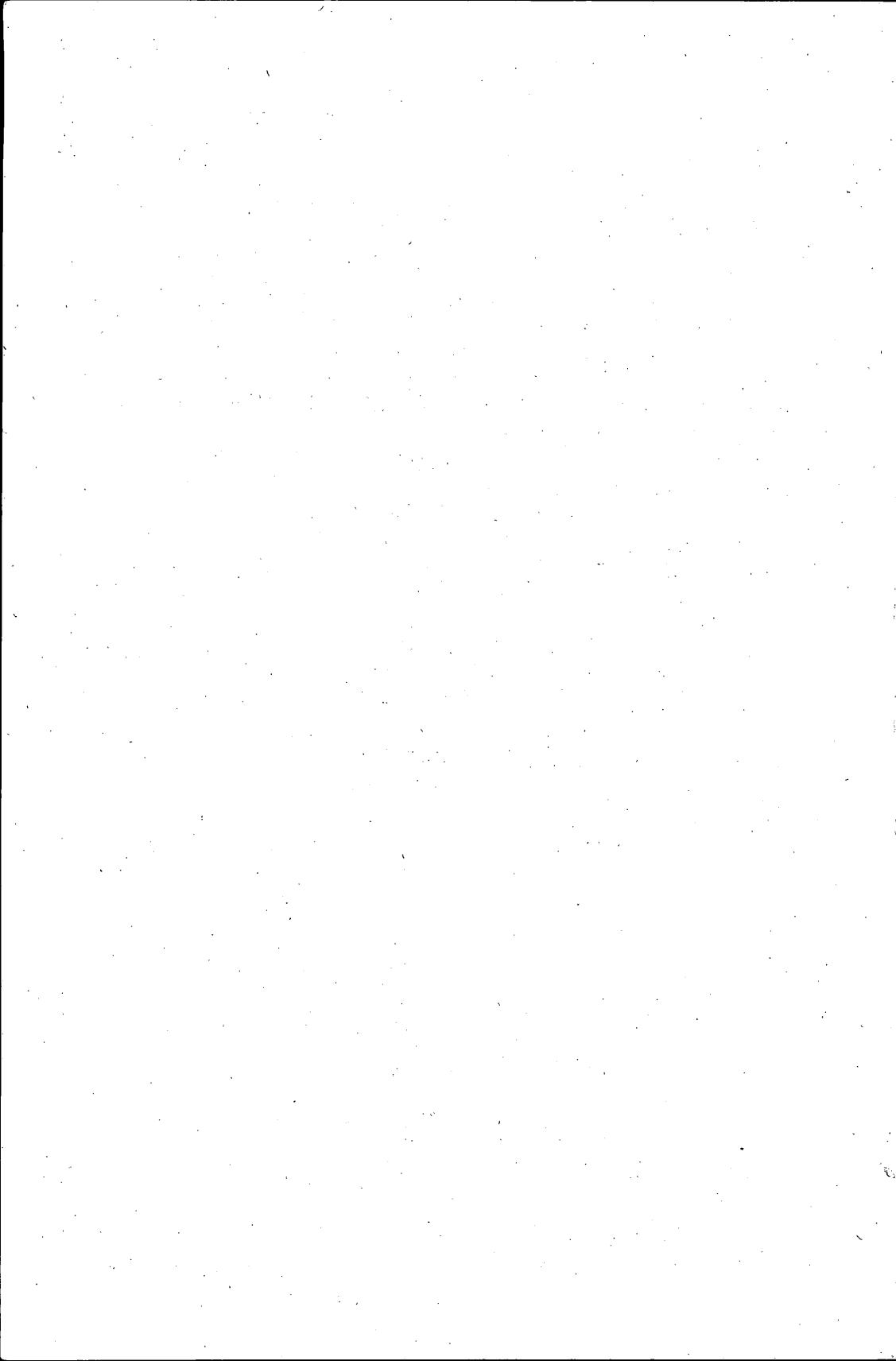
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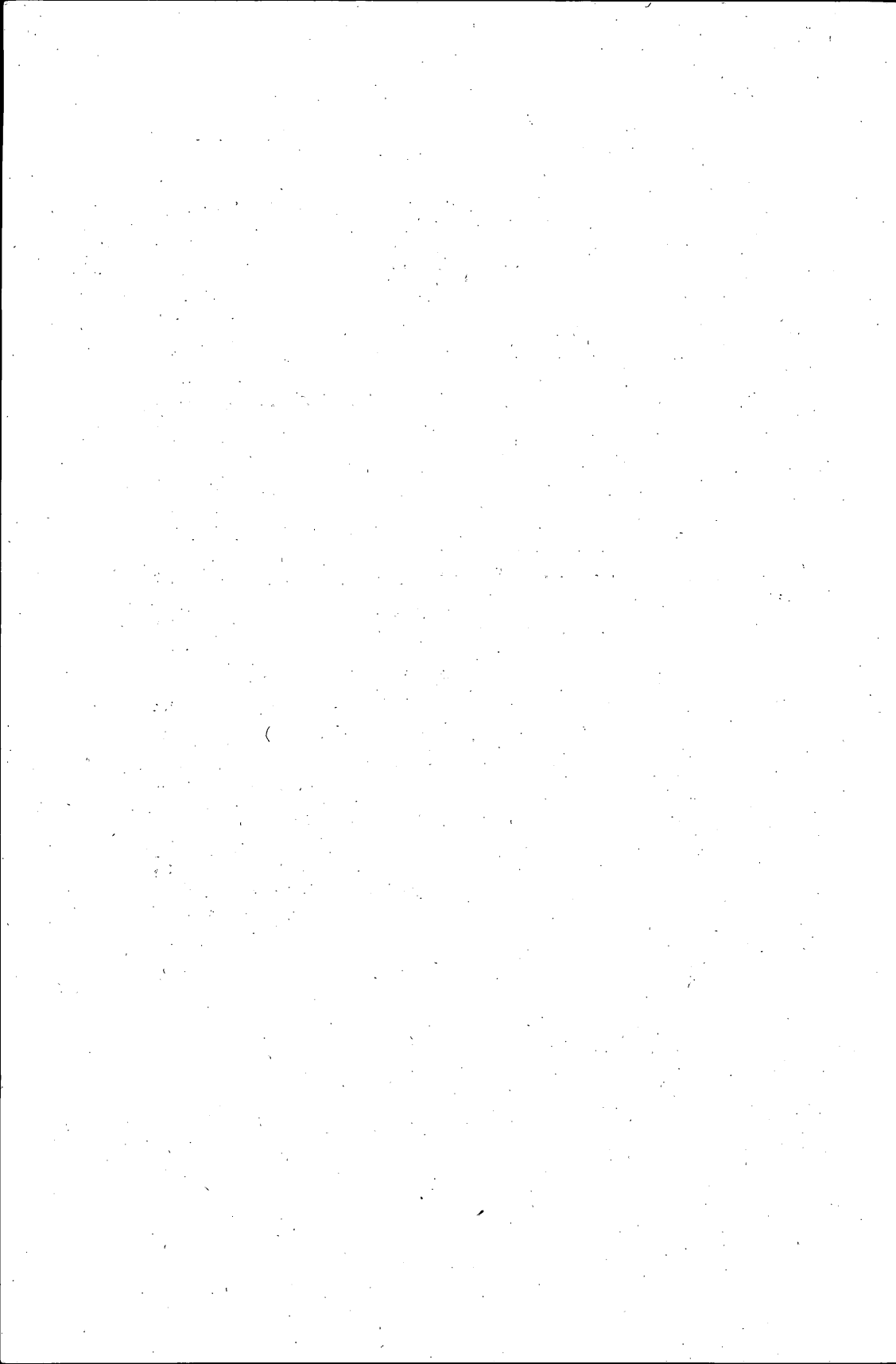
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*March 1957*



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## I. INTRODUCTION

THE following pages contain a catalogue of the negotiations which have taken place between the Dutch, Belgian, and Luxembourg governments between 1943 and 1956 in their attempt to build the Benelux Economic Union.<sup>1</sup> This catalogue is accompanied by a running commentary outlining the general economic background against which the negotiations were taking place. It is hoped that this manner of presentation may (at the cost of some inevitable repetition) give a realistic impression of the sort of problems and processes which are involved in building a full economic union between sovereign national States in modern economic conditions.

The Benelux Economic Union did not spring like Athene fully armed from the head of Zeus. On the contrary, after more than a dozen years of painful and tedious labour the birth is not yet complete. In a formal legal sense Benelux does not yet exist. The final Treaty of Economic Union is not yet written; there have been only a number of preliminary negotiations, protocols, and partial conventions preparing the way for this final goal. Nevertheless, the Benelux Economic Union is already a real thing in the sense that as a result of these many preliminary steps goods, people, and capital already move much more freely between the three partner countries than between Benelux and the outside world.

<sup>1</sup> This account has for the most part been written on the basis of the original press communiqués, protocols, conventions, treaties, and similar documents. In the few cases in which secondary sources have been used, these are indicated in footnotes. This study is the result of work which the author, with the help of the Economic Research Division of the London School of Economics, is undertaking for the Royal Institute of International Affairs.

## II. WAR-TIME AGREEMENTS AND ASPIRATIONS, 1943-1944

*Bilateral  
Monetary  
Agreement,  
London, 21st  
October 1943.*

The first negotiations for the formation of the Benelux Economic Union were undertaken in London by the three governments in exile during the last years of the second world war. This history in effect opens with the signing of a monetary agreement between the Belgian and Dutch governments in London in October, 1943.

This agreement was a bilateral payments agreement of the now familiar type. In it the two governments agreed upon the official rate of exchange of 16.52 francs<sup>1</sup> to the guilder. This rate corresponded to the rate which was ruling at the outbreak of the war. It implied some devaluation of the Dutch guilder, because in 1940 the franc, but not the guilder, had been devalued in terms of the pound sterling and the French franc. It is an interesting commentary upon the fallibility of human foresight (and in particular upon the difficulties involved in fixing exchange rates at levels which will in fact correspond to future conditions of supply and demand) to observe that the choice of this rate was in some quarters regarded as a concession on the part of the probably strong guilder to the probably weak franc. It appeared to some to be an unnecessary admission of weakness for the Dutch currency that it should be devalued in gold content to bring it in line with the 1940 devaluation of the Belgian currency.

Under this agreement the central monetary authority in each country (the Banque Nationale de Belgique in Belgium and the Nederlandsche Bank in the Netherlands) would supply its own currency to the central monetary authority in the other country in amounts necessary to finance all payments from the latter to the former country permitted by the exchange control authority of the paying country. Each month a balance of net indebtedness between the two monetary authorities was to be struck. On any part of the net indebtedness in the one direction or the other which exceeded the sum of 500 million francs

<sup>1</sup> Hereafter "franc" will always refer to the Belgian currency. When reference is made to Luxembourg or French currency these will be clearly specified as "Luxembourg franc" or "French franc."

(30.25 million guilders) the debtor authority would pay interest at a rate equal to the official rate of discount in the debtor country. If the net balance of indebtedness in either direction rose above 1,000 million francs (60.5 million guilders) then the two governments would consult together to see what remedial action might be taken. But, while the debtor might if it wished pay off the debt in gold, it was expressly agreed that it would not be under any obligation to do so.

Such was the basic character of the monetary agreement of October 1943: a payments agreement under which each central bank would provide its own currency to the other central bank at a fixed rate of exchange to finance all permitted payments made by the latter to the former country, without—in this case—any obligation for the debtor authority to repay in gold any balance of indebtedness but with the obligation to consult to see how the growth of indebtedness above a certain figure could best be prevented.

There were certain subsidiary features of this agreement which are worth noting.

First, the agreement was intended to cover the whole of the Belgian monetary area (including overseas territories such as the Belgian Congo) and the whole of the Dutch monetary area (including overseas territories such as Indonesia). For this purpose the Belgian authorities undertook to supply to the Dutch authorities Congolese francs in return for Belgian francs, and the Dutch authorities undertook to supply to the Belgian authorities Indonesian guilders in return for Netherlands guilders.

Second, the agreement was to be started without any blocking of existing balances. All existing balances of francs held by the Dutch could be freely used to make payments in Belgium or the other parts of the Belgian monetary area, and vice versa.

Third, while all francs owned by the Dutch could be used freely to make payments within the Belgian monetary area, they could be used by the Dutch to make payments to third countries outside the Belgian monetary area only with the permission of the Belgian authorities. And vice versa, guilders could be used by the Belgians to make payments outside the

Dutch monetary area only with the permission of the Dutch monetary authorities.

Fourth, as has already been noted, the central monetary authority of the country which was a net debtor under the agreement could always at its option repay the debt in gold. Subject to the agreement of the creditor country, the debtor could also repay the debt in other foreign currencies. In this connection there was an interesting provision in the agreement. It was expressly stated that payment should be made in a foreign currency if the debt had arisen through a transaction by which the creditor country had lost and the debtor country had gained foreign exchange. For example, suppose that Belgium had paid foreign exchange for the import of raw materials which had been sold to the Dutch (thus putting the Dutch in debt to the Belgians) and which had been used by the Dutch to produce exports which were sold for foreign exchange. Then it was intended that the Dutch should repay their debt to the Belgians in foreign exchange which the Dutch had gained and the Belgians had lost through this chain of transactions.

In form the agreement was a bilateral payments agreement of a familiar pattern. But in fact it must be regarded as something more than a purely technical arrangement to facilitate payments between one particular pair of countries. The two countries concerned were especially closely linked in historical experience, geographical position, and in language and culture; and they were about to embark upon an attempt to build a close and complete economic union. Indeed, in the text of the monetary agreement itself there are already signs of this wider meaning. In it the two governments agreed to consult closely in the future on economic and financial policies. The agreement was, moreover, negotiated at a time when international discussions were being initiated for a wider and more generalized machinery for post-war international payments—discussions which resulted finally in the Bretton Woods conference and the foundation of the International Monetary Fund and the International Bank for Reconstruction and Development. In their bilateral monetary agreement the Dutch and the Belgians showed their belief in a wider solution of the problems of inter-

national payments in two ways. First, they agreed that the bilateral agreement could itself be made of wider scope by the adherence of third countries to it, provided that both the Dutch and Belgian governments agreed. Second, it was expressly stated in the monetary agreement that it did not prevent Belgium and the Netherlands from adherence to a wider multilateral agreement for the stabilization of exchange rates. But at the same time the monetary agreement displayed the specially close tie between the two countries: they expressly bound themselves in the agreement to enter any wider multilateral monetary arrangement only jointly and by joint decision of the two partner countries.

The second milestone on the journey to Benelux was the signing in London in September 1944 (nearly a year after the signing of the monetary agreement) of a convention to establish a Customs Union between Belgium, Luxembourg, and the Netherlands. But as every student of economic unions well knows, a "customs union" is an ambiguous term and can mean little or much according to its interpretation. The meaning and effect of the convention of September 1944 needs detailed discussion.

*The Customs  
Convention.  
London; 5th  
September 1944*

The first point to realise is that the convention was a convention between the governments of three independent sovereign States—Belgium, Luxembourg, and the Netherlands. But of these three, two—namely Belgium and Luxembourg—were already bound together economically into a close economic union by the treaty of 1921.<sup>2</sup> Diplomatically the convention was, therefore, a treaty between three sovereign States; but economically it was an engagement of marriage between two partners, the Belgium-Luxembourg Economic Union on the one hand and the Netherlands on the other. Theoretically, this fact might make the position of Luxembourg in the constitution of the Benelux Economic Union somewhat anomalous. In the structure of commissions and committees which were set

<sup>2</sup> For an account of the main features of the Belgium-Luxembourg Economic Union as it developed between 1921 and 1939, see J. E. Meade, "The Belgium-Luxembourg Economic Union, 1921-1939," *Essays in International Finance No. 25*, International Finance Section, Princeton University, March, 1956.

up under the customs convention of September 1944 and under subsequent Benelux treaties and agreements, Luxembourg has always found a place as an equal partner. Yet, under the treaty of economic union with Belgium of 1921 Luxembourg had in fact committed to the Belgian government the final decision about the level of excise duties, customs duties, and other commercial restrictions for the Belgium-Luxembourg area as a whole. How then could Luxembourg play the role of an equal independent partner on matters on which it had already agreed that Belgium should take the final decision after close bilateral consultation with Luxembourg? This conundrum is of greater theoretical than practical interest. In fact, in the Belgium-Luxembourg Economic Union Belgium has not overridden any strongly expressed desires and interests of Luxembourg in commercial policy; and, in consequence, Benelux has worked by the reaching of agreements between all the three governments concerned.

In the agreement of September 1944 it was decided that the Netherlands and the Belgium-Luxembourg Economic Union would impose the same import duties on imports from third countries, and a common tariff of import duties was annexed to the agreement. It was also decided that no import duties would be levied on trade between the partner countries. But the agreement did not provide for the immediate removal of all duties between the partner countries, because it was expressly stated that it did not prevent the levying of domestic excise duties in accordance with the existing tax regimes of the partner countries, or the consequential levying of excise duties at the frontier on goods imported from third countries, or from the other partner countries. Nor did the agreement itself make any provision for the removal of quantitative restrictions on trade between the partner countries, or of trade barriers other than customs duties.

According to the definitions subsequently adopted officially (in November 1947) by the countries forming the European Study Group for a Customs Union,<sup>3</sup> a *tariff community* involves

<sup>3</sup> These definitions were reproduced in the official report of the ministerial meeting of the Benelux countries at The Hague, 10th-13th March 1949. They

only the adoption of a common tariff for imports and the abstention as far as possible of levying import duties on trade between the partner countries; this becomes a *customs community* when it is supplemented by the adoption of uniform laws and regulations for the application of the single tariff; it is turned into a *customs union* only when domestic excise duties and similar consumption taxes have been unified so that it is not necessary to levy any customs or excise duties on the trade between the partner countries; and finally a full *economic union* comes into existence only when (i) all obstacles to the free movement of people, goods, and capital between the partner countries have been removed, (ii) domestic economic, financial, and social policies are carried out in a coordinated manner, and (iii) in its relations with third countries the union appears in every relevant economic, financial, and social respect as a single entity.

By a strict interpretation of these definitions the convention of September 1944 decided upon the institution of the first stage in this process, namely the *tariff community*. But the convention certainly foresaw and made some provision for the further stages of development. Thus the preamble to the convention expressly stated that it was to be regarded as the first step towards a full *customs union*; and in the agreement itself it was laid down that its application would cease when the full *economic union* which the parties intended to form should come into force.

But in addition to these general statements of intention the convention of September 1944 set up some joint Benelux administrative institutions whose function it was to promote the further progress of economic union.

Thus an Administrative Council on Customs Duties, consisting of representatives of each of the three partner countries, was to be set up. Its task was to propose measures for the unification of laws and regulations affecting the levying of import duties. It was to be helped by a Commission on Customs Dis-

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can, therefore, probably be accepted as a more or less accurate interpretation of the stages of progress which the Benelux negotiators had in mind.

putes to which the national governments could appeal in the case of disputes about particular customs problems.

More fundamental was the decision that an Administrative Council for the Control of Foreign Trade<sup>4</sup> should be set up. This body was to give advice on the measures which the partner countries proposed to take to regulate trade by quantitative restrictions and similar measures; it was also to attempt as far as possible to see that a common regime of trade control for the whole Benelux area was built out of these national trade controls and to provide a machinery for the administration of any restrictions on trade with third countries which were common to the whole Benelux area; and it was also to give advice on any subsidies to domestic production which the member countries might propose to pay.

