PRINCETON STUDIES IN INTERNATIONAL FINANCE, NO. 5

The First Three Years of the Schuman Plan

Derek Curtis Bok

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS AND SOCIOLOGY
PRINCETON UNIVERSITY · 1955

PRINCETON STUDIES IN INTERNATIONAL FINANCE

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS AND SOCIOLOGY
PRINCETON UNIVERSITY

1. MONETARY AND FOREIGN EXCHANGE POLICY IN ITALY, BY FRIEDRICH A. AND VERA C. LUTZ

2. MULTIPLE EXCHANGE RATES AND ECONOMIC DEVELOPMENT, BY EUGENE RICHARD SCHLESINGER

3. SPECULATIVE AND FLIGHT MOVEMENTS OF CAPITAL IN POSTWAR INTERNATIONAL FINANCE, BY ARTHUR I. BLOOMFIELD

4. POSTWAR BILATERAL PAYMENTS AGREEMENTS, BY MERLYN NELSON TRUED AND RAYMOND F. MIKESELL

5. THE FIRST THREE YEARS OF THE SCHUMAN PLAN, BY DEREK CURTIS BOK

The First Three Years of the Schuman Plan

By

Derek Curtis Bok

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS
AND SOCIOLOGY
PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY
1955

L.C. Card: 56-6944

Printed in the United States of America by Princeton University Press
at Princeton, New Jersey

PRINCETON STUDIES IN INTERNATIONAL FINANCE

THIS is the fifth 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, Mr. Derek Curtis Bok, was an undergraduate at Stanford University and was graduated from Harvard Law School in 1954. He spent the following year in Paris on a Fulbright Scholarship. This study is based upon his research during that year and covers the activities of the European Coal and Steel Community to September 1955. The Section will provide single copies of the STUDIES in print (see the inside back cover of this STUDY) to United States residents on the basis of specific requests accompanied by 25 cents to cover mailing and packaging costs. No charge will be made for single copies requested by residents of foreign countries.

This series is intended to be restricted to meritorious research studies in the general field of international financial and economic problems, both policy and theory, which are too long for the journals and too short to warrant publication as books. The Section welcomes the submission of manuscripts for this series.

While the Section sponsors the STUDIES, the writers are free to develop their topics as they will. Their ideas and treatment may or may not be shared by the editorial committee of the Section or the members of the Department.

GARDNER PATTERSON, *Director*
International Finance Section

Princeton University
December 1955

CONTENTS

I. THE GOALS OF THE PLAN 1

A. Economic Objectives 1
B. Political Objectives 3

II. THE INSTITUTIONS OF THE COMMUNITY 5

A. The High Authority 5
B. Other Institutions 7

III. THE PLAN IN OPERATION 10

A. The Creation of a Common Market 12
1 Tariff and Transport Restrictions 12
2 Subsidies 13
3 Zone Prices 15
4 The Results of the Common Market 15
B. Further Problems in Creating a Common Market 18
1 Transport 19
2 Exchange Rates 27
3 Wage Costs 28
4 Taxation 31
5 Interest Rates 32
C. Introducing Competition—The Problem of Steel 34
1 The Export Cartel 34
2 Pricing within the Community 35
3 Price Trends in the Future 40
D. Introducing Competition—The Problem of Coal 43
1 The National Organizations 43
2 The Dangers of Competition 46
3 Is Competition Possible? 48
4 Is Competition Necessary? 51

IV. THE ULTIMATE EFFECTS OF COMPETITION 53

A. The Social Costs of Competition 53
1 Labor Mobility 53
2 Trade Balances and National Psychology 57
B. The Likelihood of Economic Dislocation 59
1 Belgian Coal 59
2 Italian Coal and Steel 62
3 Overexpansion 64
4 The Threat of the Ruhr 67

V. CONCLUSION 73

A. The Economic Achievements 73
B. The Political Repercussions 77

Foreword

In the years that have followed the close of the last World War, a succession of speeches, plans, and committees has reflected a widespread desire to unify or integrate in some way the various countries in Western Europe. Often overshadowed in the clamor for unity, quieter, more sceptical minds have been at work, their efficiency best measured by the series of discarded schemes of which the European Defense Community is but a more spectacular example. Of the projects that escaped this fate, however, none seemed more truly revolutionary than the Schuman Plan for Coal and Steel, for it promised to confer real international power on a body largely free from the veto of a single government and equipped with substantial powers to direct the activity and development of two vital European industries. Three years have elapsed since the Plan first came into active operation, and sufficient experience has been accumulated to permit at least a tentative assessment to be drawn of its progress. Both in its successes and in its hardships, the European Coal and Steel Community may serve to illuminate the tangle of arguments that have been interchanged on the proper steps toward greater unity, and, indeed, on the very desirability of integration itself.