Finally, there was to be a Commercial Agreements Council whose function was to coordinate the commercial agreements which the partner countries might make with third countries so as to obtain, as far as possible, a single joint commercial policy for the union vis-à-vis the outside world.<sup>5</sup>

The convention was to come into operation either after ratification or provisionally, as soon as the countries were liberated and the governments in exile in London were restored.

It was thus the intention of those in London who negotiated this first and basic Benelux convention that the common tariff and the general removal of customs duties between the partner countries should come into operation immediately after the liberation of the two countries. Belgium was liberated in September 1944 and the Netherlands in May 1945. But the Customs Convention was ratified by legislation in the three countries only during the second half of 1947; and the common tariff came into operation only at the beginning of 1948. Moreover, it was the clearly implied intention of the framers of the convention of

<sup>4</sup> Subsequently called the *Council for the Economic Union*. See p. 16 below.

<sup>5</sup> In the course of time a large number of permanent committees and sub-committees of these councils and, in particular, of the Council for the Economic Union were set up to deal with particular problems in the building of Benelux. When special Benelux committees (such as the Agriculture, Food, and Fisheries Committee) are mentioned in the following pages, it should be realised that they are a part of this committee structure.



September 1944 that the *tariff community* should be rapidly followed by a full *customs union* (with the unification of domestic excise duties and similar taxes and the consequent lapse of the need for tax purposes of the maintenance of a customs frontier between the partner countries) and that the *customs union* should soon give place to a full *economic union* with complete freedom of movement of people, goods, and capital between the partner countries. It is now more than ten years after the final liberation of the Benelux countries; and, although much very real and important progress has been made towards the final goal of complete economic union, excise and similar duties have not been fully unified and obstacles still remain in the way of the movement of people, goods, and capital between the partner countries.

### III. POST-WAR DIFFICULTIES AND THE INSTITUTION OF THE COMMON TARIFF, 1945-1948

The difficulties which have made the road towards complete economic union so unexpectedly slow and laborious may perhaps be best grouped under three closely interrelated headings, all of which were underestimated by the first architects of Benelux.

First, there are the straightforward economic and political difficulties involved in submitting an important and previously protected section of an economy to the full blasts of competition from its more economic partners. The already existing need under the Belgium-Luxembourg Economic Union to continue some measure of protection for Luxembourg agriculture against Belgian agricultural products is a good case in point; and the similar need to continue some protection for Belgian agriculture against Dutch products within Benelux provides a second notable example of this.

Second, in the modern world many countries have found it difficult to maintain equilibrium in their balance of payments with other countries without imposing restrictions on the money payments which may be made to other countries or on the quantity of goods and services which may be bought from other countries. As will be seen in what follows, the first years of the formation of Benelux were dogged with this problem of the need for the Netherlands (with its deficit on its balance of payments) to restrict imports from, and movements of capital to, the Belgium-Luxembourg Economic Union (with its balance-of-payments surplus).

Third, a common market for goods and services and for labour and capital is hard to establish and may have very undesirable effects if conditions in various parts of the market are differently affected in the partner countries by divergences in domestic economic, financial, and social policies. To take only a few examples, differences in the rate of taxes on or the rate of subsidies to the production of similar products; differences in measures of price control over similar products; differences in the extent and severity of the rationing of consumers' goods

and the quantitative allocation of other products; differences in the rates of interest payable on capital funds due to divergences in national monetary policies and in national measures for the direct control of capital investment—all these and many other divergences of domestic economic policies have in fact caused serious problems in the building of the Benelux Economic Union.

Some light may be thrown on these difficulties by means of a chronicle of the negotiations which have taken place between three partner countries in this task of building Benelux. This story should serve to show how early hopes have been disappointed, to explain how intractable some of the difficulties have been, and to demonstrate how persistent have been the efforts of the governments concerned to overcome them.

There was one important set of circumstances which goes a considerable way in explaining why, in the early years, the building of Benelux was hampered by a continuing strain on the Dutch balance of payments and by the employment of more drastic policies of economic control by the Dutch than by the Belgians, which could not have been foreseen by the negotiators in London in 1944. It was fated that the chances of war should leave Belgium in a much stronger economic position than the Netherlands.

Belgium was liberated with comparatively little fighting in September 1944, while the Netherlands was not liberated until eight months later in May 1945. During these last months there was heavy fighting in Luxembourg and in the Netherlands; the Germans stripped the Netherlands of its movable wealth; and the Dutch dykes were broken and a considerable part of the country was flooded. It has been estimated that about 33 1/3 per cent of the capital wealth of the Netherlands and Luxembourg was lost as a result of the war, but only about 4 per cent of the capital wealth of Belgium.<sup>1</sup>

<sup>1</sup> See J. van der Mensbrugge, *Les Unions Economiques*, Brussels, 1950, pp. 38-40. Two other measures of war losses are given in the same passage. First, total destruction per head is estimated in dollars of 1938 values at \$597 for Luxembourg, \$418 for the Netherlands, and \$274 for Belgium. Second, total losses (in the sense of total losses of capital plus the loss of interrupted production during the war) are estimated at the equivalent of ten years' national

Moreover, in the case of Belgium the Congo had continued during the war to earn foreign exchange. After the liberation of the country, Belgium became a main base for American and British troops from which large sums of foreign exchange were earned; and for the same reasons Antwerp became the most active port on the whole continent of Europe. Belgium thus earned gold, dollars, and sterling while the war was still being waged on Dutch territory; and the Belgian overseas territories continued to prosper, while the Dutch East Indies were first occupied by the Japanese and later the scene of costly military expenditure by the Dutch.

The complete economic collapse of Germany in the years immediately after the war affected adversely all the Benelux countries. But it hit the Netherlands with especial severity. Dutch industry relied more heavily than Belgian upon the use of German machinery for which replacements and spare parts could now be obtained only with great difficulty; and German economic collapse closed one of the principal markets for Dutch foodstuffs and destroyed the transit traffic of German and Central European imports and exports through the Netherlands, which had been a most important source of income to that country. Moreover, the very heavy loss of the Dutch merchant shipping fleet in the war (the tonnage fell from 6.7 million tons in 1940 to 3.4 million tons in 1945) and the heavy damage done to the port of Rotterdam were further heavy blows to Dutch earnings from shipping and from transit traffic which were normally so important to her.<sup>2</sup>

The history of the negotiations for the building of Benelux after the final liberation of all the countries concerned in May 1945 shows the progressive realisation of the difficulties which had to be surmounted.

As early as June 1945, the governments concerned exchanged letters in which they decided to call meetings of the councils mentioned in the customs union convention of September 1944 before this convention was actually ratified and put into force.

*Exchange of  
Letters be-  
tween the  
Three  
Governments  
to Arrange  
for Meetings  
of the  
Benelux  
Councils. 29th  
June 1945.*

income for Luxembourg, four years' national income for the Netherlands, and two years' national income for Belgium.

<sup>2</sup> William Diebold, *Trade and Payments in Western Europe*, New York, 1952, pp. 323-325.

In this way the Administrative Council on Customs Duties undertook a detailed revision of the common tariff, which had been annexed to the Customs Convention of September 1944 as an operative part of that agreement. This common tariff had been drafted in London by a Dutch and a Belgian tax inspector in exile in London; it had some blanks in it; and it needed further elaboration.<sup>3</sup>

A little later in the year a trade agreement between Belgium and the Netherlands was signed to cover the quantitative control over the trade between the Netherlands and the Belgium-Luxembourg Economic Union for the period between September 1945 and January 1946. This agreement was of the bilateral type which became common in Europe immediately after the second world war. It was of an *ad hoc* kind; each country undertook to be as liberal as possible in granting licenses to import from, and to export to, the other; and it was agreed that in the period covered by the agreement exports from the Belgium-Luxembourg Economic Union to the Netherlands should be planned at a level of 72 million guilders against a flow of trade in the opposite direction of 24 million guilders. This arrangement was later extended to cover the period up to the end of April 1946.<sup>4</sup>

In the summer of 1945 and early in 1946 meetings took place between officials of the three countries concerned to consider the first steps to be taken in the implementation of the customs union agreement of September 1944.<sup>5</sup> But it was not until April 1946, nearly a full year after the final liberation of the Benelux countries, that there was the first full ministerial meeting of the Benelux countries to decide upon the procedure and the time-table for the institution of the customs union and for the next steps towards full economic union. The conclusions of this first ministerial meeting are of great interest both because they foreshadow clearly some of the basic difficulties which were fated to delay the formation of the Benelux economic union and

*Trade Agreement between Belgium and the Netherlands. 8th November 1945.*

*Meetings of Benelux Officials. 20th August 1945, and 21st-22nd January 1946.*

*Ministerial Meeting. The Hague; 17th-18th April 1946.*

<sup>3</sup> Institut National de la Statistique et des Etudes Economiques, *Le Bénélux*, Paris, 1953, pp. 336-337.

<sup>4</sup> Institut National de la Statistique et des Etudes Economiques, *ibid.*, p. 389.

<sup>5</sup> J. van der Mensbrugge, *ibid.*, p. 27.

also because they show that the governments were still over-optimistic about the speed with which these difficulties could be overcome.

The first difficulty, which was by this time becoming very clear, was the problem of the balance of payments between the Belgium-Luxembourg Economic Union and the Netherlands. We have already seen that the first Belgo-Dutch trade agreement of November 1945 foresaw a deficit of some 48 million guilders (or about 790 million francs) in the Dutch trade with the Belgium-Luxembourg Economic Union for the period ending April 1946. At the time of the ministerial meeting at The Hague negotiations were in progress for the renewal of this trade agreement for another year; and it was clear that the Dutch balance-of-payments difficulties were such that a further large deficit on the Dutch trade with the Belgium-Luxembourg Economic Union must be expected. Indeed, it was noted in the final protocol of The Hague ministerial meeting that a deficit of some 1,500 million francs was foreseen in the proposals then under consideration for the new commercial agreement, that that agreement could not be concluded unless Belgium granted a credit to the Netherlands for this amount, and that financial negotiations for this purpose should take place at once in Brussels to enable the commercial agreement to be concluded in May.

In view of these proposals for the finance of her imports from the Belgium-Luxembourg Economic Union, the Netherlands undertook in the course of The Hague ministerial meeting to continue its principal imports from the Belgium-Luxembourg Economic Union (especially steel, glass, and textiles) at the levels arranged for 1946.

In May 1946 actual trade and financial agreements were reached between Belgium (acting for the Belgium-Luxembourg Economic Union) and the Netherlands to arrange, in accordance with the decisions of The Hague ministerial meeting, for suitable exchange of goods between the two partners and for the finance of the Dutch deficit which was expected to result for the forthcoming twelve-month period (June 1946 to May 1947). In the immediate post-war conditions the European

*Trade and  
Financial  
Agreements  
between  
Belgium  
and the  
Netherlands.  
24th May 1946.*

countries were restricting exports (to preserve scarce supplies of essentials for domestic use) as well as imports (to prevent the dissipation on unessential imports of their scarce reserves of foreign exchange). Accordingly, this trade agreement took the form of two lists of goods: first, a list of specified quantities of various goods to be exported from the Belgium-Luxembourg Economic Union to the Netherlands for which the Belgian and Luxembourg governments undertook to grant export licenses and the Dutch government to grant import licenses; and, second, a similar list for trade in the opposite direction. A mixed committee was set up by the two parties to supervise the operation of the agreement. The simultaneous financial agreement laid down the amounts of the additional Belgian francs which, it was estimated, it would be necessary to raise to finance the expected Dutch deficit in the bilateral balance of payments between the Belgium-Luxembourg Economic Union and the Netherlands. The sources of this finance took the form of the confirmation of an advance recently made by the Belgian government to the Dutch government, the mobilisation by the Dutch and the sale to the Belgian Treasury of Belgian external debt held by Dutch citizens, the issue on the Belgian capital market of a short-term loan by the Dutch government, and the sale of specified amounts of foreign currencies by the Dutch to the Belgian central bank. It soon became clear, however, that the Dutch deficit was more serious than had been foreseen and in January 1947 the financial agreement was revised in certain respects to enable the Dutch to raise larger amounts of Belgian francs. The financial agreement of May 1946 and the Avenant to this agreement of January 1947 also dealt with the future repayment of the amounts borrowed by the Dutch government.

*Avenant to the  
Financial  
Agreement of  
24th May 1946.  
8th January  
1947.*

The Belgians were at this time naturally concerned lest the special import restrictions maintained for the time being by the Dutch to protect their balance of payments might lead to the setting up in the Netherlands of industries to produce products which in the more normal long-run might better be supplied by Belgium or Luxembourg. It was, therefore, also agreed at The Hague ministerial meeting of April 1946 that, in order to avoid the distortion of traditional channels of trade, the governments

would consult each other about the establishment or development of concerns which might compete with products of the other partner.

At The Hague ministerial meeting of April 1946 attention was also paid to the steps to be taken to institute the actual customs union itself. It was agreed that the three Benelux councils mentioned in the Customs Convention of September 1944 should meet as soon as possible.

The Administrative Council on Customs Duties was to make its final revisions in the common tariff by the following August so that it could come into force in November—some thirteen months earlier than it did in fact come into force. The plan also was that the customs frontier between the Belgium-Luxembourg Economic Union and the Netherlands should be abolished one year after the application of the common tariff—an aspiration which was to prove much too optimistic.

It was becoming clear that this removal of the customs frontier between the Belgium-Luxembourg Economic Union and the Netherlands, and still more the final removal of all barriers to trade between the partners involved some fairly far-reaching modifications of domestic policies in the partner countries. A symptom of this growing realisation was the fact that at The Hague ministerial meeting it was decided to change the name of the Administrative Council for the Control of Foreign Trade proposed in the Customs Convention of September 1944 to the Council for the Economic Union. This rechristened council, it was agreed, should proceed within six months to make proposals for the unification of excise duties, turnover taxes, and similar levies within the partner countries—a unification which was a necessary preliminary to the complete removal of the customs frontier between the Belgium-Luxembourg Economic Union and the Netherlands.

A further sign of the growing realization of the need for the coordination of domestic policies as a necessary condition for the formation of a full Economic Union was the statement in the protocol of The Hague ministerial meeting that the three governments needed to co-ordinate and adapt their agricultural



and industrial policies with the help of the Council for the Economic Union.

Finally, it was agreed at The Hague ministerial meeting that the third Benelux Council proposed in the Customs Union Convention of September 1944—namely the Commercial Agreements Council—should be used to arrange for a basis of common action for the Belgian and Dutch delegates to the tariff negotiations about to be undertaken at the International Conference on Trade and Employment.<sup>6</sup>

It was also agreed that this council should study the possibility of concluding as soon as possible a joint commercial treaty with some third country.

The following year, 1947, was of great importance in the history of the formation of Benelux. It saw: (i) final agreement upon the common customs tariff, (ii) important and useful developments in the administrative machinery of the Benelux union, and (iii) the first explicit recognition and systematic treatment of the great obstacle to full union presented by the agricultural problem. In addition, further experience was gained in the difficulties involved in the unification of excise duties and turnover taxes, the freeing of trade and payments within the union from balance-of-payments restrictions, and the co-ordination of domestic investment programmes.

By the spring of 1947 a revised version of the common customs tariff for Benelux had been worked out; and at a meeting at The Hague in March the ministers of the three countries formally approved the new tariff. At the same time the text of the Customs Convention of September 1944 was revised in certain minor respects. The Customs Convention and the final version of the common tariff were thus ready for ratification which followed in the second half of the year; and on the 1st January 1948, the common Benelux tariff came into force on goods entering any one of the three countries from outside, and ordinary

*Ministerial  
Meeting.  
The Hague;  
14th March  
1947.*

<sup>6</sup> That is to say, in the negotiations which led to the signing in Geneva in the autumn of 1947 of the General Agreement on Tariffs and Trade. In these negotiations the Belgians and Dutch had a single joint delegation for their bilateral tariff negotiations with the other countries attending the conference; and this joint delegation negotiated concessions in, and modifications to, the common Benelux tariff which finally came into operation in January 1948.

customs duties were eliminated on the trade between the three partner countries.

At this same meeting two important steps were taken in developing the administrative machinery of the Benelux union. First, a committee to be known as the Board of Presidents was set up to act as a steering committee for the consideration of the main issues arising in the formation of the union and for the presentation of these issues to the meetings of the ministers of the three countries for their decision. This committee was to be formed out of the chairmen of the three councils of senior officials proposed in the Customs Convention of September 1944. The Board of Presidents has in fact played an extremely important role in the formation of policies for the building of Benelux. The second important administrative development determined at the meeting at The Hague in March 1947 was the institution of a permanent secretariat, with a permanent secretary general, to serve the work of the various Benelux Councils and Committees and responsible to the Presidents of the Councils.

*Ministerial  
Meeting.  
Brussels;  
2nd-3rd May  
1947.*

A few weeks later a further meeting was held in which the ministers of the three countries turned their attention to the steps which would still need to be taken to form a full economic union after the institution of the common tariff. Among a number of topics, the following four may be mentioned.

(i) It was agreed that before 1st September 1948 the three governments should submit to their parliaments legislation for the unification of their excise and turnover taxes—a very optimistic timetable for the solution of an intractable problem which still remains largely unsolved.

(ii) As we have seen, in April 1946 the ministers had agreed that there should be some system of prior consultation before further development and investment should take place in industries which might be encouraged, by temporary obstacles, to trade in one of the partner countries within the Benelux area. Accordingly, ministers now requested the Council for the Economic Union to draw up before 1st July 1947 a list of the industries for which such consultation should be compulsory before investment and development was permitted. As we shall

see, in the end it proved impossible to institute any effective mechanism of control of this kind over industrial development.

(iii) It was becoming increasingly evident that free trade in agricultural products within the Benelux area would present very great difficulties in view of divergences in agricultural conditions and policies within the three countries. The ministers accordingly decided that before 15th May 1947 the ministers of agriculture of the three countries should meet to co-ordinate the agricultural policies of the three countries. As we shall see in the sequel, this marked the initiation of arrangements which frankly removed a very large amount of agricultural produce from the principles of the common market for the three countries—an important and basic exception to the free-trade principle within Benelux which has continued for many years; and only in 1955 were modifications begun to be seriously considered.

(iv) For the first time in a report of a Benelux meeting reference was made to the vexed problem of ports and waterways. The ministers agreed that a Benelux Committee on Transport and Port Problems should be set up and should present a report on these matters to the Council for the Economic Union before 1st July 1947. The joint planning of Benelux waterways presented at the same time one of the most promising fields for useful positive action by the union authorities and also one of the most sensitive points at which conflicts of interest between the two countries—and in particular between the two great ports of Rotterdam and Antwerp—were likely to be acutely felt and stubbornly maintained.

But much the most important immediate task of the ministerial meeting of May 1947 was the further action which needed to be taken in regard to the balance-of-payments problem between the Netherlands and Belgium. For various reasons the Dutch were experiencing a serious and prolonged strain on their balance of payments, whereas the Belgians were in a comparatively good balance-of-payments position. This had involved some very serious problems in the formation of the common market for goods and services within Benelux. The Dutch were forced to impose severe restrictions on the import of goods and on the making of payments abroad, while the Belgians had

adopted a much more liberal policy for the import of goods and services, even for goods from the hard-currency dollar area. The Dutch restrictions had to be applied to imports from the Belgium-Luxembourg economic union for two closely related reasons.

In the first place, it is clearly necessary for the working of a full economic union that any restrictions which may be imposed on imports on balance-of-payments grounds should be imposed as part of a joint and common programme. Thus any restrictions on dollar imports by one partner country (say, the Netherlands) become ineffective if another partner country (say, Belgium) allows a liberal import of dollar goods and if, as part of the arrangements for a full economic union, all goods can be freely traded between the partner countries (that is to say, can be freely imported into the Netherlands from Belgium). For in that case goods would flow into Belgium from the dollar area, and subsequently these dollar goods or close substitutes for them would flow into the Netherlands from Belgium. The final result would be that Belgium would use hard-currency dollars to acquire goods for which she would, directly or indirectly, obtain payment in soft-currency guilders from the Netherlands. Since Belgium and the Netherlands had in 1947 no common import controls vis-à-vis third countries, the Belgians themselves found it necessary to control the export of some goods to the Netherlands, to prevent the sale of goods to the Dutch for soft guilders which had cost the Belgians hard dollars.

In the second place, quite apart from the need to take action to prevent the import of outside goods into the Netherlands via Belgium and Luxembourg, the Netherlands' balance of payments was in such disequilibrium in 1947 that it would not have been practicable to keep it within any reasonable bounds if so important a part of Dutch imports as those from the Belgium-Luxembourg Economic Union<sup>7</sup> had been exempt from control, since imports from the Belgium-Luxembourg Economic Union

<sup>7</sup> In 1947, 12 per cent of Dutch imports came from the Belgium-Luxembourg Economic Union.

might have increased without limit to replace reduced imports from other sources.

But even though restrictions had been maintained by the Dutch on balance-of-payments grounds against imports from the Belgium-Luxembourg Economic Union, the bilateral balance between the Netherlands and Belgium was very seriously strained. The upper limit to the credit to be extended by the Banque Nationale de Belgique to the Nederlandsche Bank under the basic payments agreement of October 1943, as modified by the Financial Agreement of 24th May 1946, had been set at 1,400 million francs. In fact this ceiling had already been exceeded by some further 2,250 million francs. Moreover, if trade was to be continued within Benelux without further serious stiffening of the restrictions on the Dutch imports of Belgian and Luxembourg products, some further credit must be extended by Belgium to the Netherlands. Accordingly, the ministers agreed that the ceiling of credit under the payments agreement between the two countries should be temporarily raised from 1,400 to some 4,150 million francs which would absorb the 2,250 million francs of excess credit already outstanding and would, in addition, provide the Netherlands with a further credit of 500 million francs for further purchases of Belgian products. Accordingly, in June 1947 a new financial agreement was concluded under which the total ceiling for the Belgian credit to the Dutch was raised to 4,130 million francs (which allowed for a new credit of 500 million francs). The agreement also contained provisions for the future repayment of this debt.

*Financial Agreement between Belgium and the Netherlands. June 1947.*

At the Brussels meeting in May the ministers also agreed that the three governments should conclude a new trade agreement which would be constructed on the basis of this additional credit of 500 million francs. This agreement was to be ready to enter into force on 1st June and to be valid for a period of two years. This agreement was duly concluded in July 1947 to cover the trade between the two partners for two years up to July 1949. It was in general of the same form as the previous trade agreement of 24th May 1946. The agreement made provision for exports from the Belgium-Luxembourg Economic Union to

*Trade Agreement between Belgium and the Netherlands. 4th July 1947.*

the Netherlands of 18,000 million francs with 14,400 million francs of trade in the other direction. Of the gap it was hoped that 1,500 million francs would be covered by the sale of Dutch services (in particular shipping services) to the Belgians and Luxembourgers, leaving some 2,000 million francs to be covered by payment in foreign currencies and by new credits.<sup>8</sup>

*Meeting of  
Ministers of  
Agriculture,  
Brussels;  
9th May 1947.*

In accordance with the decision of the ministerial meeting of 2nd-3rd May 1947, the agricultural ministers of the three countries met in Brussels on 9th May 1947. They produced a set of simple proposals which have been of central importance in establishing a regime of agricultural protection which has proved to be a major and lasting exception to the principle of economic union. The agricultural ministers agreed that each country should be free to adopt an agricultural policy which ensured to the domestic producer a minimum price for his product which covered his costs of production as well as a reasonable margin of profit; that the estimation of these costs of production, and so of these minimum prices in each country, should be made after consultation between the officials of the three countries through the relevant Benelux agricultural committee, but that each country should have the right to take the final decision on its own minimum prices; that each country should be free to take such measures of restriction of agricultural imports from the partner countries as well as from outside countries, as may be necessary to maintain these minimum prices for their domestic producers; and that where such systems of import restriction were used preferential treatment should be given to imports from the partner countries as against imports from outside countries. In subsequent years this protocol has been subject to some development and modification; but it has, nevertheless, remained up to the present time the basic set of principles upon which the protection of Luxembourg and of Belgian agriculture against imports of lower-cost Dutch products has been continued as one of the main exceptions to the principle of a free common market for Benelux products.

In August 1947, the Netherlands and Belgium signed a con-

<sup>8</sup> Institut National de la Statistique et des Etudes Economiques, *ibid.*, pp. 389-390.

vention under which the Dutch government undertook to give Belgian workers in the Netherlands the same rights to social security benefits as to their own Dutch citizens, and the Belgian government undertook a similar obligation towards Dutch workers in Belgium. This principle of reciprocity in such treatment had already been applied between the two countries to compensation for industrial accidents by a convention of 9th February 1921. Its extension to all forms of social security benefits raised many technical problems; and the general convention of 29th August 1947 was followed by a series of supplementary agreements applying the general principle in detail to particular parts of the social security system. Two supplementary agreements signed at The Hague on 24th June 1949 applied the principle to family allowances and to health, maternity, and invalidity agreements; a supplementary agreement signed at The Hague on 21st April 1951 applied it to old-age pensions; and a supplementary agreement signed at Brussels on 27th January 1954 applied it to unemployment benefits. The general bilateral convention between the Netherlands and Belgium of 29th August 1947 was—insofar as Benelux was concerned—completed by two other similar bilateral conventions which are noted later in this chronicle, namely: between Belgium and Luxembourg (3rd December 1949) and between the Netherlands and Luxembourg (8th July 1950).

*Convention between the Netherlands and Belgium on the Application of their Social Security Legislation. The Hague; 29th August 1947.*

Towards the end of 1947 an agreement was reached under which excise duties on wines and on sparkling fermented drinks (other than beer) were unified. These duties came into force on 1st January 1948, the date at which the common Benelux customs duty was put into force and the ordinary customs duties on trade between the Benelux countries were abolished. Thus there was successfully put into effect the first great step towards Benelux.

*Protocol on the Unification of Certain Excise Duties. 22nd December 1947.*

*Institution of the Common Tariff. 1st January 1948.*

#### IV. FROM TARIFF COMMUNITY TO PRE-UNION: THE PERIOD OF DECONTROL, 1948-1949

*Ministerial  
Meeting,  
Luxembourg;  
29th to 31st  
January 1948.*

The ministers had now to turn the tariff community into a full economic union. At a ministerial meeting held in Luxembourg early in 1948 the conclusions of the agricultural ministers (contained in the Brussels protocol of 9th May 1947) were approved. The ministers also discussed a large number of other topics. For example, they considered a number of the very controversial Benelux waterway problems. They made some minor progress in the problem of the unification of excise duties and other indirect taxes. Thus they agreed upon the abolition of excise duties on benzol, vinegar, margarine, acetic acid, and slaughtering, and upon the unification of the duties levied for the guarantee of articles made of gold, silver, and platinum. But the problem of the unification of the main excise duties and of the turnover taxes was found to be unexpectedly and disappointingly difficult; it proved impossible to take the final steps of unification which would have been necessary in order to be able to remove all taxes on goods passing over the common frontiers within Benelux; and the problem had to be remitted for further study by the relevant Benelux committees.

But the two most important problems which were tackled by this meeting of ministers were, first, the co-ordinated control of domestic investment projects and, second—what had become the chronic problem Number One of the formation of Benelux—the finance of the deficit on the Dutch balance of payments with Belgium.

The ministers agreed at the Luxembourg meeting upon a system of prior consultation about industrial development and investment in the Benelux countries in order to control the expansion of various industries within these countries, on the lines already agreed upon at previous ministerial meetings. They now agreed upon a list of the industries to which this principle of control should be applied and upon a procedure for prior consultation about the establishment, extension, or adaptation of productive units in these industries. Thus, if one of the governments knew of any development plan in any one of these in-



dustries it was to communicate this knowledge to the governments of the partner countries; any objection to such a development by either of the partner governments was to be made within a specified period of time; exchanges of views were then to be organised between the industrialists concerned and ministers; if agreement could not be reached in this way the matter was to be referred to the Council for the Economic Union; if this council could not reach agreement or if the government of the country in which the development was planned to take place could not accept the council's decision, then the matter was to go to the next Benelux ministerial meeting; and, finally, as a last resort the government of the country in which the development was planned could take the final decision.

It was at the time fully intended that this procedure of prior consultation, by leading to an agreed set of principles for economic development in the partner countries, should introduce a really important new feature of economic co-ordination into the economic union. This is shown in the protocol issued at the end of the ministerial meeting, where reference was made to the way in which the Benelux Committee on Industrial Development, which would be responsible for the future working of these arrangements, might thereby work out a new set of principles for economic development within the union. But, apart from any other considerations, the system could be operated only if the governments concerned had the necessary powers of control over domestic investment. The three governments agreed to introduce the legislative measures necessary for the application of the agreed system of prior consultation. But in fact the system was never applied in any important way largely because of the absence of the necessary powers of domestic control over investment, particularly in the case of the Belgian government.

At the Luxembourg meeting of January 1948 the ministers had to turn their attention once more to what had become the chronic problem of Benelux, namely, the difficulty of extending the principles of greater freedom of trade and payments between two partners, one of which (the Netherlands) was in serious and persistent deficit on its balance of payments with the other (the Belgium-Luxembourg Economic Union) with-

out enjoying a surplus on its balance of payments with outside countries by which it could finance its debt to its partner.

It was estimated that over the six months from December 1947 to May 1948 inclusive, there would be a deficit of 2,000 million francs on the Dutch balance of payments with the Belgium-Luxembourg Economic Union. Various measures were approved which might somewhat mitigate this problem. Thus measures were envisaged to encourage a prompt payment by Belgian importers of Dutch products combined with some increase in the period of credit given for Dutch imports of Belgian products; and Belgian and Dutch officials were to consider whether the Belgium-Luxembourg Economic Union could give more marked preference to imports from the Netherlands over imports from other courses. But it was inevitable that the Netherlands should increase the severity of its restrictions on imports from the Belgium-Luxembourg Economic Union. Accordingly, it was agreed that the Dutch should spread over the seven months ending 30th June 1948 the quotas of imports from the Belgium-Luxembourg Economic Union which, in the current trade agreement, were foreseen for the six months ending 31st May 1948, and that if this was not sufficiently drastic the Dutch government should restrict imports still further, but only in agreement with the Belgium-Luxembourg Economic Union in so far as the choice of particular products for restriction was concerned. In order to finance its debit on the payments with Belgium, the Netherlands was to use 1,000 million francs which had been made available to it as part of a loan to the Netherlands from the International Bank for Reconstruction and Development. But it was agreed that the Netherlands should not run up still further debits in the payments agreement with Belgium, but should pay any further debits in the payments agreement by the transfer of gold or foreign currencies. It was, however, agreed that this might be done with dollars acquired by the Netherlands from the International Bank for Reconstruction and Development, and that the Belgian and the Dutch governments would co-operate in an effort to persuade the United Kingdom authorities to allow the Dutch to transfer £1,500,000 to the Banque Nationale de Belgique

towards covering the Dutch deficit. These were obviously *ad hoc* expedients for the finance over the next few months of the recurrent bilateral deficit of the Netherlands in its payments agreement with Belgium. The agreement that the Dutch should further restrict imports from Belgium and Luxembourg might have a more permanent effect, but it was clearly incompatible with progress towards a full economic union.

In the summer of 1948 a ministerial meeting was held at the Château d'Ardenne, which marked one of the main turning points in the formation of Benelux. As we have already seen, the builders of Benelux started off with unduly optimistic ideas that the formation of a full economic union could rather rapidly be completed simply by the negative act of removing certain tax and other restrictions on the movement of goods, services, and factors of production between the partner countries. But experience had by now shown that in the modern world this is not possible without a rather extensive co-ordination of domestic economic policies as well. The Dutch were at this time imposing many more direct controls than the Belgians, in the form of rationing, price control, material allocations, and so on; domestic prices were differently affected in the two countries by the payment of subsidies to certain lines of production or consumption, in particular in the Netherlands; domestic monetary policies were quite different, since the Dutch were preserving low interest rates and were restraining capital investment by direct controls while the Belgians were adopting the more "orthodox" monetary policy of higher interest rates in a time of inflation.

The effect of these differences was twofold. First, the existence of such marked divergences in general monetary, budgetary, and financial policies had made it exceptionally difficult—as economic theory itself would have led one to expect—to preserve an equilibrium in the balance of payments between the countries concerned at fixed rates of exchange without a strict control of trade and payments between the partner countries; and it was, of course, one of the major objectives of the Benelux economic union to get rid of these direct controls over mutual trade and payments. Second, quite apart from the

*Ministerial  
Meeting.  
Château d'  
Ardenne; 6th-  
8th June 1948.*

effect of divergent domestic policies upon the overall balance of payments of the countries concerned, a common market for any particular product was obviously rather meaningless if the product in question was subsidised in the one country but not in the other, or was rationed in the one country but not in the other, or was subject to a price control in the one country but not in the other.

The protocol which was issued at the close of the Château d'Ardenne conference in June 1948 marked the realisation of the fact that if Benelux was to be built there must be a basic minimum of co-ordination of domestic economic and financial policies in the partner countries. It was agreed that rationing should be abolished so that both countries could return to a system of free consumption; that subsidies paid to production and consumption should be reduced; that domestic investment programmes should be co-ordinated; that further investigation should be undertaken on the necessary unification of the fiscal and social policies of the partner countries; and that policies should be adopted to ensure monetary equilibrium. These were, no doubt, general and perhaps rather vague sentiments. But the intention was clear enough: an economic union must be built on the foundation of a basically liberal free-enterprise domestic economy in which inflations (and presumably also deflations) are prevented by means of more or less orthodox monetary policies of contraction (and expansion). Moreover, not only was the general intention clear enough; in fact from this date there was a marked change, particularly in Dutch domestic economic policy, whereby the domestic economic systems were co-ordinated progressively on these lines.

It was recognised that a full economic union could be realised only if the currencies of the partner countries were freely convertible into each other, and that this would be possible only if the Netherlands obtained a foreign loan, which all three governments agreed to help to obtain. The hope was expressed that the trade exchanges envisaged in the current trade agreement could be maintained; and to promote this the Belgium-Luxembourg Economic Union undertook to discriminate in its import programme systematically in favour of Dutch products.

It was hoped that any deficit which might then remain on the Dutch balance of payments could be financed through such means as the use of the Dutch drawing rights in the International Monetary Fund, through Dutch receipts from "off-shore" purchases of other countries financed by American dollar aid, and by payments in the framework of the current Intra-European Payments Scheme.

The intention was expressed that the basic measures for the co-ordination of domestic economic and financial policies within the partner countries should be realised by January 1950, and that in that case the full economic union would be inaugurated then. It was proposed that another ministerial meeting should be held early in 1949 to examine the progress made in this direction.

At the end of 1948 some further significant progress appeared to have been made on the particular problem of the unification of the excise duties. A convention was signed under which all excise duties were unified other than those on alcohol, sugar, benzine, matches, and lighters. But, as we shall see, this convention failed to be ratified; and it was not until February 1950 that a new and more tentative approach was made to this problem.

*Convention for the Partial Unification of Excise Duties. 16th December 1948. Modified by Protocol of 19th May 1949.*

In March 1949 a most important meeting of Ministers took place in The Hague at which, in accordance with the general programme initiated at the Château d'Ardenne conference of June 1948, a determined attempt was made to set the stage for an early introduction of a full economic union between the three partner countries. The attempt turned out to be a failure in so far as the attainment of this final goal was concerned; but the meeting is of great interest partly because of the partial progress which it did succeed in making, and still more because of the illustration which it gives of the fundamental difficulties involved in the formation of a full economic union.

*Ministerial Meeting. The Hague; 10th-13th March 1949.*

At the Château d'Ardenne conference in June 1948 agreement had been reached upon the need for measures to remove domestic economic controls and thus broadly to unify the domestic economic systems of the partner countries as a necessary preliminary to the formation of a complete free-trade area:

Measures had been put in hand for this purpose. It had been tentatively agreed that the full economic union might then be initiated in January 1950, but that progress towards this end should be reviewed at another ministerial meeting early in 1949.

At The Hague in March 1949 the ministers reviewed the progress made in domestic decontrol on the basis of a report prepared for them by the Board of Presidents. Progress had been sufficiently encouraging for them, on the basis of this report, to lay down a timetable for the completion of the process of decontrol in the partner countries and, in particular, in the Netherlands. Thus they proposed that the end of consumer rationing and of the direct allocation of materials should be achieved by the end of 1949 with, perhaps, a continuing need for some common joint Benelux scheme for the direct allocation to users of some scarce materials from the dollar area. The subsidisation of home production in the three countries was also planned to come virtually to an end by the close of 1949. Price control in the Netherlands was to be abolished by July 1950—already it was practically at an end in Belgium.

There was thus every prospect that divergences in the apparatus of domestic direct controls over consumption, production, and prices of different commodities would cease to be a major obstacle to the formation of a common market. At The Hague meeting the ministers also reviewed the other main problems and difficulties which might prevent the realisation of the full economic union.

As far as agriculture was concerned, it was in essence agreed that the exception to the principle of the free common market embodied in the agricultural protocol of May 1947 would be continued in the final economic union.

The ministers once more considered the unification of domestic excise duties and the turnover taxes. Excises on wines and sparkling fermented drinks other than beer were already unified under the agreement of December 1947; and the agreement of December 1948 for the unification of the excises on beer and tobacco was now before the national parliaments and was still expected to be put into effect. At The Hague meeting the ministers agreed upon rates at which the remaining im-

portant excise duties, namely on alcohol, petrol, and sugar should be unified. This left the problem of the unification of the turnover taxes in the three countries. On this subject the Administrative Council for Customs Duties had prepared for the consideration of the ministers a scheme for the unification both of the principles upon which the tax should be levied and also of the rates at which the tax should be levied in the three countries. The ministers were able to agree that the unified system of collection should be adopted; but they were unable to agree upon the acceptance of the proposed uniform rates of tax. The tax was much more important as a revenue-raiser in Belgium than in the Netherlands. The Belgians could not agree to a rate of tax which would have meant so severe a loss of revenue for them, and the Dutch found it difficult to agree to a rate which for them meant imposing a considerably higher charge upon the price of many consumption goods. Accordingly, the ministers decided that experts should reconsider the matter in order to see whether these domestic budgetary difficulties in the way of unification could be mitigated by the continuation of differences in the rate of tax which would not be sufficiently great to destroy the conditions for free competition within a full economic union.