I. The Goals of the Plan

A. Economic Objectives

In entrusting an international organization with control over the vital industries of coal and steel, the member governments hoped to achieve a number of objectives, both political and economic. The economic aims of the Plan arose out of the pressing problems that confronted the nations of Europe in 1949. Laboring to rebuild and expand their war-torn economies, these countries demanded a steady stream of inexpensive coal and steel. Moreover, exports were needed to strengthen precarious trade balances, and Europe was therefore anxious to regain the predominance in the international steel market that she had enjoyed before the war. At the same time, it was only too apparent that the coal and steel industries were in no position to make the contributions to the European economy that were so urgently needed. Coal from the fields in Pennsylvania could be mined and shipped to Hamburg at a price that could not be matched by most European enterprises. In steel, costs had risen by approximately 58 per cent since 1937 although a rise of only 49 per cent had taken place within the United States.[1] Moreover, the growth of American plants on the Atlantic and Pacific seaboards created a threat of low-cost steel crowding Europe permanently out of South American and Asiatic markets. In the face of these problems, politicians grew more receptive to the reports prepared by the teams of economists that had been studying Europe's industries since 1945.[2] To these experts, it was already apparent that the Second World War had only provided the capstone to a crisis that had been fermenting since the early 'twenties. For years before the war, investment in the steel industry had been discouraged by the policies of an international cartel which operated behind tariff walls to regulate production, restrain competition, and preserve to each member nation the right to exploit

[1] Economic Commission for Europe, *European Steel Trends in the Setting of the World Market,* Geneva, 1949, p. 47.

[2] The most important of these reports was the Economic Commission for Europe's lengthy document cited above, in footnote 1. This study was frequently referred to by M. André Philip in his speech in support of the Plan before the French legislature. *Journal Officiel de la République Française,* No. 90, Assemblée Nationale, July 26, 1950, pp. 5939 et seq.

its own domestic market.[3] Moreover, inefficient installations had long been kept alive by government subsidies while import restrictions served to limit the markets of efficient firms and thus prevent consumers from utilizing the cheapest sources of supply. By 1950, these problems threatened to become still more acute, for it was widely feared that a serious depression was in the offing, bringing with it the threat of a new international cartel in an attempt to stabilize the falling market. Together with the fear of a recession came the warnings of economists who declared that inadequate consultation between the national governments was destined to result in a wasteful expansion creating up to 8 million tons of useless capacity within the steel industries of Western Europe.[4]

Faced with these dangers, the authors of the Plan labored to fashion an institutional framework within which all these problems could be resolved. The result of their efforts was a Treaty providing a series of positive principles that cut directly across Europe's economic and political traditions. In place of a mosaic

[3] The structure and functions of the prewar cartel have been treated at length in a number of texts. In brief, the international cartel movement began in the steel industry under the pressure of recession and bitter competition and resulted in 1926 in a body that set national production quotas for crude steel and was empowered to punish offenders by fine. The cartel broke down in the Great Depression largely because it lacked power to set prices, had no direct control over finished products, could not inflict sufficiently heavy fines, and controlled only one-third of total world exports.

After several years of competition, a new cartel was created in 1933, comprising the major producers on the Continent at its inception and later incorporating Poland, England, and the United States within its membership. Reinforced by tariff walls, each member nation was guaranteed the right to exploit its own domestic market without interference. In the export market, the cartel was equipped with much more substantial powers than its predecessor. A general committee was given power to determine broad policies and organizational techniques. At the same time, various selling agencies divided production quotas for each product between the member states and in addition fixed prices and conditions of sale. Similar organizations within each state allocated the national quota between the various firms. Moreover, distributors in the various importing countries were licensed and signed exclusive dealing contracts with the cartel, and members refused to sell to nonlicensed dealers. In this way, resale prices were controlled by the cartel, and geographical price discrimination served to meet and drive out competitors.