The ministers also discussed once more the extent to which, and the principles on which, programmes of capital development and investment should be controlled within the partner countries. They did not go beyond the establishment of such rather general and vague principles as that in the determination of investment programmes regard should be paid to developments which would help to put the balance of payments into equilibrium, to the adequate expansion of capital equipment in a country like the Netherlands which had to find employment year by year for a rapidly growing working population, and to the encouragement or discouragement of investment in cases where the ruling market conditions underestimated or overestimated the real social profitability of the development. In fact the whole idea of a co-ordinated planning of investment was fated to come to little or nothing, mainly because of the absence of any adequate powers of control over

capital investment by the Belgian government. Nor is it at all clear why a system of joint governmental planning of private investment should be regarded as a necessary condition for a full economic union. Indeed the formation of a free-trade area might well be thought greatly to diminish any need for the governmental planning of investment in the countries concerned, since market prices and costs might then be considered more accurately to reflect the real social costs of production in the various parts of the union and the greater scale of the common market should give more room for competitive production by plants of an economic size. But it is to be remembered that at the time of The Hague meeting in March 1949 it was very fashionable to believe in the virtues of co-ordinated international action for the joint planning of domestic investment. The recently instituted Organisation for European Economic Co-operation was itself at this time trying to promote the co-ordination of planned domestic investment programmes for the European countries; and the Benelux ministers at The Hague meeting expressly stated that the principles of the Organisation for European Economic Co-operation in this matter should be applied to the joint planning of investment within Benelux.

Another possible obstacle to full economic union which the ministers considered at The Hague meeting was the existence of differences in wage rates and social security charges within the three partner countries. Would these lead to such differences in costs of production as to make free competition within a full economic union impossible? On this problem the ministers did not reach any very far-reaching decisions. On the basis of reports prepared by the Board of Presidents they concluded that there were no very startling differences in the general level of social security charges as an element of cost of production, that wage rates were considerably higher in the Belgium-Luxembourg Economic Union than in the Netherlands, but that these differences might be expected to diminish as other elements of social and economic policy were co-ordinated in the countries concerned and that the differences were



probably not sufficient to cause a major obstacle to the formation of a free-trade area.

Thus as far as the problems already enumerated were concerned, the ministers found no insuperable obstacle to the comparatively early institution of the full economic union. But there remained what had now become the central and basic obstacle—namely the problem of removing the restrictions on imports into the Netherlands from the Belgium-Luxembourg Economic Union, which the Dutch had been obliged to impose as part of their policy for controlling the deficit on the country's balance of payments.

The principles upon which the ministers decided to attempt to meet this basic problem were outlined in the report of The Hague meeting. There was to be an initial period of Pre-Union during which there should be a gradual and progressive freeing of intra-Benelux trade from quantitative restrictions. In order to make this possible the Belgium-Luxembourg Economic Union was to extend additional credits to the Netherlands to enable the Dutch to import freely from Belgium and Luxembourg. The amount of these credits would be adjusted to the steps taken by the Netherlands to free imports from quantitative restrictions. Moreover, it was agreed that the Dutch should select for these initial stages of liberalisation of her imports those products of which increased exports from Belgium to the Netherlands would help simultaneously to give increased employment in depressed Belgian industries and to enable rationing to be abolished in the Netherlands. Textile products were the outstanding example of a commodity which satisfied both of these criteria at this time.

The importance in a final economic union of the realisation of a common joint policy of the partner countries towards the outside world was fully realised. Accordingly, the ministers at The Hague meeting emphasised the fact that this preliminary period of Pre-Union should also be used for the progressive co-ordination of the monetary and commercial policies of the partner countries vis-à-vis third countries and for the preparation of methods of conducting joint commercial and financial negotiations with third countries.

After a year of this transitional Pre-Union period, the full economic union (with a complete abolition of quantitative restrictions on balance-of-payments grounds on the mutual trade of the partner countries) was to be instituted, provided that by then both countries were in overall balance-of-payments equilibrium. It was agreed that for this to be possible the currencies of the partner countries would have to be made convertible into each other for all current transactions, although for a certain time restrictions might be maintained over the currencies concerned in order to control capital movements. It was expressly stated that full economic union was compatible with the maintenance of separate national currencies, central banks, and monetary systems within the partner countries, and full economic union could be maintained either with separate national reserves of gold and foreign exchange or with a single pooled reserve. If both partners were in global balance-of-payments equilibrium, any bilateral debt between the partners could be paid in foreign currencies. Thus if the Netherlands had a bilateral debt with Belgium but was in overall equilibrium, this would mean that the Dutch would have an equal surplus of foreign currencies with which to pay the debt to Belgium. If, at the same time, the Belgium-Luxembourg economic union was also in global equilibrium, it would necessarily have an equal deficit with third countries, and to finance this deficit it could use the foreign currencies received from the Dutch in payment of their bilateral debt to the Belgians.

But the ministers realised, of course, that even if both countries achieved global equilibrium in their balances of payments such an equilibrium might well be subject to future disturbances. They argued, therefore, that the final arrangements for economic union must include some system whereby disequilibria in the balance of payments between the partner States and also in the balance of payments between the Union as a whole and the outside world should be quickly detected, and that there must also be arrangements for taking corrective measures to restore balance-of-payments equilibrium when disturbances had been detected. The measure especially recommended for the restoration of equilibrium in such circumstances was

the use of jointly concerted commercial policy—i.e. presumably appropriate changes in the amounts of imports from third countries which would be admitted into Benelux.

In this process of argument there would appear to be one fatal missing link. Admittedly, in the case of a full economic union there must be a single joint commercial policy vis-à-vis third countries. If Belgium admits certain types of products freely from third countries, and if the Netherlands admits all goods freely from Belgium, then it is no use the Netherlands trying to keep its overall balance of payments in equilibrium by imposing a severe restriction on the import of these goods into the Netherlands from third countries. They, or close substitutes for them, will merely come into the Netherlands via Belgium. With a full Benelux Economic Union a joint Benelux commercial policy vis-à-vis third countries could be used to put Benelux as a whole into balance-of-payments equilibrium with the outside world.

But this would not necessarily leave either partner separately in equilibrium. Thus the Dutch might still be left in overall deficit with a bilateral debt to Belgium which they could not cover out of a surplus with third countries, in which case the Belgians would be in overall surplus, i.e. with a deficit with outside countries which was less than their surplus with the Dutch. The Dutch deficit could not now be put right by commercial policy, since the commercial policy would be a joint Benelux policy and increased restrictions on imports into Benelux, while it would help to restore equilibrium to the Dutch balance of payments, would merely serve to magnify an existing surplus on the Belgium-Luxembourg balance of payments.

Thus in a full economic union there must be a joint commercial policy vis-à-vis third countries and this can be used to control the balance of payments of the union with the outside world. But there must also be some agreed mechanism which does not rely on restrictions on trade and payments whereby there is adjustment between the positions of the partner with a relatively strong and the partner with a relatively weak balance of payments. Thus an inflation of domestic demand in the surplus partner could be brought about either by an easy mone-

tary policy or a laxer budgetary policy; or alternatively, dearer money or an increased budgetary surplus might be employed in the deficit partner. Or else inflation and deflation might be controlled on the cost side by a conscious raising of money wage rates in the surplus country or a lowering in the deficit country. Or the rate of exchange between the national currencies of the partner countries might be allowed to vary.

What is most noticeable in the report of the ministerial meeting at The Hague in March 1949 is the almost complete absence of discussion or resolutions on these vital questions of the co-ordination of domestic inflations and deflations through the co-ordination of domestic monetary, budgetary, and wage policies, as the essential means (in the absence of exchange-rate variations) for preserving equilibrium in the balances of payments. The lack of emphasis on this set of subjects must be regarded as one of the main reasons for the long delay in the attainment of the full economic union.

As we have seen, at the Château d'Ardenne meeting in June 1948 it had been tentatively agreed that the full economic union should be instituted at the beginning of 1950. It was now agreed that the institution of the full economic union should be planned for the middle of 1950, and a committee was set up to draft a treaty for full economic union. Meanwhile, there was to be a period of Pre-Union for the year from mid-1949 to mid-1950; and the Board of Presidents was asked to submit before July 1949 a scheme for the rules of this period of Pre-Union, whereby there might be a progressive elimination of the quantitative restrictions on intra-Benelux trade.

The choice of an annual period beginning in mid-1949 for the Pre-Union arrangements is of some special significance for two reasons. In the first place, the year July to July was the year for the planning of the European Recovery Programme and for the grant of Marshall Aid. The obligations to relax import restrictions which would be included in the Pre-Union Agreement were of a kind which could be accepted—particularly in the case of the Dutch—only if there was an adequate receipt of dollar aid and of drawing rights under the current Inter-European Payments Scheme. Indeed, it was expressly

stated in the report of The Hague meeting that the proposals for Pre-Union were entirely conditional upon the continuation of the European Recovery Programme. But, in the second place, the existing Belgian-Dutch trade agreement expired in June 1949 and Pre-Union arrangements starting in mid-1949 could fill the gap which would thus be created. Indeed, as we shall see, the Pre-Union agreement as it finally emerged is best regarded simply as a more or less permanent Belgian-Dutch trade agreement of the kind which regulates the quantitative controls over the trade between the two areas. It has in this respect supplanted the *ad hoc* commercial agreements under which the two governments concerned stated what amounts of trade in both directions they would try to achieve over the next year or two years by the adjustment of their quantitative restrictions over imports and exports; and it has become more or less permanent because, with the failure to institute the full economic union, it is still the instrument which governs the controls over commerce between the Netherlands and the Belgium-Luxembourg Economic Union. Indeed, the real achievement of The Hague conference of March 1949 may be regarded as the replacement of the series of *ad hoc* Belgian-Dutch trade agreements by a permanent, more general, and more liberal trade agreement, called the Pre-Union Agreement. We must now turn our attention to the actual provisions of this agreement.

Because of delays in the distribution of Marshall Aid and in the establishment of drawing rights under the Inter-European Payments Scheme, the period of Pre-Union was not initiated until 1st October 1949. This was done by means of an agreement which was prepared at The Hague on 5th October 1949. This agreement was somewhat enlarged and was finally signed at the conclusion of the ministerial conference which took place in Luxembourg from 13th to 15th October 1949 and which we shall consider in due course.<sup>1</sup>

The Pre-Union Agreement starts from the principle that all

<sup>1</sup> Between the ministerial meetings at The Hague in March and Luxembourg in October, there was a ministerial meeting at Brussels on 2nd June 1949; but no press communiqué or protocol was issued after this meeting.

*The Pre-Union  
Agreement.  
Luxembourg;  
15th October  
1949.*

imports of one partner from another are free of quantitative restrictions, unless they are expressly excepted in the subsequent clauses of the agreement. Thus the main body of the agreement takes the form of certain exceptions to this general rule of full freedom of trade. A mixed committee was to be set up to watch the balance-of-payments position of the countries and to propose extensions of the principle of liberalisation as they became possible.

The principle of freedom of import was to apply only to the products of the partner country. Each partner could control the import over the common frontier of goods which had their origin in third countries. This, as we have seen, was a necessary provision so long as there was no joint commercial policy vis-à-vis third countries.

The agreement contained also a number of particular exceptions to the remaining principle of freedom of movement within Benelux of the products of the Benelux countries.

First, exception was made for the control of the movement of many agricultural products and in particular of those whose control would be necessary to implement the agricultural protocol of 9th May 1947.

Second, exception was made for the control of imports of coke and coal into Belgium where a high-cost industry needed protection.

Third, a temporary exception was made for the control of imports of steel and certain steel products into the Netherlands until agreement was reached for the equalisation of Belgian domestic prices and the prices charged by Belgium for the export of steel to the Netherlands. At this time there was a dual-pricing system in the Belgium-Luxembourg Economic Union under which iron and steel products were subject to a maximum price when sold on the home market, but were sold at higher prices in other (including the Dutch) markets. The Dutch would not agree to import iron and steel products freely from the Belgium-Luxembourg Economic Union until this discriminatory price arrangement was discontinued, which in fact occurred shortly afterwards.

Fourth, it was provided that a special agreement should be

reached concerning the import of textiles into the Netherlands from the Belgium-Luxembourg Economic Union. Because of the threat of uncontrolled imports of Belgian textiles to the Dutch textile industry and to the Dutch balance of payments, it was considered that the import of textiles could not be immediately liberalised. But six months later it was possible for the Dutch to admit Belgian textiles freely without any special textile agreement.

Finally, there was a list of miscellaneous products on which the Netherlands would impose stated import restrictions for an annual period reckoned from 1st July 1949.

In fact these arrangements represented a very considerable further liberalisation of intra-Benelux trade. It was agreed that these relaxations should not be allowed to cause payments in gold or dollars between the partner countries, and for this purpose the existing payments agreement was to be suitably relaxed. After the use of drawing rights under the Inter-European Payments Scheme of 7th September 1947, and after the use of other normal means of compensation such as current earnings of the currencies of third countries, a bilateral debt of one partner to the other was to be paid off in gold or dollars only if the debt had arisen because the debtor had failed to live up to his obligations under the Pre-Union Agreement by failing to deliver exports up to the agreed export quotas, or by failing to restrict imports down to the agreed import quotas.

The Pre-Union Agreement also contained an obligation whereby each government agreed to give the citizens of all the partner countries equal treatment in the granting of public contracts for public works of various kinds. But apart from this provision the Pre-Union Agreement was, as can be seen from the above description of it, exclusively of the character of a bilateral trade agreement governing quantitative controls over the trade in goods between the Netherlands and the Belgium-Luxembourg Economic Union.

A ministerial meeting was held in Luxembourg in October 1949 at which the Pre-Union Agreement was finally signed.

## V. BENELUX IN THE DOLDRUMS, 1950-1951

*Ministerial  
Meeting,  
Luxembourg,  
13th-15th  
October 1949.*

At the ministerial meeting held in Luxembourg in October 1949 consultations took place to consider the next steps to be taken towards complete economic union and some of the principles upon which that final economic union should be constructed. It was agreed that the Board of Presidents and the Monetary Committee of the Council of Economic Union should be asked to report to the ministers by March 1950 to determine whether it was possible to keep to the timetable of 1st July 1950 for the introduction of full economic union.

At the Luxembourg meeting the ministers agreed upon certain principles which should be observed during the Pre-Union period—principles which were in essence a repetition of those upon which agreement had been reached at The Hague ministerial meeting earlier in the year. Quantitative restrictions on trade between the partners were to be progressively removed except in certain cases such as controls over agricultural products or over dollar goods; equilibrium in balances of payments was to be preserved primarily by commercial policy, which meant that commercial and payments agreements with third countries must be closely co-ordinated; any bilateral debt of one partner to another was to be paid by means of foreign currencies which—in view of the closely co-ordinated commercial and payments policies of the partners vis-à-vis third countries—the bilateral debtor would have earned in its transactions with the outside world and the bilateral creditor partner would need for its transactions with the outside world; some bilateral credit between the partners would be arranged with, first, a limit at which consultations would be held between the partners about the bilateral disequilibrium and, second, a higher limit at which measures would actually be taken to stop the further accumulation of bilateral debt; beyond this limit the creditor could ask for payment in gold or convertible currency such as dollars, but if the debtor could not make such payments trade between the partners would be subject to suitable controls and restrictions; an attempt would be made to co-ordinate the future programmes of dollar earnings and dol-



lar imports of the partner countries and to make the import controls as similar as possible; but in so far as the dollar import programmes could not be assimilated, controls should be maintained to prevent the movement of dollar goods from the partner with less strict to the partner with the more strict restrictions on dollar imports.

The ministers also went on to consider some of the principles of monetary and commercial policy rules which would have to be embodied in the final instrument for the complete economic union. For the most part these principles contained the same elements as those which have just been enumerated: the avoidance of a limitless growth of bilateral indebtedness; the conclusion of joint payments agreements with third countries, and the co-ordination of the exchange control policies of the partners; a double set of limits to the growth of bilateral indebtedness, the first at which the partners would consult and the second at which they would take measures to prevent a further growth of debt; the use for the settlement of any bilateral debt of sources such as conditional Marshall Aid, drawings on the International Monetary Fund, foreign loans, and earnings of foreign currencies which, within the common commercial programmes of the partners, would be useful to the creditor partner; and the meeting of dollar needs by means of Marshall Aid, a dollar export drive, use of any convertible European currencies, drawings on the International Monetary Fund, foreign loans, and restrictions on dollar imports.

But the new point of great interest in the decisions of the ministers at this Luxembourg conference was the emphasis which was for the first time now placed upon the need for the co-ordination of domestic financial policies in order, within a full economic union, to maintain equilibrium in balances of payments. We have already argued in our discussion of the conclusions of The Hague meeting earlier in the year that in a full economic union joint commercial and monetary policies vis-à-vis third countries, while indispensable, are not enough. They must be supplemented either by co-ordinated policies for domestic inflation and deflation within the partner countries,

or else by appropriate variations in the rates of exchange between the partners' currencies.

At Luxembourg in October 1949, in discussing the various possible methods of financing dollar needs, the ministers referred to the possibility of measures of credit restriction, presumably for the purpose of damping down domestic inflations within the partner countries and thus reducing the demand for imports. Moreover, in discussing the problem of bilateral disequilibrium between the partner countries still more explicit reference was made to this weapon of co-ordinated expansion and contraction of domestic credit within the partner countries. To meet a serious bilateral disequilibrium, as an alternative to the limitation of trade between the partners, it was suggested that there might be an economic policy for deflation within the deficit partner countries and/or a simultaneous inflation within the surplus partner countries. Finally, it was agreed that an assimilation of the divergent rates of interest in the two countries would be desirable in order to encourage capital movements which might help to reduce the bilateral disequilibrium. For during this period the Netherlands, the deficit partner, had a cheaper monetary policy than the Belgium-Luxembourg Economic Union, the surplus partner. Dearer money in the Netherlands and cheaper money in Belgium might thus help to encourage capital movements from Belgium to the Netherlands (or at least to discourage such movements from the Netherlands to Belgium) as well as to deflate Dutch demand relatively to Belgian and Luxembourg demand for goods and services.

At the Luxembourg meeting the ministers also discussed a number of other topics such as agricultural policy and the problems of ports and waterways. On neither of these topics were any final decisions reached; but new enquiries were initiated.

On the problem of fiscal policy it was agreed once more that in view of the budgetary difficulties involved there should be no immediate attempt to unify the existing turnover taxes. On the subject of other excise and customs duties a special problem had arisen because of the devaluations of the Belgian and

Dutch currencies which had just taken place in September 1949, when the pound sterling had been devalued. On this occasion the Dutch guilder had been devalued considerably more than the Belgian franc so that the value of the Dutch guilder had fallen from 16.5 Belgian francs before September 1949 to 13.16 Belgian francs after September 1949. This meant that where there were specific rates of duty in the common Benelux import tariff of January 1948, fixed in each country in its national currency on the basis of the pre-September 1949 rate of exchange, either the Belgian duty must be lowered in terms of Belgian francs or the Dutch duty must be raised in terms of guilders if the rate of duty was to remain the same in the two countries.

Similarly, in the case of excise duties which were levied on a specific basis and which had been unified or had been planned for unification in the two countries, either the Dutch rate must be raised or the Belgian rate lowered if the rates were to be kept uniform.

At the Luxembourg ministerial meeting arrangements were made to meet this problem. Commodities were divided into three groups: first, those of primary interest to the Belgian economy on which the Belgian rate would remain unchanged and the Dutch rate would be raised; second, those on which the Dutch rate would remain unchanged and the Belgian rate be lowered; and third, those in which unification would be maintained partly by an adjustment of the Belgian rate and partly by an adjustment of the Dutch rate. The opportunity was also taken to reduce substantially the rates of excise duty on certain sparkling fermented drinks (other than wines) which had been unified under the convention of 22nd December 1947. This was done in view of heavy French competition against these Luxembourg products. With these adjustments there was a complete scheme for the unification of excise duties in terms of the conventions of 22nd December 1947 and of 16th December 1948; and the ministers agreed that the necessary legislation would be introduced as soon as possible for the implementation of this scheme of unification.

The devaluation of the Dutch guilder in terms of the Belgian

franc had given rise to a similar problem in the arrangements in force under the agricultural protocol of 9th May 1947 for the maintenance of agricultural prices in the partner countries. Should these prices remain fixed in terms of Dutch guilders or Belgian francs? If they remained fixed in terms of Dutch guilders, the price in terms of Belgian francs would fall and the Belgian producer would lose that much protection. In a confidential protocol of October 1949 it was agreed that the import of Dutch agricultural produce into Belgium—in particular of cheese and butter—could take place at prices unchanged in terms of Belgian francs.

This experience focuses attention upon an important problem which would arise in any economic union in which variations in exchange rates between the partners' currencies, as opposed to relative domestic inflations and deflations of money incomes, prices, and costs, were used as the normal means of preserving equilibrium in balances of payments. Such a system would make the problem of maintaining a unified customs tariff or a unified structure of excise duties practically insoluble, unless the rates of customs and excise duties were fixed on an *ad valorem* as opposed to a specific basis.

Convention  
between  
Belgium and  
Luxembourg  
on the  
Application  
of Their Social  
Security  
Legislation.  
Luxembourg;  
3rd December  
1949.

On 3rd December 1949 the Belgian and Luxembourg governments signed a convention (similar in principle to that between the Netherlands and Belgium signed on 29th August 1947) under which each government undertook to grant social security benefits to workers coming from the other partner country on the same terms as the benefits given to its own citizens.

If the programme outlined in the previous year had been successful, the year 1950 should have seen the decisive step of the signature of the final Treaty of Economic Union. But in fact 1950 proved to be a year of marking time in which very little further progress was made towards economic union. The Pre-Union arrangements had led to a very considerable freeing of Dutch imports from the Belgium-Luxembourg Economic Union; this had prolonged seriously the strain on the Dutch balance of payments; and this was one of the main reasons why further progress proved difficult.

One question on which progress had been disappointing was

the unification of excise duties, which was necessary if the levying of taxes on goods crossing the common frontier was to be entirely abolished. We have already seen how the protocol of 22nd December 1947 had succeeded in unifying the excise on fruit wines and sparkling fermented drinks other than beer, and how the protocol of 16th December 1948 had proposed the suppression of certain minor excise duties and the unification of duties on beer and tobacco, leaving the important duties on alcohol, petrol, sugar, matches, and lighters still to be covered. The protocol of 16th December 1948 was ratified by the Dutch in March 1949, but it failed to obtain the approval of the Belgian legislature. The unification of the tobacco duties was not the real difficulty, since the rates were not very different in the two countries. But the beer duties presented a very serious problem. In Belgium beer is a national drink and is taxed at a relatively low rate, while in the Netherlands spirits are much more widely consumed and are taxed at a much lower rate. The unification of the beer duties would have involved the raising of a much higher rate of tax on the popular drink in Belgium, and the Belgian parliament was unable to agree to this.

As a result of further negotiations a convention was signed at The Hague in February 1950 and was subsequently ratified by the Benelux partners. This convention covered the unification of all excise duties, but it allowed the unification of the various duties at the rates specified in the convention to be applied separately. Essentially, therefore, the convention should be regarded as a tidying-up operation. It specified all the rates which had been agreed upon for the unification of the various excise duties in past negotiations, including the adjustments in specific rates of duty which had to be made at the Luxembourg meeting in October 1949 as a result of the alterations in the rate of exchange between the guilder and the franc; and the convention contained a procedure whereby the various elements of unification could be put into operation piecemeal as circumstances allowed.

Certain of the provisions of the convention for unification (e.g. on fruit wines and sparkling fermented drinks other than beer) have been put legally into effect. On other products (e.g.

*Convention  
on the  
Unification of  
Excise Duties.  
18th February  
1950.*

tobacco) the three countries have in fact all applied the same rates as those specified in the convention without formally putting the relevant provision of the convention into effect. In one case, the duties on petrol, the same duties as those specified in the convention were for a time in fact applied by all the countries concerned; but in April 1952, as a measure for raising revenue for defence purposes, the rate in Belgium and Luxembourg was raised above the agreed rate, so that this part of the provisions of the convention for unification which had in fact been achieved for a time then ceased to be achieved any longer.

The convention contained one new principle of considerable interest. It was laid down that in the case of the commodities on which the excise duties had been unified there should be a free movement of the products over the common frontier from the country in which the goods were produced and taxed into the partner country in which they might be consumed. But in such cases it was laid down that the revenue raised in the producing country on the goods finally consumed in another partner country should be paid over by the former country to the latter, so that the revenue ultimately obtained from the excise duties should be dependent upon each country's consumption, rather than upon each country's production of the product. This method of distribution of the revenue, of course, involves a continuing check for statistical purposes over the amount of dutiable products passing over the common frontier, although it does not imply the levying of any actual duty at the frontier. This principle was in fact applied to the excise duties on fruit wines and sparkling fermented drinks (other than beer) with retroactive effect as from the beginning of 1948 when these duties had been successfully unified.

*Convention  
between the  
Netherlands  
and Luxem-  
bourg on the  
Application of  
Their Social  
Security  
Legislation.  
Luxembourg;  
3th July 1950.*

In July 1950 the Dutch and Luxembourg governments signed a convention (similar in principle to that between the Netherlands and Belgium signed on 29th August 1947 and to that between Belgium and Luxembourg signed on 3rd December 1949) under which each government undertook to grant social security benefits to workers coming from the other partner country on the same terms as the benefits given to its own citizens. This convention was followed by an administrative

agreement, signed in Luxembourg on 1st October 1953, which dealt with the detailed application of the principle of reciprocity to the various parts of the social security arrangements of the two countries.

In July 1950 there was a ministerial meeting at Ostend at which it was agreed that the final achievement of full economic union was still prevented by certain serious difficulties, the principal ones being threefold: the problem of the balance of payments; the problem of achieving a common regime for trade and payments with third countries; and the problem of agriculture.

On the first of these three problems—the balance of payments—the ministers had little to say. This was not because the problem was less acute. On the contrary, the liberalisation of Dutch imports from the Belgium-Luxembourg Economic Union under the Pre-Union treaty had put a sharp additional strain on the Dutch balance of payments. But in July 1950 the new European Payments Union was just in the process of being formed; and it was clear that the foundation of this institution would transform the mechanism for dealing with the Dutch balance-of-payments problem. At Ostend in July 1950 the Benelux ministers decided that at least for the time being the new European Payments Union would serve to finance any bilateral deficit in the balance of payments between the Netherlands and the Belgium-Luxembourg Economic Union.

Indeed, since 1950 the European Payments Union must be regarded as one of the most important institutions for the formation of Benelux. Since its inception there has no longer been any direct problem of the finance of bilateral deficits between the partner countries. The Netherlands has had problems connected with her overall balance of payments with the rest of the world, problems connected with her balance of payments with the dollar area, and problems connected with her balance of payments with all the other countries of Europe and the sterling area combined and thus with her net position in the European Payments Union. Similarly, the Belgium-Luxembourg Economic Union has had to consider her overall balance of payments, her dollar balance of payments, and her net po-

*Ministerial Meeting, Ostend; 29th and 31st July 1950.*

*Treaty for the Institution of a European Payments Union. 19th September 1950.*

sition in the European Payments Union. But the bilateral balance between the two monetary partners in Benelux has been absorbed into the net position of each partner in the European Payments Union; and there has no longer been any question of the technique of financing any bilateral debt between the two partners.

This is not, of course, the same thing as saying that the institution of the European Payments Union had solved the Benelux balance-of-payments problems. Far from it. The Netherlands might well be in a weak overall balance-of-payments position as compared with the Belgium-Luxembourg Economic Union; if then goods from third countries were freely admitted into the Belgium-Luxembourg Economic Union and there were freedom of movement across the common frontier, this would—as before—mean that the Dutch would import large supplies from the outside world via the Belgium-Luxembourg Economic Union. They would now pay for these not by running up a bilateral debt to Belgium but by incurring an excessive debtor position in the European Payments Union. The fundamental problem would remain the same: how could the Netherlands get its overall balance of payments into equilibrium without restricting imports from a Belgium-Luxembourg Economic Union which was in a position to admit imports from the outside world relatively freely? It was only the purely technical problem of the method of financing the bilateral debts between the two partners which had been removed.<sup>1</sup>

The second major difficulty which the ministers at Ostend in July 1950 saw in the way of an early institution of the complete economic union was the absence of a common regime for regulating trade and payments with third countries. They decided that the aim should be to have common and joint agreements

<sup>1</sup> One problem which remained was the clearing up of the bilateral debt which had in the past accumulated in the payments between the Netherlands and the Belgium-Luxembourg Economic Union. At the ministerial meeting at Ostend in July 1950 an interim arrangement was made for a monthly repayment of 100 million francs up to the end of 1950. But it was also agreed that the final terms of settlement of the debt should be worked out as soon as possible. Such an agreement, providing for the repayment of the bilateral debt by a series of monthly payments during 1951, 1952, and 1953, was signed at Brussels at the beginning of 1951.

*Arrangement  
between Bel-  
gium and the  
Netherlands  
on the Repay-  
ment of Debt.  
Brussels; 1st  
January 1951.*



with third countries by 1st January 1951—a programme which turned out once more to be very over-optimistic, since negotiations for the first joint commercial agreement were not started until 1956. They also decided that there should as far as possible be a common list for the two Benelux trading partners of the goods which, under the programme of the Organisation for European Economic Co-operation, they would undertake to liberalise from quantitative restrictions on imports from other members of that organisation. In so far as products were not on these free lists, if one partner had to restrict imports, the other partner undertook to co-operate either by joining in a common import quota or by controlling exports of these products from its own territory into the country which was finding it necessary to restrict imports.

As far as dollar products were concerned, it was agreed that for the time being the general principle must be one of separate autonomous import controls for the two trading partners with controls over the subsequent movement of dollar products from the one partner to the other. This was inevitable because the Belgian dollar position was so much better than the Dutch that Dutch dollar imports had to be much more strictly restricted. But this might well mean that for certain raw materials the Belgium-Luxembourg Economic Union might buy cheaply from dollar sources, while the Dutch might have to buy from expensive soft-currency sources; and this might disturb the basis for the free competition between Dutch and Belgian finished products. For certain stated raw material imports it was, therefore, agreed that the principle of separate autonomous control of import from dollar sources should be continued only so long as this did not put the industries of one of the partners at a marked disadvantage. For trade with non-dollar non-EPU countries it was recognised that each partner would have to continue to make with each of these countries a separate bilateral agreement, containing a gold clause that would mean that any bilateral balance in either direction would be settled in gold. In order to prevent the operation of these gold clauses, each partner would have to be free separately to

adjust its export and import trade with the country concerned so as to preserve a separate bilateral balance with it.

It was agreed that a permanent committee should be set up by the Commercial Agreements Council to supervise these arrangements and to compare the instructions which were being given to the separate delegates of each partner country in the negotiation of commercial agreements until 1st January 1951 when, it was hoped, the system would be initiated for negotiating a single joint agreement on behalf of all the partner countries with each outside country. As a result, a Benelux Permanent Committee for the Co-ordination of Commercial Policy was set up which has since then met from time to time to discuss various problems connected with the formulation of a common commercial policy vis-à-vis outside countries.

On the third major obstacle to the immediate inception of the full economic union—namely, the agricultural problem—the ministers at Ostend decided that a special conference should be called. Indeed, it had become the accepted Benelux method that the agricultural problem should be always dealt with by a special meeting of agricultural ministers.

Finally, the ministers decided that the Board of Presidents should consider what arrangements ought to follow the current period of Pre-Union. In particular they were asked to consider, in conjunction with the committee which had prepared it, whether the existing draft Treaty of Economic Union could now be signed. This was the last that was to be heard for some time of an actual Treaty of full Economic Union.

*Ministerial  
Meeting,  
Luxembourg;  
20th-21st  
October 1950.*

The ministerial meeting on the agricultural problem, to which reference was made at the meeting in Ostend, was duly held in Luxembourg in October 1950. In the main this meeting confirmed the control of the movement of agricultural products between the Benelux countries on the principles established by the agricultural protocol of 9th May 1947. But there were a number of interesting modifications of the regime.

A list—known hereafter as List A—was drawn up of the products in the case of which, in accordance with the minimum price regime of the previous agricultural protocol, importing countries could restrict imports from the other partner country

in so far as this was necessary to maintain certain agreed minimum prices in the importing partner country. Two important and interesting modifications were now proposed for this regime.

In the first place, proposals were made for a new method of fixing the minimum prices, which would make the final choice of the level rather less an exclusive concern of the importing country itself. It was proposed that it should be the task in the first instance of the joint Benelux committee of officials on Agriculture, Food, and Fisheries to agree upon these minimum prices; that if agreement could not be found in that committee the matter should go to the ministers of the partner countries for agreement; that if agreement could not be reached at the ministerial level, the importing country would then be free to take action to restrict imports from the exporting partner country; but that the aggrieved exporting partner country could then take the matter for review to an arbitral body of three persons whose decision should be final and should be immediately applied.

A second modification of the previous minimum price regime is of considerable analytical interest. The restriction of exports of agricultural products from, say, the Netherlands to Belgium in order to maintain a given minimum price in Belgium had, of course, the result that there was in the market a considerable margin between the lower price in the Netherlands and the higher price in Belgium. Hitherto this gap had been filled in most cases by a levy on the export of the product, the revenue from the levy accruing to the exporting country and not to the importing country. In this respect the existing system was comparable to a system of protection of the Belgian producer given not by a Belgian import duty but by a Dutch export tax. This principle had been confirmed in the very important case of exports of Dutch butter into the Belgian market as recently as in October 1949 when, in a protocol to the commercial agreement of that date, it had been established that the proceeds of the Dutch levy on exports of butter to the Belgian market should not be returned to the Belgian government.

It was now proposed at the Luxembourg meeting in October 1950 that the revenue from the Dutch exports levies, which

were imposed to close the gap between the lower Dutch prices and the higher Belgian prices, should be shared in equal parts between the Dutch and the Belgium-Luxembourg Economic Union.

It would seem questionable whether this was really a wise change. In the formation of an economic union it may always be necessary that for political or social reasons there should be some exceptions to the general free-trade principle, so that certain high-cost producers in certain parts of the union can continue to receive a certain measure of protection. But in an economic union such exceptions must be continued only with the consent of all partners and there must also be the maximum amount of continuing pressure upon the national government under whose jurisdiction the protected section lies to keep the exceptional protection to a minimum. The previous Benelux arrangements in the agricultural field, although they owed their origin to the accident that Dutch agricultural policy and organisation had taken a certain form in which export levies to equalise prices were a natural feature, were probably rather well fashioned. Might it not be a useful general principle for exceptional elements of protection within an economic union that they should be done by methods under which a budgetary revenue is always raised equal to the difference between the prices in the exporting and the importing country, but that this revenue should always accrue to the government of the exporting country?

In addition to the agricultural products which were submitted under List A to the regime of minimum prices, there were certain products which were submitted by the partner governments to other forms of national protective regimes, which did not depend simply upon the imposition of import restrictions if and when these were necessary to maintain minimum prices for the products concerned. A chief example of these other schemes was the regulation of the wheat market inside the partner countries. For example, in Belgium and in Luxembourg there were minimum milling ratios under which the flour milled for domestic consumption had to contain a certain proportion of home-grown wheat, a regulation which had

the effect of making the millers demand at least a certain amount of home-grown wheat regardless of any price advantage which they might have in buying imported wheat. In this case the protection given was in fact protection primarily against imports from third countries outside Benelux, since in none of the Benelux countries could wheat be produced at a low cost and in quantities sufficient for export. But independent domestic wheat regimes of this kind in the Benelux countries naturally involved the control of movements of wheat between the Benelux countries, since the different national wheat regimes might result in different levels of wheat prices within the countries concerned.

The agriculture protocol issued after the ministerial meeting at Luxembourg in October 1950 accordingly contained a short note confirming the fact that special regimes not based upon the minimum price principle could continue to be applied to those products which were named on a list (List B) of such products worked out by the Benelux Committee on Agriculture, Food, and Fisheries.

The arrangements agreed at the Luxembourg meeting in October 1950 were planned to come into effect on 1st January 1951. But it was necessary to modify them in certain respects before their application on that date. In particular, the proposal that the level of the minimum prices to be protected in the importing countries should in the last resort be determined by independent arbitrators and not by the national government of the importing country proved unacceptable to the Belgian parliament, where great concern was felt for the fate of the Belgian farmers who might be affected. Accordingly, in December 1950 a ministerial meeting was held at The Hague at which it was made clear that the importing country could restrict imports as soon as prices in the country fell below the stated minima, and that the provisions for arbitration of the Luxembourg protocol of October 1950 should be suspended until they were voted by the parliaments of the countries concerned.

The Luxembourg protocol had also given special difficulty to the Luxembourg government. While Belgian agriculture needed some protection from Dutch agriculture, Luxembourg

*Ministerial  
Meeting.  
The Hague;  
28th-29th  
December 1950.*

agriculture itself required considerable protection even from Belgian agriculture within the Belgium-Luxembourg Economic Union. The special problem of Luxembourg agriculture had been recognised in the Luxembourg protocol of October 1950 in a clause which stated that in the application of the provisions of that protocol special regard should be paid to the special problems of Luxembourg agriculture. But this did not prove sufficient to allay the misgivings of the Luxembourg agriculturalists. As a result, at The Hague meeting of December 1950, it was decided to give to Luxembourg agriculture an almost complete exemption from all the provisions of the protocol of October 1950. Thus it was agreed that a list should be drawn up of the agricultural products in the case of which Luxembourg should have complete freedom of autonomous control of imports and exports. This list—List C to be added to the Lists A and B which have already been explained—was in fact approved at a meeting of ministers on 15th February 1954. Meanwhile, Luxembourg was to be free to take any action she desired on the products named in Lists A and B.

With these modifications the agricultural protocol of October 1950 came into force on the 1st January 1951.

The year 1951 was another year of the doldrums in which little real progress was made towards the realisation of the full economic union. This was in large measure due to the special economic strains of that period. The year 1951 was the year of the post-Korean scarcity of raw materials and of the consequent boom in their prices. This put an especially heavy strain on countries which depended upon the import of primary products, and for a large part of the year the Dutch balance of payments was in a particularly unfavourable position. On the other hand, the general Korean boom seems to have led to a considerable improvement in the already strong Belgian balance of payments. It seems that general boom conditions worsened the Dutch balance of payments (the price of necessary imports rising and the available supplies of Dutch exports being reduced without much rise in their price, as a result of the increased pressure of domestic suppressed inflation of demand) but improved the Belgian balance of payments (the increased

foreign demand for Belgian products being permitted in conditions of more open inflation greatly to increase the value of Belgian exports). Whatever the reason, in fact during this period the Dutch balance of payments was in very heavy deficit, whereas the Belgian balance of payments was in surplus, particularly in the European Payments Union. As one measure to restrain her excessive exports to other European countries Belgium instituted a special tax on exports to other members of the European Payments Union. The Netherlands protested, in the end successfully, against the imposition of this Belgian tax on exports to her Benelux partner.

In April 1951 the three Benelux countries together with France, Italy, and Germany signed a treaty setting up the European Coal and Steel Community. Under this treaty a common market for trade between the signatory countries (with certain transitional exceptions) was instituted for coal, iron ore, and scrap in February 1953, for steel in May 1953, and for special steels in August 1954. From this time on it was this wider arrangement rather than the Benelux agreements which guaranteed the free movement of these important products between the Benelux countries.

*Treaty Constituting the European Coal and Steel Community. Paris; 18th April 1951.*

The close relationship between the Benelux countries led them to consider jointly the problem of world scarcities of materials caused by the post-Korean boom, and in June 1951 they reached an agreement upon certain principles which should be observed in dealing with the problem of allocating scarce raw materials.