See, generally, Hexner, E., *The International Steel Cartel*, Chapel Hill, 1943; Stocking, G. W., and Watkins, M. W., *Cartels in Action*, New York, 1946; and Rieben, H., *Des Ententes de Maîtres de Forges au Plan Schuman*, Lausanne, 1954, pp. 215-314.

[4] Economic Commission for Europe, *op.cit.*, pp. 66-76.

of separate national economies, the Treaty prescribed a common market embracing France, Germany, Belgium, Italy, Holland, and Luxembourg. Within this market, it was hoped that the coal and steel industries would eventually be concentrated in the hands of the most efficient producers through the elimination of trade restrictions on the one hand and the encouragement of a free movement of resources on the other. At the same time, a system of free competition was ordained in order to provide an incentive to lower costs and prices. And to forestall the reappearance of an international cartel, a central authority was conceived with power to stimulate competition, suppress restrictive and predatory trade practices, and influence and coordinate investment in such a way as to ensure a rational supply and a growing output of coal and steel.

B. Political Objectives

Although these economic goals were significant in themselves, even greater emphasis was placed upon political objectives, for the Plan was widely proclaimed as a step towards solving the long-standing political problems posed by Franco-German relations. By 1950, it had become apparent that a Germany deprived of its most important farmlands and overcrowded with refugees could not become economically viable without an expanding industry, and with the growing demand for steel occasioned by the Korean war, France could not expect the controls upon German production to be continued indefinitely.[5] At the same time, however, the French were fearful of an unbridled development of the Ruhr into a powerful arsenal which might once more become linked with the aggressive policies of a German government. Under these circumstances, the Schuman Plan was conceived by France as a compromise whereby she would give up a part of her sovereign power to secure a degree of international control over German coal and steel. It was also hoped that the common market would encourage a spirit of economic and political cooperation between the two countries; M. Robert Schuman went so far as to declare that "the solidarity in production thus estab-

[5] See speech by M. André Philip, *Journal Officiel de la République Française*, No. 90, Assemblée Nationale, Paris, July 26, 1950, pp. 5941 and 5943.

lished will make it plain that any war between France and Germany becomes not merely unthinkable but actually impossible."[6] Beyond the political problem of France and Germany, however, lay the prospect of an integrated Europe, an objective shared by the Christian Democratic parties, which were currently in power in France, Italy, and Germany. For though these parties realized that a united Europe could not be achieved within the immediate future, they hoped that the Schuman Plan might serve as an important first step, a concrete example which could encourage the formation of additional pools and even pave the way to an eventual political and economic unification of all continental Europe.[7]

[6] Quoted in the *London Times,* May 10, 1950, p. 6.

[7] See, e.g., Rieben, *op.cit.,* pp. 327-328. For a general discussion of the political motives underlying the Plan, see Reynolds, P. A., "The European Coal and Steel Community," *Political Quarterly,* July-September 1952, pp. 282 et seq.; Köver, J. F., *Le Plan Schuman—Ses Mérites et Ses Risques,* Paris, 1952; and McKesson, J. A., "The Schuman Plan," *Political Science Quarterly,* March 1952, pp. 18 et seq.

An interesting analysis of the Plan combined with a number of opinions as to its future development has been written by Parker, W. N., "The Schuman Plan—A Preliminary Prediction," *International Organization,* August 1952, pp. 381 et seq. The history of the political maneuvering leading up to the Plan is touched upon by Mendershausen, H., "First Tests of the Schuman Plan," *Review of Economics and Statistics,* November 1953, pp. 269 et seq. For a more detailed account tracing the reactions and methods employed by the French producer associations to block the Plan, see Ehrmann, H. W., "The French Trade Association and the Ratification of the Schuman Plan," *World Politics,* July 1954, pp. 453 et seq.

The reactions of the various political and private groups towards the Plan are summarized in considerable detail by Goriely, G., "L'Opinion Publique et le Plan Schuman," *Revue Française de Science Politique,* July-September 1953, pp. 585 et seq. Greatest opposition came from the Communist parties of all countries, German and French industrialists, Belgian coal interests, Italian steel, etc. Strong support was given particularly by the Christian Democratic parties of all nations, Belgian steel, Netherlands transport, Belgian and German labor groups, etc.