*Protocol on the Supply of Raw Materials and Scarce Products. Brussels; 8th June 1951.*

In May and July ministerial meetings were held at Ulvenhout and Goes respectively. No protocols resulted from these meetings. At the Ulvenhout meeting some problems were discussed affecting the control of Dutch exports to Belgium of flowers, seed potatoes, and seed grains. At Goes a wide range of important topics were covered (monetary and balance-of-payments problems, agriculture and fisheries, and the waterways problem). It was decided in the future to work through small ministerial committees to solve Benelux problems. Accordingly, the following Benelux ministerial committees were set up: a ministerial co-ordinating committee; a ministerial committee on

*Ministerial Meetings. Ulvenhout; 24th May 1951. Goes; 14th July 1951.*

agricultural questions; a ministerial committee on the balance-of-payments problem; and a ministerial committee on the application of the Pre-Union Agreement in the framework of the Organisation for European Economic Co-operation. In addition a committee (known as the Steenberghe-Van Cauwelaert Committee) was set up to negotiate the problem of Dutch-Belgian waterways; these two independent experts, one Dutch and one Belgian, in March 1952 submitted to the governments concerned their report in which they made agreed recommendations on the main points at issue between the Dutch and the Belgian governments in the question of waterways.

During the first year of the operation of the European Payments Union from July 1950 to July 1951 there was a very heavy deficit in the Dutch balance of payments and a very large surplus in the Belgium-Luxembourg balance of payments, with the other members of the payments union. A considerable part of this Dutch debit and Belgian credit with the European Payments Union was due to a heavy bilateral deficit of the Netherlands with the Belgium-Luxembourg Economic Union. Because of the extensive obligation to free the import of Belgian and Luxembourg products into the Netherlands which had resulted from the Pre-Union Agreement of October 1949, this large and important element in the Dutch balance-of-payments deficit could not be closed by a restriction of imports into the Netherlands.

*First Avenant  
to the Pre-  
Union Agree-  
ment. Ulven-  
hout; 1st  
September 1951.*

*Addendum to  
the First  
Avenant to the  
Pre-Union  
Agreement.  
The Hague;  
5th January  
1952.*

*Second Avenant to the  
Pre-Union  
Agreement.  
Brussels;  
2nd February  
1952.*

At a ministerial conference at Ulvenhout from 30th August to 1st September 1951, agreement was reached upon certain exceptions to the Pre-Union Agreement for the period September to December 1951 which would enable the Netherlands to cope with this serious strain on her balance of payments. It was agreed to watch closely the flow of imports into the Netherlands from the Belgium-Luxembourg Economic Union during the remaining months of 1951, and, if necessary, to restrict the movement by licensing the flow of goods so as to reduce Dutch payments to Belgium by a given stated amount. It was further agreed that, if these measures did not succeed in bringing about the desired reduction in Dutch payments to Belgium, there



would be a postponement for the remainder of the year of the monthly payments due to be made in accordance with the existing financial arrangements between the Netherlands and Belgium for the repayment of the Dutch monetary debt to Belgium.

## VI. THE TRANSFORMATION OF THE BALANCE-OF-PAYMENTS PROBLEM, 1952-1953

It so happened that this Avenant to the Pre-Union Agreement was reached at a date when the Dutch balance of payments started its dramatic transformation from one of severe strain into a position of considerable surplus. The passing of the special strain due to the post-Korean scarcity of raw materials, the great change in Dutch domestic monetary policy from one of easy to one of dearer money, and the general recovery of the Dutch domestic economy from its very bad post-war position combined at this time to cause a sudden reversal of the Dutch balance-of-payments position. In the event it was not necessary to restrict Dutch imports and the amortisation payments on the Dutch debt were duly paid to Belgium.

*Dutch Note  
Proposing to  
Make the  
National Cur-  
rencies Con-  
vertible and  
to Institute  
the Full Eco-  
nomic Union.  
18th February  
1952.*

Indeed, in February 1952<sup>1</sup> the Dutch government proposed that the time had come to take the decisive steps to form the full economic union in which there would be free movement of persons, goods, services, and capital. They proposed that for this purpose ministerial and official Benelux committees should be set up with power to decide upon and carry out a common commercial and foreign-exchange policy for the three Benelux countries vis-à-vis outside countries, that the Benelux countries should share a single quota in the European Payments Union, and that in meeting any bilateral balance between the Benelux partners the surplus partner should accept in payment any foreign currencies earned by the deficit partner. The Dutch note stated also that a proper co-ordination and harmonisation of domestic economic and financial policies was a necessary condition for a successful economic union; but it laid most stress on the need to formulate common commercial and financial policies vis-à-vis third countries as the step now necessary to enable the full economic union to be realised, the implication being that a sufficient degree of co-ordination of domestic policies was al-

<sup>1</sup> Earlier in this month (14th February 1952) ministers at a conference in Ulvenhout had made some little progress in the freeing of the trade in fish within the Benelux area.

ready achieved. The Belgian and Luxembourg governments in their replies put exactly the opposite stress on these two factors. It was argued in the Belgian notes that if the partner countries had appropriate domestic policies they would avoid overall balance-of-payments problems and that experience showed that in such circumstances it would be possible to deal with problems of differences in commercial and foreign-exchange policies vis-à-vis third countries by *ad hoc* measures as difficulties arose. The Belgian government, therefore, saw little point in instituting a common Benelux quota with the European Payments Union and was not prepared to accept any foreign currencies which the Dutch might earn in payment of a Dutch debt to Belgium. In the Belgian view the need was to go further with the co-ordination of domestic economic and financial policies.

*Belgian Notes.  
11th and 25th  
April 1952.  
Luxembourg  
Note. 16th  
April 1952.  
Dutch Note.  
21st May 1952.*

This incident shows the reversal of roles which had occurred over the last year: the Dutch balance of payments position was now so strong that they could offer to make the guilder fully convertible into Belgian francs and did not need to resist on balance-of-payments grounds the full obligation to admit Belgian and Luxembourg products on to the Dutch market; but it was the Belgians who were now cautious in their approach because of the heavy competition of low-cost Dutch products with a number of Belgian industries. During this period a sharp distinction can be observed in the attitudes of the Dutch and of the Belgians to further progress towards the full economic union. The Belgians were arguing that there must be further assimilation of Belgian and Dutch domestic economic policies and institutions before further steps could safely be taken towards the further freeing of trade and factor movements between the partner countries; for example, there must be some further assimilation of industrial wage costs in the three countries before free competition of manufactured goods could be guaranteed on a common Benelux market. The Dutch, on the other hand, were now arguing that trade and factor movements should now be freed and that this, by setting up a free competitive market with its single price structure, would itself indicate where prices and costs needed adjustment domestically and would itself set in force many of the influences which would

necessarily lead to the required assimilation and integration of domestic economic policies and institutions. Progress was delayed by the dispute whether the hen or egg should come first.

*Second Protocol to the 18th February 1950 Convention on the Unification of Excise Duties. The Hague; 27th May 1952.*

In May 1952 a protocol to the Convention on the Unification of Excise Duties of 1950 was signed, by which for a two-year period from May 1952 to May 1954 the common rate of excise duty on cigars would be lowered somewhat below the previously agreed level. This was done in order to stimulate the demand for cigars because of the depressed state of the cigar-making, as opposed to the cigarette-making, industry in both Benelux partners. In 1954 the reduction was renewed for a further two years and in 1956 it was made permanent.

*Conventions on Mutual Assistance in the Recovery of Fiscal Debts and on Co-operation in Customs and Excise Matters. Brussels; 5th September 1952.*

It may be worth while noting at this point the signature in September 1952 of two conventions of a subsidiary type which serve to illustrate some of the less dramatic ways in which the countries forming an economic union may co-operate. In the first of these two conventions the authorities in the three partner countries are enabled to assist each other in recovering state, provincial, and communal taxes and also civil fines. In the second, there are arrangements for joint administrative action in simplifying customs and excise procedures, in preventing and punishing fraud, and in collecting the relevant taxes. These conventions have not in fact been ratified or applied.

By the middle of 1952 the basic problems in building Benelux were completely transformed. By this date the old problem of the deficit on the Dutch balance of payments which had been such a serious obstacle in previous years had disappeared. The Dutch were in fact now in a strong balance-of-payments position. The great obstacle to progress was now in certain respects the reverse of this. The moderate recession in the general demand for goods and services which followed the Korean boom had the effect of improving the Dutch balance of payments greatly relatively to the Belgian and of causing a slackening of output and employment in Belgian rather than in Dutch industries. In the Netherlands the fall in demand had the effect of removing a suppressed inflation and so making available for export products which were produced at low controlled prices and costs, but of which the previous boom had caused an acute

scarcity of supplies. This development was reinforced by the simultaneous change in Dutch domestic financial policy in a disinflationary direction. In Belgium, where there had been open inflation at high and uncontrolled prices rather than scarcities of goods at relatively low controlled prices, the recession in demand showed itself rather in the more orthodox manner of a fall in prices, profits, output, and employment. In these circumstances the much lower level of Dutch than of Belgian money wage rates enabled Dutch products—such as furniture and stoves, and products of tobacco, leather, paper, and enamel—to undercut Belgian products in the Belgium-Luxembourg Economic Union.

The consequence was that Belgian producers felt more severely than before the competition from Dutch producers which the freeing of Benelux trade had thus made possible. There was very considerable pressure within Belgium to protect the Belgian industries most directly concerned.

By the autumn of 1952 it had become inevitable that something should be done about this problem. At a ministerial meeting in Knocke in October 1952 important decisions were taken on this central subject of the relative level of wage rates in the three partner countries. The ministers now recognised clearly the dual aspect of this problem: first, the fact that the general level of wage rates in the partner countries must be at appropriate heights to ensure that the overall balance of payments and the general level of employment in each country was not endangered (the macro-economic problem of general overall equilibrium); and, secondly, the fact that disparities in wage costs might cause acute and special problems of contraction, unemployment, and depression in particular industries (the micro-economic problem of competitive conditions within each particular industry).

On the first of these two problems, the ministers regretted that the general level of Dutch wages which was too far below the Belgian level even in 1949 had since that date become more rather than less out of line with the Belgian and Luxembourg level; but they noted that some measures had recently been taken in the Netherlands to raise wage rates somewhat, and that

*Ministerial  
Meeting.  
Knocke; 14th  
October 1952.*

the Dutch Economic and Social Council was about to be asked to give advice on the future of wage-fixing machinery within the Netherlands. The ministers decided to set up a special committee in which, under the chairmanship of Benelux ministers of labour and of economic affairs, the representatives of workers and employers of the partner countries should be brought together in order to examine the general principles of price and wage policies. The ministers also invited the two central banks of the Benelux countries to co-operate closely in the co-ordination of their domestic monetary policies and of their foreign exchange policies.

On the second problem of the fate of particular Belgian industries which were especially hardly hit by the recent turn in Benelux economic relationships, the ministers took decisive action. The main idea was to obtain temporary alleviation for the Belgian producers, not by direct government action limiting the export of Dutch products into the Belgium-Luxembourg Economic Union, but by encouraging temporary arrangements between the industrialists concerned, which would have the same effect of reducing the sale of Dutch products on the Belgian-Luxembourg market. Accordingly, in the industries concerned the ministers decided to set up, under the chairmanship of senior officials, groups of industrialists from the Dutch and the Belgian-Luxembourg sides to promote suitable private arrangements of this kind. Governmental action was to be taken only if agreement on private arrangements of this kind could not be secured.

A permanent ministerial group was set up to secure co-ordination of economic decisions; and it was decided that the ministers should meet again shortly.

*First Meeting  
of the  
Permanent  
Ministerial  
Group.  
Utrecht;  
20th December  
1952.*

The first meeting of this permanent ministerial group took place in December 1952 when the ministers reviewed the progress of the special industrial groups which had been set up at the Knoeke meeting in October. They noted that arrangements had been successfully instituted in some of the industries concerned and that negotiations were in progress for the initiation of arrangements for some of the other industries. They considered the procedure for deciding when further groups of this

kind should be set up to consider the application of similar special protective arrangements in other industries; and they agreed that any such request should go first to the Committee for Industry and Commerce of the Council for the Economic Union which should report to the Board of Presidents, that if the Presidents were unanimous they could set up a new special committee, but that if they disagreed the matter should go to the permanent ministerial group for decision.<sup>2</sup>

In February 1953 the permanent ministerial group held further meetings at Valkenburg and Liège to consider the progress of these special industrial arrangements. After the Liège meeting a ministerial declaration was issued in which it was noted that on some of the industrial sectors it had been impossible to reach agreement even at the ministerial level, and that on these sectors the Dutch government would communicate to its partners whatever decisions it might take. The ministers also formulated more precisely the machinery by which, through the Committee for Industry and Commerce of the Council for the Economic Union, the Board of Presidents, and the Permanent Ministerial Group, decisions should be reached both for the setting up of special industrial groups for particular industries and for the reaching of final decisions about the action to be taken in the case of each of these industries.

These developments culminated in a conference of ministers at The Hague in July 1953 with the signature of an important protocol on the Co-ordination of Social and Economic Policies, which put into a more complete and developed form the ideas which had started with the Knocke conference in October 1952. In studying this protocol it can be seen that the ideas which at Knocke in the previous autumn had started very largely as a step backwards from the attainment of the full economic union with the elaboration of yet one more set of exceptions to the free play of a common competitive market for Benelux products, had now developed into something much more positive which

<sup>2</sup> Ministers also decided at the Ulvenhout meeting in December 1952 that the special committee of Benelux employers and workers which had been proposed at the Knocke meeting in October for the discussion, under ministerial chairmanship, of the general problems of wage and price policy should meet in Brussels in January 1953.

*Further Meetings of the Permanent Ministerial Group. Valkenburg; 21st February 1953. Liège; 28th February 1953.*

*Ministerial Meeting. The Hague; 24th July 1953. Protocol on the Co-ordination of Social and Economic Policies.*

*Meeting of Special Committee on Wage and Price Policies. Brussels; 20th January 1953.*

might well play an important constructive part in any final provisions for full economic union.

The Hague protocol of July 1953 can be considered in two fairly distinct parts: the first articles which deal with the general macro-economic problem of maintaining overall equilibrium in the domestic level of employment and the external balance of payments of each partner country; and the subsequent articles which deal with the micro-economic problem of granting special temporary assistance to particular branches of industry which, in one or other of the partner countries, may be badly hit by the processes of adjustment which the maintenance of overall domestic and external balance require from time to time.

On the first problem of overall domestic and external balance the protocol is a little general and vague in its wording. But this is perhaps inevitable in a first inter-governmental pronouncement on such a basic problem; in any case it does not detract from the fact that in this protocol the basic problem is fairly and squarely faced—really for the first time in the published official documents in these protracted negotiations for Benelux. It is clearly stated in the protocol that each partner country must pursue the double objective of stable full employment of its resources and of overall equilibrium in its balance of payments, and that this necessitates the adoption of domestic financial policies which avoid both inflation and deflation at home. It is argued that equilibrium in the balance of payments requires a suitable adjustment of the level of domestic money incomes; that while the fixation of wage rates should be by means of free wage bargaining between employers and workers, the State must safeguard this central general interest; and that policies are needed (in the fields of domestic economic policies, monetary policy, and commercial policy) to raise or to lower the general level of domestic money incomes so as to keep the balance of payments in equilibrium. It is stated that at the time of The Hague conference equilibrium required some rise in Dutch wage rates and some reduction in Belgian costs of production.

General adjustments of this kind, it is argued, should take



place essentially in a free and common Benelux market. But these general adjustments may involve very special difficulties of adjustment for particular branches of industry, which may therefore need temporary help. At this point The Hague protocol proceeds to its second main purpose of specifying more precisely the circumstances in which, and the conditions on which, such temporary help might be given to particular industries. Detailed criteria are included in the protocol to specify when aid should be given, these criteria making the decision depend either (i) upon production having been reduced by a given amount in any six-month period relatively to its level in the corresponding period of the previous two years as a result of increased imports from one of the partner countries, or else (ii) upon imports of a particular product from one of the partner countries having increased in any six-month period by a given amount relatively to their level in the corresponding period of the previous two years. These criteria were not to be completely automatic since provision was made in the protocol for the possibility of agreeing to give some temporary protection in special circumstances to an industry in which these criteria were not satisfied or, on the other hand, not to allow some temporary protection which would be justified by these criteria, if such action would impose too severe a burden upon the exporting industry in the other partner country. Any measures of protection were to be temporary and their permitted duration was to be stated in advance at the time of their institution; the measures were to be undertaken through the machinery of the Board of Presidents and a special committee of ministers; and every six months an examination was to be made to see whether their continuation was necessary.

The protocol contained provisions for obtaining a final decision upon cases of special temporary protection which remained in dispute between the three governments by submitting the dispute to a college of arbitrators whose decision would be final. It was also proposed at the same time to apply this process of compulsory arbitration to the settlement of disputes about agricultural protection, as had originally been proposed under the agricultural protocol signed at Luxembourg on 21st Octo-

ber 1950. Meanwhile, until these provisions for compulsory arbitration were ratified by the parliaments of the Benelux countries, The Hague protocol of 24th July 1953 was to go into force with the substitution of a conciliation committee for the eventual college of arbitrators.

The Hague protocol of 24th July 1953 has not yet been ratified. But its main provisions (though not the provision for compulsory arbitration) have in fact been applied; and the protocol was renewed on 20th July 1954 and 22nd July 1955.

*Supplementary  
Agreement on  
Benelux Fund  
for Readapta-  
tion. 16th  
November 1953.*

Another important feature of the protocol was the proposal to set up a Benelux Fund for Readaptation, the detailed provisions for which were laid down in a supplementary agreement reached in November 1953. The purpose was to provide a capital fund, subscribed in equal halves by the Netherlands government on the one hand and by the governments of Belgium and Luxembourg on the other hand, for loans to affected industries to help them to make the necessary adjustments. The Belgium-Luxembourg contribution was to be provided by the two governments concerned in the same proportions as the population of the two countries, the principle which was already adopted in the Belgium-Luxembourg Economic Union for the distribution of the revenue from their common customs and excise between the two governments. It was also agreed that the proceeds from any special charges levied on the trade between the three Benelux countries as a means of temporary protection (other than the levies on agricultural products under the protocol agreed at Luxembourg on 21st October 1950) should be paid into the Benelux Fund for Readaptation. The Fund has not yet come into operation, its institution being dependent upon the ratification of The Hague protocol of 24th July 1953, which has not yet taken place.

The Hague protocol on the Co-ordination of Social and Economic Policies thus organised two ways of assisting particular industries to make the necessary adjustments to the Benelux common market: by temporary and strictly controlled derogations from the principle of the free market and by setting up a special fund to help with the reorganisations which such adjustments would involve. It is interesting to note that these

two ideas are also contained in the constitution of the European Coal and Steel Community. It is an interesting suggestion that, in order to make positive progress in the formation of economic unions, it is useful to have organised in advance a well safeguarded procedure for the temporary mitigation of the losses which the movement towards the common market may bring to some particular groups of producers.

At The Hague in July 1953, a protocol was also signed setting up a Benelux consultative inter-parliamentary council consisting of members designated by the parliaments of the three countries. The council was to discuss an annual report on Benelux problems presented to it by the governments of the three countries, and could be consulted on any Benelux problem by the governments. This protocol has not been ratified. It has in effect been superseded by a later protocol on the same topic, signed at Brussels on 5th November 1955.

By an exchange of letters in December 1953 the Netherlands agreed to a temporary fiscal measure to relieve the competition of Dutch products on the Belgian and Luxembourg markets. The turnover taxes in all three countries were based in general on the *en cascade* principle that a commodity which changed hands more than once in the course of its manufacture (e.g. the sale of a semi-finished product by one manufacturer to another followed by the sale of the finished product by the second manufacturer) was liable to tax on each transfer. Goods were in all three countries exempt from turnover tax on sale for export; but, in addition, in the Netherlands (and partially in Belgium) the exporter also received repayment of any turnover tax presumed to have been paid on earlier stages of production of the exports. The logical corollary to this was that, on import, goods should be subject not only to the equivalent of the normal rate of turnover tax, but also to a surcharge to correspond to turnover tax payable on the earlier stages of the domestic manufacture of similar goods. In 1952 the Netherlands had in fact imposed additional charges on imports on this principle; and in 1953 Belgium had followed suit. In view of the severe conditions of competition for Belgian products, in December 1953 the Netherlands agreed to suspend temporarily for certain

*Ministerial Conference, The Hague, 24th July 1953. Protocol Setting Up a Benelux Consultative Inter-Parliamentary Council.*

*Exchange of Letters on Temporary Curtailment of Repayment of Tax on Dutch Exports to Belgium and Luxembourg, 1st December 1953.*

goods the repayment on its exports to Belgium and Luxembourg of the turnover tax presumed to have been paid in respect of the earlier processes in their production. In return Belgium undertook not to raise further her surcharges on such imports.

A complete system for maintaining equilibrium in the balances of payments of a number of countries which form a full economic union with a fixed rate of exchange between their currencies, must comprise at least two main elements: first, the co-ordination of the domestic financial and economic policies of the partner countries so that there is that degree of reflation or disinflation in each partner country which—given the exchange rates between the currencies of the partner countries—is required to keep its general level of money incomes, prices, and costs properly in line with developments in the other partner countries; and, second, a joint and common system of control over their trade and payments with outside countries, since foreign goods which are imported into one of the partner countries will be free to move into the area of any other member of a complete economic union, and a control over imports from, and payments to, outside countries may be needed to maintain equilibrium in the balance of payments of the union as a whole with the outside world.

The former of these two problems had been covered by The Hague protocol of 24th July 1953, in which, as we have seen, the broad lines of co-ordination of domestic economic and financial policies had been laid down together with a set of principles to alleviate the direct disturbances caused by the process of adjustment, through the institution of a scheme of temporary exceptions to the freedom of movement within the union of the products originating within the partner countries themselves.

*Protocol on  
Commercial  
Policy.  
Luxembourg;  
9th December  
1953.*

In December 1953 there was signed at Luxembourg a protocol which was devised to meet the second main problem mentioned above, namely the institution of a joint and common system of arrangements for the control of trade and payments with third countries, so as to permit the free movement within the union of products imported from third countries.

The principles of this protocol were quite straightforward. The three partner governments were to conclude common commercial agreements, corresponding to common or parallel payments agreements, with third countries. The general principle was to be the removal of all barriers to the movement within Benelux of foreign products as well as of all barriers to the movement within Benelux of domestically produced goods and services. The joint commercial agreements would, therefore, include common and joint quotas for the import and export of all products into Benelux from outside or out of Benelux to the outside world. But in the case of goods for which there was not freedom of movement of domestic production within Benelux (for example, agricultural products excepted under the agricultural protocols, or manufactured products excepted temporarily under the special provisions of The Hague protocol of 24th July 1953), there might also be separate import and export quotas for the trade of each partner separately with third countries. The same committee of ministers which was set up under The Hague protocol of 24th July 1953 to supervise the special exceptions to the freedom of trade within the union of domestically manufactured goods was to be responsible for working out the application of a common commercial policy for the three countries and this group was also to be responsible for determining the exceptions to the principle of freedom of trade within the partner countries of goods of foreign origin and the corresponding exceptions to the principle that there should be common import and export quotas for the trade of the union with outside countries.

In order to ensure fair and economic competition for the producers and traders within the Benelux countries, the governments agreed to consult together on any schemes which they might have for the promotion of their export trade and also to co-ordinate their foreign exchange control arrangements.

The common commercial policy of the Benelux countries was to be based upon the principle of using the combined bargaining strength of the three countries to obtain the maximum amount of freeing of the Benelux trade with outside countries; and the three governments were to concert their policies so as

to agree on a common line to take at international conferences and organisations on trade and payments.

Now, if each of the countries which is a member of an economic union keeps its overall balance of payments in equilibrium (for example, through appropriate domestic policies for the reflation and disinflation of its national income as laid down in The Hague protocol of 24th July 1953) then a partner country which is in deficit in its payments with the other partners must be in an equal surplus in its payments with outside countries. In such circumstances the foreign currencies earned by one partner could be used to pay its debt to another partner which, in turn, could use these foreign currencies to cover its debt with outside countries. But this process depends upon the foreign currencies earned by the former partner country being the same as, or freely convertible into, the foreign currencies required by the latter partner country. In a world of inconvertible currencies this would not always be the case. But the existence of the clearing machinery of the European Payments Union ensured that the principle of convertibility was in operation in so far as the main non-dollar currencies were concerned. The protocol naturally and logically, therefore, contained a provision to the effect that if the European Payments Union ceased to operate the obligations for the application of a joint and common commercial policy should cease unless some alternative satisfactory system of payments between the partner countries could be discovered.<sup>3</sup>

<sup>3</sup> The protocol does not say anything directly about the problem of a common dollar import programme, even though the foreign currencies earned by one partner country might not be convertible into the dollars needed to finance the excess dollar imports of another partner country. Theoretically, this problem could be met if the common and joint dollar import programme of the partner countries were so controlled as to keep the total Benelux dollar imports equal in value to the total Benelux net receipt of dollars from exports to the dollar area, dollar aid, dollar capital movements, etc. In such a system there would, of course, be no reason to expect that each partner's dollar receipts would cover its dollar payments. But if one partner had a dollar deficit, the other would in these circumstances necessarily have an equal dollar surplus; and if both partners were in overall equilibrium on the balance of payments, the dollar surplus of the latter would be needed to help to finance its bilateral deficit with the former, so that the former could use the dollars to finance its own dollar deficit. Presumably the protocol was based upon the assumption of some such pooling of dollar earnings by the partner countries.

This protocol has not yet been ratified or brought into force; and the common commercial policy envisaged in the protocol has not yet been fully applied. The protocol itself lays down only that this common commercial policy should be applied within two years of the ratification of the protocol.

VII. FURTHER PROGRESS: THE FREEING OF FACTOR  
MOVEMENTS AND THE FORMATION OF A JOINT  
COMMERCIAL POLICY, 1954-1956

*Agreement on  
Capital Move-  
ments.  
Brussels; 8th  
July 1954.*

In July 1954 a further step towards the building of the full economic union was taken by an agreement to allow freedom of capital movements among the three partner countries. In fact, for some time previously, the exchange control arrangements for the Belgium-Luxembourg Economic Union had permitted Belgians and Luxembourgers to make unlimited capital transfers to any member of the European Payments Union, including the Netherlands. The new agreement was, therefore, mainly of importance in making provision for the movement of capital from the Netherlands into the Belgium-Luxembourg Economic Union. The agreement raises a number of complicated technical points about the exchange controls over the Belgian and Luxembourg francs and over the Dutch guilder. Here it must suffice to give a very brief outline of the system which was adopted.

Residents of the three countries became free to move their capital funds from any one to any other partner country for investment. But the purchases and sales of the currencies of the partner countries for these capital transactions were not to take place in the official foreign exchange market at the fixed par rate of exchange; they were all to be directed into a free foreign exchange market in which the rate of exchange between the franc and the guilder would freely fluctuate to the extent necessary to make the demand for each currency equal to its supply.

If only the sums involved in intra-Benelux capital movements had been allowed into this free market, this would of course have meant that there could be no net intra-Benelux capital movement. For example, an attempt on the part of the Dutch to invest money in Belgium would have fed more Dutch currency into the free market, where the guilder would have depreciated in terms of the franc. This would have gone on until either the franc investments had become so expensive to the Dutch investor that he preferred after all to keep his capital at home, or else until investment in Dutch guilder assets had



become so cheap to the Belgian that new Belgian funds were attracted into the free market for loan to the Netherlands. In both cases there would have been no net movement of capital between the Benelux countries, and the change would have had no effect upon getting real capital to move from that partner country in which it was relatively plentiful and cheap to that partner country in which it was relatively scarce and expensive.

But there were two ways in which the new arrangements did in fact allow for a net movement of capital between the partner countries.

In the first place, some payments other than pure capital transfers were allowed into the free market—for example, payments for tourist expenditures. If then the guilder depreciated in the free market in terms of francs because of a Dutch desire to invest in Belgium, this might attract an increased Belgian demand for the cheap Dutch currency in the free market to finance increased Belgian tourist expenditure in the Netherlands. In such a case there would be a real transfer of additional Dutch capital into Belgium through the provision of real resources by the Dutch to Belgian tourists.

But there was a second, more complicated, but much more important way in which the new arrangements could lead to a real transfer of capital. Since May 1953 a system had been in operation in Europe for arbitrage transactions between recognised foreign exchange dealers in the currencies of the main members of the European Payments Union. A Belgian who now, under the agreement of 8th July 1954 for intra-Benelux capital movements, was allowed to borrow Dutch currency for investment in Belgium could transfer this capital into Belgium indirectly by selling the Dutch currency for, say, pounds sterling at the official rate of exchange (because of the existing arbitrage arrangements); with these pounds sterling he could purchase gold or dollars at the depreciated value of transferable sterling; and with the gold or dollars so acquired he could purchase Belgian francs for his investment in Belgium. Now this indirect way of transferring a capital sum from Dutch to Belgian currency would be cheaper than the direct route through the free market for the franc and the guilder as soon

as the discount on the guilder in the free franc-guilder market was greater than the discount on transferable sterling in terms of gold and dollars. In fact in the months succeeding the agreement of July 1954 on the freeing of intra-Benelux capital movements, although there was a considerable movement of capital from the Netherlands to Belgium, the discount on the guilder in the free market never rose very high, mainly because of the possibility of this alternative indirect route for the transfer of the funds.<sup>1</sup>

This protocol came into force on 16th July 1954 for one year, but it was renewed on 14th July 1955 and again on 16th July 1956 for further periods of one year.

*Ministerial  
Meetings.  
Brussels; 20th  
July 1954; 7th  
September  
1954; 9th  
December  
1954; 3rd May  
1955; and 5th  
October 1955.*

Between the agreement on freedom of capital movements, reached in July 1954, and the agreement on freedom of labour movements reached almost exactly two years later, there was a two-year period during which there were a number of ministerial meetings. No new formal engagements resulted from these meetings; but some progress was recorded on a number of topics and important decisions were made about future prog-

<sup>1</sup> It is of interest to consider the effect of this indirect route upon the balances of payments of the countries concerned. If the United Kingdom authorities were using their gold and dollar reserves to support the value of transferable sterling at a given level, then the effect would be as follows: (i) the arbitrage sale of guilders for pounds sterling would increase the Dutch deficit (or decrease the Dutch surplus) with the European Payments Union; (ii) at the same time it would decrease the United Kingdom deficit (or increase the United Kingdom surplus) with the European Payments Union; but (iii) against this the United Kingdom would lose gold and dollars in support of the additional strain on transferable sterling; and (iv) Belgium would gain gold and dollars equal to the inflow of capital from the Netherlands. If the United Kingdom authorities were not supporting transferable sterling, link (iii) in the above chain would need some modification. In this case the additional strain on transferable sterling would cause some further depreciation of transferable sterling in terms of dollars. From whom in this case would the Belgian holders of transferable sterling in fact receive the dollars for which the transferable sterling was sold? If the wider discount on transferable sterling increased the incentives for black market commodity shunting, it might mean that in fact the United Kingdom once more bore the burden through a decrease in the payments into the London dollar pool of dollars earned from sterling-area exports. On the other hand, the depreciation of transferable sterling might cause some speculator to decide to hold sterling (which he now expected to appreciate again) rather than dollars; and in this case the dollar funds would have come, not from the United Kingdom reserves, but from this private speculative movement of capital from dollars into sterling.

ress towards a common Benelux market for agricultural products.

During these meetings there were exchanges of views about the development of prices and wages inside the three countries; a substantial rise in Dutch wages was noted; it was held that this had removed the chief factor disturbing the balance of payments between the three countries; and in view of this much improved situation it was decided to review the draft final Treaty for Economic Union which had been in cold storage since 1951.

The ministers also discussed once more the problem of unifying the rates of excise duty under the protocol of 18th February 1950; and they considered once more the dates at which the unified rates of duty might be applied in the cases of tobacco, mineral water, and beer.

Another subject which received much attention in different forms during this series of meetings was the formation of a common commercial and financial policy for all the Benelux countries vis-à-vis the outside world. One symptom of growing unity from this point of view was that the Dutch Minister of Finance had represented all three Benelux countries at the talks on the problem of the convertibility of currencies held in London on the 15th and 16th July 1954; and at the Benelux Ministerial Meeting in Brussels on 20th July 1954, he reported to his colleagues on these talks.

Another aspect of this general problem which received a great deal of attention during this series of meetings was the attempt to form a single common Benelux list of products to be freed from all restrictions on import from other European countries under the liberalisation code of the Organisation for European Economic Co-operation. Both Belgium (on behalf of the Belgium-Luxembourg Economic Union) and the Netherlands had fulfilled their obligations under the liberalisation programme. Thus in 1954, when the liberalisation code required countries to free from quantitative import restrictions at least 75 per cent of goods privately imported from other members of the Organisation for European Economic Co-operation, the Netherlands had liberalised as much as 92.6 per cent and the

Belgium-Luxembourg Economic Union 87.2 per cent of such trade.<sup>2</sup> To a large extent the Dutch and the Belgian lists of liberalised products covered the same commodities; but they were not identical; some products which were freely importable into the Netherlands were not on the Belgian list and vice versa. It would have been easy enough to have formed a common list by reducing the percentage of trade which was liberalised and by including only the items which both countries found it easy to import freely. However, it was not proposed to form a common list by the simple process of imposing new restrictions on the difficult items; but if this were not done, it would be impossible not to include in any common list some items which either the Dutch or the Belgians found it difficult to admit freely in competition with their home production. Yet it was only in so far as a common regime of restrictions on imports from abroad could be agreed, that all goods of any origin could be allowed to move freely within Benelux.

Considerable progress was made in this field. By July 1954 it had been possible for the Benelux partners to agree upon a common list of goods which could be freely imported from the dollar area. At the beginning of 1955 the Organisation for European Economic Co-operation had decided that its statutory liberalisation percentage should be raised from the ruling 75 per cent to a level of 90 per cent to operate from 1st October 1955. On 1st July 1955, a joint Benelux list of goods to be imported from the other members of the Organisation for European Economic Co-operation was put into force, representing a liberalisation of 91.1 per cent of the total imports of Benelux as a single unit from the other members of the Organisation for European Economic Co-operation. In January 1956 the Council of the Organisation for European Economic Co-operation decided that for the application of its Code of Liberalisation the three Benelux countries in future would be regarded as a single trading unit. But this still left the problem of devising a common regime of control over the import from third coun-

<sup>2</sup> Strictly speaking, the trade liberalisation percentage means that quantitative restrictions had been removed from private-account imports that accounted for that percentage of the given country's imports from other OEEC members in 1948.

tries into Benelux of the goods which were still subject to import restrictions in one or other of the Benelux partners; and attention was turned to this problem.

During the series of ministerial meetings in Brussels in 1954 and 1955 considerable attention was also given to the co-ordination of the policies of the Netherlands and of the Belgium-Luxembourg Economic Union at the meetings in Geneva of the contracting parties of the General Agreement on Tariffs and Trade. A joint Benelux committee of experts was set up by the ministers in order to maintain uniformity in the attitudes taken to various issues by the Dutch and Belgian delegations at Geneva. This problem was particularly important because during the period October 1954 to March 1955 the provisions of the General Agreement on Tariffs and Trade were under review at a conference of all the contracting parties in Geneva.

At the ministerial meeting in May 1955 important decisions were taken about future Benelux agricultural arrangements. It was agreed that within a year's time the arrangements proposed in the agricultural protocol of 21st October 1950 for the compulsory arbitration of disputed matters should be ratified and put into force; that an agricultural fund should be set up in Belgium and Luxembourg so that the pattern of Belgian and Luxembourg support policies for agricultural products could be more nearly assimilated to the Dutch pattern; that domestic agricultural policies should be harmonised over the seven years 1955 to 1962, so that at the end of that period the free exchange of agricultural produce could be permitted in Benelux, it being recognised that Luxembourg agricultural products would have to continue to receive special treatment for some time; and that a committee should be set up to study the technical problems involved in measuring costs of production in agriculture so that comparability between Dutch and Belgian measurements of cost could be attained. A ministerial committee was set up to promote the harmonisation of the national agricultural policies. This series of resolutions represented a renewed attack upon the persistent agricultural difficulties in forming a full free-trade area in Benelux. Recent rises in money wages and so in costs in the Netherlands, together with some

improvements in agricultural efficiency in Belgium, had made the problem look rather less intractable; but even if the target for free trade in agricultural products by 1962 were attained, it would mean that it had taken no less than eighteen years since the initial Benelux Customs Union Treaty of 1944 to apply the common-market principle to agricultural products.

*Protocol on  
a Benelux  
Consultative  
Inter-Parliamentary  
Council.  
Brussels; 5th  
November 1955.*

In November 1955 a protocol was signed in Brussels making provision for the setting up of a Benelux council of members of parliament. This protocol in effect has taken the place of the protocol of the 24th July 1953 on this subject, which was never ratified or applied.

*Ministerial  
Meeting.  
Brussels; 12th  
January 1956.  
Approval of  
Draft Treaty  
on Labour  
Movements.*

In January 1956 a ministerial meeting was held in Brussels at which a number of problems were discussed. But the most important business done at this meeting was the approval by the ministers of a draft treaty between the three countries to facilitate the free movement of workers between the three Benelux countries. The importance in Benelux of labour mobility between the three partners should not be exaggerated. In spite of the facts that the Netherlands is a country of rapidly growing population, that Belgium is a country in which population is not growing, that the Belgian wage has been considerably higher than the Dutch, that the same language (Flemish and Dutch) is spoken in both countries, and—as we shall see—that there have not been very serious barriers to the movement of Dutch workers into Belgium, the amount of movement has in fact been small. For various reasons the Dutchman, if he does decide to emigrate, prefers to move to the new continents of North America or Australia rather than to cross the Belgian-Dutch frontier.

We have already seen that in a series of bilateral conventions (between the Netherlands and Belgium of 29th August 1947, between Belgium and Luxembourg of 3rd December 1949, and between the Netherlands and Luxembourg of 8th July 1950) steps had been taken to ensure that a worker from any one of these countries who worked in one of the other partner countries would not be put at a disadvantage in so far as social security benefits were concerned. Already, before the Second World War, steps had been taken more directly to facili-

tate the movement of labour between the Benelux countries. A series of bilateral treaties (of 20th October 1926 between Belgium and Luxembourg, of 20th February 1933 between the Netherlands and Belgium, and of 1st April 1933 between the Netherlands and Luxembourg) already existed which eased the movement of labour. But labour could not move with perfect freedom between the three countries. Labour permits must still be obtained from the relevant national authority of the country in which work was sought by any worker coming from one of the other two countries.