The analyses made of the structure and implications of the provisions of the Treaty have ranged from the wildly optimistic to the deeply pessimistic. The most detailed account is doubtless to be found in Professor Paul Reuter's *La Communauté Européenne du Charbon et de l'Acier,* Paris, 1953. The best-reasoned and most provocative criticism of the Plan is, in the author's opinion, that of M. François Perroux, *Europe sans Rivages,* Paris, 1954, pp. 530-584. For an example of the wholly pessimistic and rather unreasoned attacks that have been made on the Plan, see two works by M. Bernard Lavergne, *Le Plan Schuman,* Paris, 1951, and "La Grande Impuissance de la Haute Authorité du Pool Charbon-Acier," *L'Année Politique et Économique,* January-February 1954, pp. 80 et seq.

II. The Institutions of the Community

A. The High Authority

In pursuit of these goals, a number of institutions were created and endowed with a wide variety of powers over the coal and steel markets. Of paramount importance is the High Authority, which has been given the responsibility for initiating and framing virtually all of the measures needed to create and administer the common, competitive market. The Authority is composed of nine men, eight of whom are chosen by the member governments on the basis of "general competence," with the ninth being selected by the other eight.[1] Once appointed, the members are to serve for six years, and they must be free of all influence from the participating governments in carrying out their functions.[2]

The powers of the Authority are quite complex, but those that are of immediate concern to an analysis of the Community can be grouped into four general categories. In the first instance, the Authority is responsible for giving effect to the various provisions in the Treaty that are connected with the establishment of a common market. Tariffs of all kinds as well as other forms of trade restrictions must be eliminated;[3] likewise government subsidies unless approved temporarily by the Authority.[4] In addition, the Authority must issue the appropriate decrees to enforce the findings of the Transport Commission, which has been given the task of identifying unjustified discriminations in transport rates, of creating "through international tariffs," and of attempting to harmonize the rates and conditions among all forms of transport within the common market.[5] Finally, the Authority has considerable discretionary power enabling it to alleviate the impact of the common market during the initial five-year "transitional" period. Thus, provision is made for the granting of funds to help in moving and readapting workers whose employers have had to

[1] Articles 9 and 10, *Treaty Establishing the European Coal and Steel Community* (cited hereafter as *Treaty*). Quotations taken from the Treaty are derived from the official English translation prepared by the High Authority for the Community.

[2] Article 9, *Treaty.*

[3] Article 4, Section a, *Treaty;* and Section 9, *Convention Containing the Transitional Provisions* (cited hereafter as *Convention*).

[4] Section 11, *Convention.*

[5] Section 10, *Convention.*

close down or modernize under the pressure of competition.[6] Moreover, the Authority must formulate and carry out a program to satisfy the special provisions in the Treaty that guarantee temporary protection to Belgian coal and to Italian coal and steel.[7]

A second series of provisions equips the Authority with wide powers to supervise the operation of the competitive market. Restrictive and discriminatory trade practices must be defined and suppressed,[8] and there is even power to issue binding decrees against employers whose wages are abnormally low or who have used wage cuts to compete with rival firms.[9] In addition, the Authority may block projected mergers or concentrations and can fine or even dissolve existing concentrations if their market power cannot be justified by economies in production or distribution.[10] Still other provisions permit the Authority to set maximum prices in the event that competitive conditions do not prevail.[11]

A third series of provisions has to do with finance and investment and provides the Authority with a variety of means to influence the development and growth of the coal and steel industries. As a foundation for the exercise of these powers, the Authority may compel producers to supply necessary information relating to investment plans and production trends.[12] A more controversial power conferred upon the Authority enables it to study all investment projects in advance and to forbid any firm from resorting to outside sources to finance a plan that is considered unwise.[13] In addition, the Authority may stimulate the development of new techniques by making grants to research projects and may also provide loans to firms seeking to modernize or expand.[14] Still further powers are included in the Treaty to enable the Authority to raise the funds needed to cover its administrative expenses and to finance its loans. Under these provisions, the Authority may borrow from governments or financial insti-

[6] Section 23, *Convention.*

[7] Sections 26 and 27, *Convention.* See pages 13-14 infra.