The practice existing in Belgium at the beginning of 1956 illustrates this point. All foreign workers (including Luxembourg and Dutch workers) had to obtain labour permits. These were granted, without restriction on the employment to be taken, to all foreign workers who had been resident in Belgium for ten years or more, and this period of ten years was reduced to zero for Luxembourg workers and to six months for Dutch workers. In addition, labour permits could be issued for one year, with the possibility of renewal, to a foreign worker not already resident in Belgium to work at a particular job on the request of the Belgian employer concerned, and such permits were not in fact refused in the case of Dutch workers, provided that the wage offered was not lower than that normally paid to similar Belgian workers.<sup>3</sup>

The draft treaty, which was approved at the ministerial meeting at Brussels on 12th January 1956, was based on the following principles. Employers in any one of the three countries could offer work to any worker in any of the three countries without need for a labour permit; but if unemployment appeared in any particular occupation in any one of the countries, the governments concerned would consult on temporary exceptions to this rule which might be necessary to regulate that particular part of the labour market. The national authori-

<sup>3</sup> There had in fact in recent years been cases in which Dutch workers in the building industry had been employed in Belgium to replace Belgian workers at considerably lower wages than the Belgian wage for the same work. This had led to protests in Belgium which had caused the authorities to lay stress on the necessity of paying the Belgian rate of wages as a condition for the grant of labour permits.

ties concerned in the three countries would take steps to report vacancies and applications for work to each other so as to facilitate the placing of workers to the best advantage in the Benelux countries. The draft treaty contained the provision that the wages paid and the conditions of work offered to the workers coming in from the other partner countries should be the same as those offered to the workers of the country receiving the workers; and administrative arrangements were contemplated for ensuring the observance of this principle.<sup>4</sup> A special advisory committee was to be set up under the treaty to supervise the national regulations made for applying the treaty and to recommend changes in them.

At their meeting in Brussels on 12th January 1956, the ministers approved the terms of the treaty and agreed to submit it to their parliaments for ratification; but it was not to be applied until the coming into force of the final Treaty of Economic Union or any earlier date which might be agreed upon. When it did come into force, it was to supersede the three bilateral treaties of 1926 and 1933 (noted above) which at present regulate the movement of labour between the three Benelux countries. As an interim measure the ministers decided to consider the possibility of applying to movements of labour between the Netherlands and Belgium the more liberal arrangements applied at present to movements of labour between Luxembourg and Belgium.

*Ministerial  
Meeting.  
Brussels; 24th  
April 1956.*

At a meeting held in Brussels in April 1956, the ministers made further progress in the problem of forming a common Benelux commercial policy vis-à-vis the outside countries. They approved a programme, submitted to them by the Board of Presidents, for the negotiation of joint Benelux commercial treaties with certain outside countries; and before the end of 1956 a first start had been made by the sending of single joint Benelux delegations to negotiate single joint Benelux commercial treaties with Denmark and with the United Kingdom.

<sup>4</sup> This rule diminishes the effectiveness of the treaty by reducing the incentive for employers in the partner country with a labour shortage (and therefore a high wage rate) to take positive steps to bring in workers from the partner country with a more abundant supply of labour (and therefore a somewhat lower wage rate).



At their meeting in April 1956 the ministers also initialled a protocol devised to ensure that the public authorities in each of the Benelux partner countries would, in the placing of public contracts and orders for goods, give equal treatment to suppliers from the other partner countries. At the same time they asked the Board of Presidents to prepare a report on the problems which arose from the fact that sales to public authorities were subject to different treatment in the three partner countries in so far as the levying of sales tax was concerned. The protocol itself, which was subsequently signed in Brussels on 6th July 1956, laid down the principle that the public authorities in any one of the three countries should not discriminate in their contracts and orders between suppliers in any of the three partner countries. But this principle of non-discrimination is particularly difficult to apply in the case of expenditure by public authorities where, *ex hypothesi*, there is no competition between buyers and where many considerations other than those of the price at which work is offered (e.g. considerations of the quality of the work to be done and the technical competence of each contractor to do it) may legitimately be taken into account by the public monopolist purchaser. Accordingly, the protocol contains a number of administrative arrangements to reduce the possibility of unfair discrimination to a minimum. These provisions cover, among other things, the right of suppliers in all the Benelux countries to be included in the lists of potential suppliers to any public authority; procedures for the publication of the results of tenders of work to public authorities; procedures whereby the relevant authorities in one of the partner countries can give opinions to the relevant authorities in another partner country on the technical qualifications of a supplier in the former who seeks a contract in the latter; the unification throughout the three countries of the period for which a tenderer may be held to his offer; and the institution of a special mixed committee to investigate and deal with complaints of discrimination.

*Protocol on  
National  
Treatment in  
Public Con-  
tracts and  
Orders.  
Brussels; 6th  
July 1956.*

The protocol also contained a principle which on purely economic grounds may be open to criticism. Arrangements were to be made under the protocol to compare the value of the orders

given by the public authorities in one partner country to suppliers in another partner country with the value of the public orders given in the opposite direction. Elaborate procedure was suggested for the ministers to decide on a numerical measure of what was an objectionable degree of imbalance in these bilateral flows of public orders, for the special mixed committee mentioned above to report on the question whether such a lack of balance existed, and, if the special mixed committee and ministers could not agree, for a final procedure of arbitration to decide whether the government of the partner country which felt that there was a serious imbalance in the public orders which its authorities were giving to, and which its suppliers were receiving from, another partner country could take steps to reduce the orders placed by its public authorities in that other partner country.

But it is questionable whether the balance of the value of orders given and received between two partner countries should be taken as a criterion of fair treatment. It is possible to imagine circumstances in which for quite other reasons partner A is in balance-of-payments deficit and partner B is in balance-of-payments surplus, in which A's money prices, incomes, and costs must therefore be deflated relatively to B's, and in which this gives A's suppliers (both in ordinary competitive markets as well as in contracting for public authorities) an additional chance of competing successfully with B's. If such an adjustment caused the balance of public orders received by A's suppliers to improve relatively to those received by B's suppliers, this would be part of the legitimate and desirable process of economic adjustment. It is desirable that price-for-price and quality-for-quality public authorities should buy in the cheapest market; it is irrelevant whether this happens to lead to a balance one way or the other between public orders placed and received by any one of the partner countries.

It was agreed at the time of the signature of this protocol at Brussels on 6th July 1956 that it should be submitted to the parliaments of the countries concerned for ratification. Meanwhile, a supplementary protocol was signed under which provisional application was to be given immediately for one year to

the provisions of the main agreement, except those relating to the acceptance of compulsory arbitration in the case of disputes. Under this provisional protocol the Belgian government agreed to submit to the Belgian parliament as soon as possible, and at the latest at the time of the submission of the final Treaty of Economic Union, the repeal of existing legislation which enabled it to protect Belgian against Dutch suppliers to Belgian public authorities; and the Belgian and Luxembourg governments agreed to apply their existing regulations in such a way as to put Dutch suppliers on an equal footing with Belgian and Luxembourg suppliers.

## VIII. CONCLUSIONS

Negotiations for the building of Benelux have been much more prolonged and difficult than had at first been expected. Certain broad conclusions can be reached about the nature of these difficulties.

(1) The formation of the common customs tariff on imports into Benelux from third countries and the removal of customs duties on trade between the Benelux countries presented some technical problems<sup>1</sup> and took rather longer than was at first intended. But in fact this proved to be much the easiest part of the building of Benelux.

(2) In any full economic union it is necessary to unify the domestic rates of excise duties and of other indirect taxes (such as sales taxes) in the partner countries so that there is no need to maintain a customs control at the common frontier to tax or regulate the flow of goods from the low-taxed to the high-taxed market. The unification of excise duties has proved to be a very difficult problem for two reasons. First, Belgium has relied for her budgetary revenue more heavily on indirect taxes than has the Netherlands; and Belgium has been unwilling to make the shift to direct taxes, and the Netherlands the shift away from direct taxes, which the unification of rates of excise duty would have involved. Second, national habits of consumption differ; and within the field of indirect taxation methods of raising revenue which are socially and politically acceptable in one country are rejected in another. Thus, the Belgians have not been able to countenance the rise in the duty on their national drink, beer, which the unification of the Dutch and Belgian duties would imply.

(3) The unification of rates of excise duties would in fact raise two other problems, namely, the division between the three governments of the revenue from the unified duties and future changes in the unified rates of duty. In Benelux the principle has been adopted (and has been applied to those few excise duties which have been formally unified) that the revenue

<sup>1</sup> For an account of these problems, see J. E. Meade "Benelux: The Formation of the Common Customs," *Economica*, August 1956.

from the unified excise duties should be divided according to the consumption of the products in the three countries.<sup>2</sup> But this has, of course, involved the maintenance of a control at the common frontier over movements of the goods concerned for the statistical purpose of computing how much of any one of the taxed products has been produced (and taxed) in one of the partner countries but consumed in another. But a more serious problem still lurks round the corner and is not apparent from the story of negotiations between 1943 and 1956, simply because there has been such limited success in unifying rates of excise duty. When all indirect taxes have been unified, about fifty per cent of the revenue of the Belgian and Dutch budgets will be derived from taxes whose rates can be varied only by common agreement. Freedom of action for separate budgetary policies in the partner countries will thus be very greatly restricted; and even flexibility for co-ordinated budgetary policies might be greatly hampered in the absence of special political and administrative machinery for alterations in the unified rates of duty.

(4) In the post-war years all three countries, but especially the Dutch, maintained direct government controls over various sectors of their economic systems—price controls, subsidies, rationing and allocation schemes, licensing of building, and so on. In so far as these direct interventions differed in the two countries, controls at the common frontier were clearly inevitable; for example, a scarce commodity which was rationed and price-controlled in one market could not be allowed to be exported freely to a neighbouring market in which it could be freely sold at a high uncontrolled price. There was no serious attempt to build a full economic union on the basis of a continuation of direct controls, which would have involved designing a system of common unified controls administered by central

<sup>2</sup> It seems to be the intention ultimately to apply this same principle to the division of the revenue from the common customs duties on imports into Benelux from third countries. But up to the present each government has kept the revenue from the import duties levied on the goods actually entering its own ports. However, the geography of Benelux is such that goods intended for consumption in the Netherlands are likely in fact to enter by a Dutch port and those intended for consumption in the Belgium-Luxembourg Economic Union by a Belgian port.

Benelux organs. The only alternative was the rather general removal of direct interventions and the restoration of free markets within the partner countries. Even the attempts to build up a system of continuing but co-ordinated controls over investment in fixed capital equipment were abandoned in favour of freedom for private investment decisions within the partner countries.

(5) The trade in agricultural products between the three Benelux partners has remained subject to controls. To some extent this is due to the fact that there have been important government direct controls over agriculture which have differed in the three partner countries—the phenomenon noted in the previous paragraph. Dutch domestic agricultural marketing has been subject to important organised controls, while domestic Belgian agricultural marketing has been left much more to free competition. But the main reason for the failure to extend to agriculture the principles of the free common market is the simple straightforward fact that Luxembourg agriculture is higher in cost than Belgian or Dutch agriculture, and Belgian agriculture is higher in cost than Dutch agriculture; and, for political and social reasons, these countries are not prepared to see their agricultural production cut back by imports of cheap food.

(6) Another set of exceptions to the principle of the free common market for Benelux products arose out of the need to have some organised temporary restraints over the trade between the Benelux countries when sudden adjustments in the free market caused the producers in one partner country suddenly to undercut their competitors in another partner country. This principle of easing the process of adjustment which competition in a free market involves was also exemplified by the proposal to set up a Benelux Fund for Readaptation to help to finance the new capital investments which these changes of industrial structure made necessary.

(7) But by far the most difficult problem encountered in the negotiations for the building of Benelux was the problem of achieving an equilibrium in the balance of payments for each of the partner countries which did not involve the maintenance

on balance-of-payments grounds of restrictions on trade and payments between the partner countries. Over many of the years covered by these negotiations the Dutch and Belgian governments have had very different domestic monetary and budgetary policies, very different wage-fixing arrangements, and very different price-control policies. For many years the Dutch had policies for cheap money but closely controlled wages and prices, with the result that there was considerable 'suppressed' inflation at a relatively low level of money costs. The Belgians had a policy of dearer money, but with a less rigorous control over prices and costs. At first, the Dutch but not the Belgians had a serious deficit on their balance of payments, and were obliged to restrict imports from, and payments to, the Belgium-Luxembourg Economic Union. In 1949 the Dutch currency was depreciated relatively to the Belgian currency. Later with improvements in the Dutch real situation, a change in Dutch monetary policy, and a general decline in inflationary tendencies, the Dutch overall balance of payments greatly improved. This has enabled the Dutch to finance their continuing bilateral deficit with the Belgium-Luxembourg Economic Union by means of Dutch net earnings of foreign currencies in other markets, and in consequence balance-of-payments restrictions on trade and payments within Benelux have largely disappeared. So long as both partners remain in a strong overall balance-of-payments situation and the currencies of third countries remain fairly well convertible into each other, this absence of balance-of-payments restrictions within Benelux is likely to persist. But nothing in the negotiations for Benelux since the end of the second world war suggests that an answer has yet been found to the question how, if one of the partners should again be faced with a balance-of-payments deficit, the re-imposition of restrictions on trade and payments between the Benelux countries is to be avoided.

(8) Closely connected with the balance-of-payments problem discussed in the previous paragraph is the problem (continually recurring in the course of the negotiations for Benelux) of devising a common joint policy for commercial and financial relations of the Benelux countries with third countries. Such a

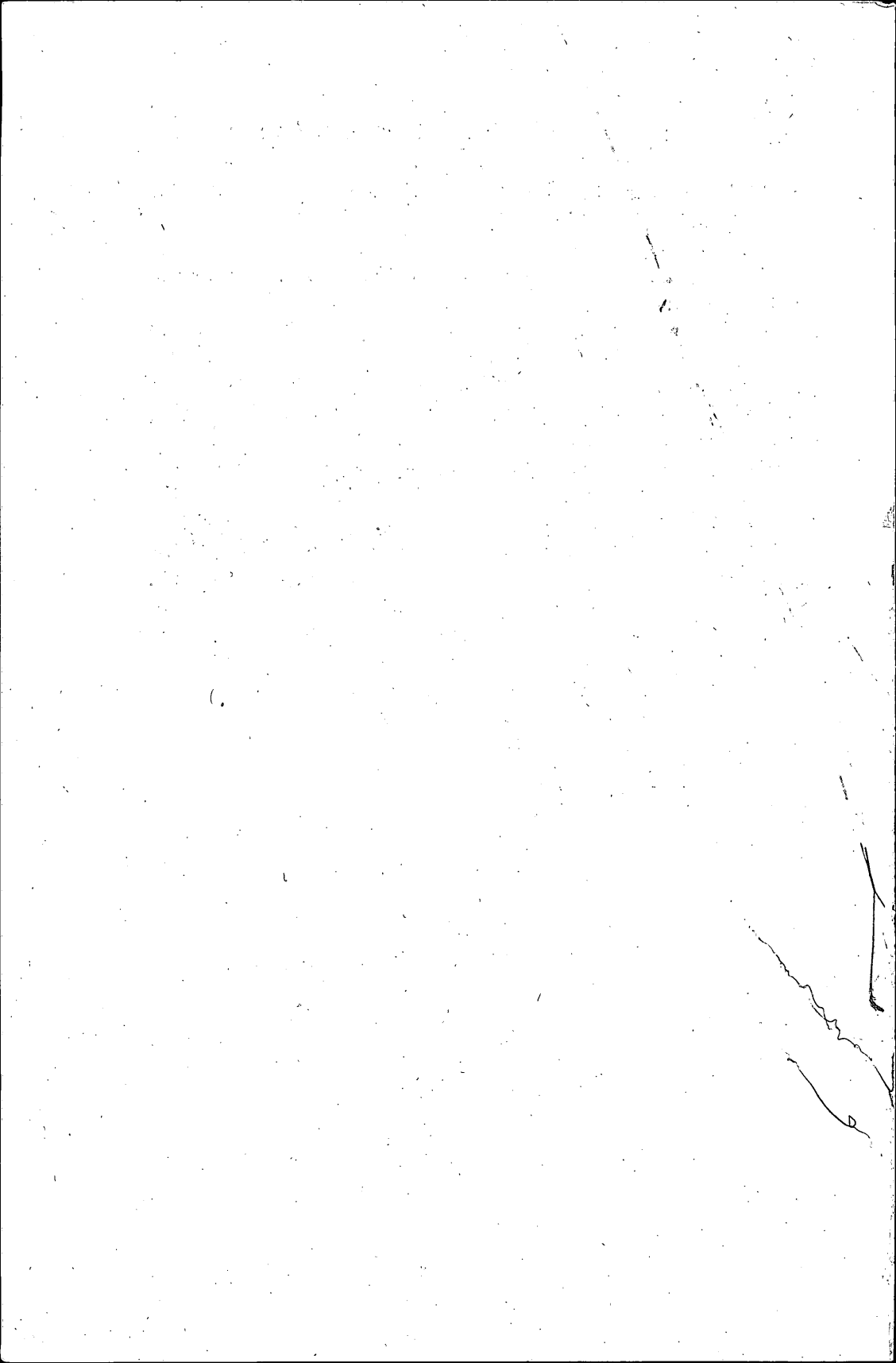
joint policy is clearly necessary, if a full economic union is to be achieved. If the Belgians allow dollar imports freely into the Belgium-Luxembourg Economic Union, the Netherlands must either allow such imports equally freely into her territory or else prevent these dollar imports and close substitutes for them from being imported freely into the Netherlands from Belgium or Luxembourg. Even if there are no balance-of-payments problems, the difficulties in devising a common control of imports from outside into Benelux are great enough, since it may be in the interests of the producers in one partner country to let in a certain product freely and in the interests of the producers in the other partner country to keep this product out. But experience in the building of Benelux shows that this problem remains insoluble so long as (i) trade and payments controls are extensively used to keep balances of payments in equilibrium, and (ii) the balance-of-payments positions of the partners are different. The deficit partner will need to restrict imports from outside severely; the surplus country will wish to admit imports from outside readily; and this will necessitate some control over the movement of these and similar goods from the surplus to the deficit partner country.

(9) In fact the building of Benelux has been greatly affected and eased by institutional developments in Europe outside Benelux. Four important instances have occurred. (i) The removal of customs duties on each other's products and the application of common customs duties on imports from outside countries meant that the Benelux partners had to obtain release from their most-favoured-nation obligations to third countries and to renegotiate many rates of import duty which were bound in their various existing commercial treaties with outside countries. A golden opportunity for this was presented by the occurrence of the Geneva Conference of 1947 which set up the General Agreement on Tariffs and Trade among the main trading countries. (ii) The creation of the European Payments Union greatly eased the problem of the finance of the bilateral deficit in the payments of the Netherlands to the Belgium-Luxembourg Economic Union. (iii) The European Coal and Steel Community rather than Benelux itself has been the ef-



fective instrument in instituting a common market between the Benelux countries in coal, iron ore, scrap, and steel—products which are of central importance to their economies. (iv) The arrangements made in 1954 for the freedom of capital movements between the Benelux countries owed their success largely to the scheme, introduced a year earlier on a wider European basis, for arbitrage operations between a large number of European currencies including sterling as well as the Dutch and Belgian currencies.

Although, as we noted at the outset, the final Treaty of Economic Union has not yet been written, Benelux is a living thing in the sense that both people and things move much more freely among the members than between any one of them and the rest of the world. It now remains to be seen whether the whole of the Benelux Economic Union may not be merged into the common market arrangements currently being negotiated between the Benelux countries and France, Italy, and Germany.



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