[8] Article 60, *Treaty.*

[9] Article 68, *Treaty.*

[10] Articles 65 and 66, *Treaty.*

[11] Article 61, *Treaty.*

[12] Articles 46 and 47, *Treaty.*

[13] Article 54, *Treaty.*

[14] *loc.cit.*

tutions and may levy a uniform tax upon all coal and steel enterprises at a rate not to exceed 1 per cent of gross earnings.[15]

Persuaded that competition alone could not be relied upon in time of boom or depression, the authors of the Treaty devised a fourth and final series of provisions enabling the Authority to cope with exceptional economic conditions in a manner analogous to that of a cartel acting in the public interest. Where high demand has threatened to create a serious shortage, the Authority may set maximum prices and if necessary may ration supplies of coal, iron ore, scrap, or steel.[16] Conversely, where a serious recession is impending, production quotas may be imposed,[17] and, in addition, minimum prices may be fixed.[18]

A number of methods have been devised by which the Authority may carry out its many powers and duties under the Treaty. Decrees may be issued against enterprises, and these are binding and obligatory in all respects.[19] Moreover, member governments may be given recommendations which are mandatory in the ends that they prescribe but leave the choice of means to the government in question.[20] Finally, advisory opinions on almost any issue may be directed to firms or to the member governments.[21]

B. *Other Institutions*

Entrusted with a variety of powers, the Authority is also subject to a number of checks and limitations exercised by the other institutions of the Community. Before employing certain of its powers, the Authority must in some cases consult[22] and in others receive

15 Article 49, *Treaty*. Article 50 provides that the maximum rate of tax may be increased if the Authority receives the approval of two-thirds of the Council of Ministers. Article 51 provides that funds borrowed by the Authority may be used only to grant and guarantee loans to enterprises.

16 Article 59, *Treaty*. In the first instance, the Authority may only propose an allocation system to the Council of Ministers, but if that body fails to agree on this or another method by unanimous vote, the Authority may proceed unilaterally.

17 Article 58, *Treaty*. The Authority must receive the approval of a majority of the Council of Ministers before imposing production quotas.

18 Article 61, Section b, *Treaty*.

19 Article 14, *Treaty*.

20 *loc.cit.*

21 *loc.cit.*

22 The High Authority must consult the Council of Ministers in the following cases:

a. In defining unfair and discriminatory practices. Article 60.

the approval of[23] a Council of Ministers composed of representatives from each participating government. Furthermore, once a year, the Authority must submit a report of its activities to a Common Assembly which discusses the report, directs questions at the officials, and if necessary can refuse a vote of confidence and thereby compel the selection of a new Authority.[24] In addition to the Council and the Assembly, provision has also been made for a Consultative Committee, which must include not less than thirty and not more than fifty-one members to be chosen by the Council of Ministers.[25] Composed of an equal number of labor, business, and consumer representatives, the Committee must be consulted by the Authority in certain specified instances and has in practice been asked its opinion on a wide variety of issues.[26] The last of

---

b. In fixing maximum prices to attain the objectives of Article 3, e.g., where active competition does not prevail. Article 61.
c. In setting up compensation schemes among coal mines located in different fields. Article 62.
d. In defining what constitutes control for purposes of the provisions regarding concentrations, Article 66, and the exemptions from those provisions.
e. In taking steps to prevent action by a member state which would impair competitive conditions. Article 67.
f. In making recommendations to enterprises paying abnormally low wages. Article 68.

[23] The High Authority must receive the approval of the Council of Ministers in the following cases:
a. In granting funds for research purposes. Article 55.
b. In granting funds to absorb displaced workers in industries other than coal, steel, and related industries. Article 56.
c. In imposing and terminating quotas on production in the event of a market crisis. Article 58.
d. In making allocation in time of shortage; if the Council cannot agree unanimously, the Authority may proceed unilaterally. Article 59.
e. In imposing export restrictions in time of shortage within the common market. Article 72.
f. In setting maximum and minimum levels for import restrictions on goods from third countries when market conditions so require. Article 72. (Unanimous approval must be secured.)
g. In taking extraordinary actions not expressly provided for in the Treaty. Article 95. (Unanimous approval is required.)

[24] A vote of no confidence requires a majority consisting of two-thirds of the votes cast and an absolute majority of the total membership. Article 24. The General Assembly is composed of seventy-eight delegates chosen by the parliaments of the member states. Article 21. See, generally, Articles 21-24.

[25] Article 18, *Treaty.*

[26] The literature on the Committee is not extensive, the most interesting article being that of M. André Metral, who subsequently became the President of the Committee, "Les Espoirs et les Angoisses Engendrés par la Communauté Européenne du Charbon et de l'Acier," *Société Belge d'Études et d'Expansion,*