

# The Dilemma of the O.E.E.C.

by

GIUSEPPE UGO PAPI

## *I - The dilemma of the post-war period.*

In this post-war period all countries, and above all those of Europe, find themselves faced by the following dilemma: they must either return to a policy of economic self-sufficiency, reducing their imports from the dollar area and producing for themselves such staples as cereals, meat, and fats, or they must continue importing on a large scale from the dollar area and intensify their trade with other countries. This is not — as some may be inclined to think — a theoretical debate. The problem involved will come up for discussion during the new stage of the work of the O.E.E.C.

A study of the plan for 1949-50 and of the long-term plan extending to 1952-53 presented by the 19 participating countries to the Paris meeting of the O.E.E.C. confirms the presence of this alternative, for it leads us to note the following fundamental facts: (1) that in 1952 the whole productive effort of the participating countries will not suffice to raise the food level of the European countries represented above that of the pre-war period; (2) that neither will the expected growth of trade between the participating countries suffice to rebalance their several economies. What then is the path each country should follow to secure once more a lasting economic balance?

## *II - The self-sufficiency hypothesis.*

Should a self-sufficiency policy be adopted, it might perhaps be possible to economise some hundreds of millions of dollars on imports from the dollar area during the E.R.P. period; but then countries like Italy would have to meet

the situation arising from the production of larger quantities of certain staples at ever growing costs; to introduce high protective duties or other forms of protection against the competition of the low cost countries; to shift the balance now attained in plans for public works — as for instance in agriculture — and to favor land-reclamation rather than well-considered irrigation works. Such countries would also be forced to follow a more active policy for assuring growers of the leading staples remunerative prices on the home market; in some case, more especially for wheat and sugar, these prices would have to be considerably above those ruling in transoceanic countries. But this — experience acquired in the period between the two wars shows it — would not bring about the rebalancing of the economies of the several countries. The recovery of that balance can only be secured — need we repeat it? — by the active operations of the mechanism of imports and exports. Should that mechanism fail to operate, should it not operate from now till 1952, the economic structure of each country, whether participating or not in the benefits conferred by the E.R.P., instead of remaining at the level attained will suffer an involution.

## *III - The larger trade hypothesis.*

Under the second hypothesis which foresees a steady growth of the trade of each country with all the others, both European and non-European, the prospective situation would be different.

Italy would still need remunerative prices and moderate protection for some agricultural staples, on lines in keeping with those of a

moderate protection for industry. In both cases the protective tariffs should be moderate as it would be impossible to have high industrial protection for some essential farm requisites without leading to harmful reactions on the cost and also on the price of farm products. But Italy would enjoy opportunities for the expansion of production to an extent that would far exceed the purchasing power of her home market; she would have the prospect of a balance to be secured between several groups of needs and of goods available on the domestic or international markets. Now, it is only if one or other of these policies be selected to guide the relations between countries that it will be possible to examine in an adequate manner the practical problems affecting production and exchange in each country, and therefore also in ours.

#### ***IV - Contingent situations cannot arrest this direction. Supposed incompatibility between inter-government agreements and bilateral agreements.***

It would be neither easy nor advisable to review here the opportunities for finding an outlet for each product produced in Italy. The agreements to be discussed at Annecy will afford ample opportunities for government officials and experts to handle this matter. But in securing larger outlets on foreign markets we should not be detained by uncertainties arising from purely contingent situations, attributable to the confusion caused by the contrast between the immediate interests of certain parties and the inexorable logic of facts; in other words, by human behaviour.

One uncertainty felt is, for instance, whether it is more advisable to participate in inter-government agreements for key-products, or to favour bilateral agreements in conformity with the policy recently advocated at the O.E.E.C. But there does not really seem to be any fundamental incompatibility between the two policies. Let us suppose that it be advisable for our country to participate in international agreements for goods to be *imported* at lower prices than those which in the absence

of such agreement would have to be paid, and of which the supply would thus be assured without need of the wearisome negotiations necessary in the case of bilateral agreements. The premium paid for this assurance would be the difference between the agreed price paid by the importer and the lower one that might possibly rule on the international market.

Let us take the case of wheat, for which the last of a long series of conferences has finally reached a definite decision. In Italy, as properly prepared lands will be sown with selected seed at longer intervals interrupted by the cultivation of intermediate crops, thus securing higher per unit yields, it will be possible gradually to limit the area under wheat to the lands best suited to it. Recourse will be had to imports — if possible in a declining measure — to cover deficit in wheat needed for food, seed, or other purposes.

But at the same time a certain quota of wheat might be left out of the agreements which Italy, for instance, might wish to import from countries not yet members of the inter-government agreements, and with which, under bilateral agreements, we should be able to offset our imports by exports of such products as hemp, wine, textiles, etc. This is now the case with some of the East European countries from whom we expect to import wheat in return for exports of the products just mentioned. Each country would decide on the quota of imports to remain outside the agreements.

Gradually, as the inter-government agreements for a given product — for instance, wheat — are extended to an ever growing number of countries, part of the bilateral agreements relating thereto will be restricted to an ever smaller number of countries, and will disappear altogether should *all* countries participate in the inter-government agreements for *all* products. But this day is still far off, and in the meantime each country could participate in a balanced measure in plurilateral agreements and in bilateral ones, distributing their imports between certain minimum quantities they desire to be sure of, and others used for securing markets for exports which would thus be paid for by counter imports.

### V - Have we really exported too much?

Another perplexing question arises from a fact clearly shown at the meeting of the O. E. E. C. Some of the countries poorly provided with natural resources, such as Italy, have exported to countries more richly endowed, such as England, Belgium, and France. Yet Italy cannot use the proceeds of her exports to make the imports she requires. And as the currencies of the several countries — those to whom Italy has exported and all the others — are not convertible at the rates of exchange fixed by their respective monetary laws, the Italian Foreign Exchange Institute to enable the exporting industries to continue operating, purchased the foreign currencies — pounds sterling, French francs, Belgian francs — paying for them with lire supplied by the printing press, and is holding these currencies, which meantime remain inactive — temporarily at least — because they cannot be used to pay for imports.

Substantially, this means that the Bank of Italy, through the Foreign Exchange Institute, makes a loan to exporters and enlarges the volume of the currency in circulation. This operation would not, however, be in itself harmful, if the transaction were really a grant of credit; *i. e.* if, in the course of time, goods were imported from the countries to which exports have been made and if therefore foreign exchange were sold to Italian importers against lire, which would thus return to the Bank. Such a transaction would be no more harmful than the discounting of bills by the Bank of Italy through the issue of notes which, on payment of the bills, return to the bank. It is rendered harmful only by the fact that the credit granted by the Foreign Exchange Institute to the exporter is not returned because the imports Italy desires cannot be had. Consequently the lire issued when the foreign exchange was purchased, remain in circulation.

We hear it said: « We must be careful not only about exporting but even about drawing up plans for the production of exportable goods. We have gone too far: now it is time to put on the breaks ». We hear it said: « Why not admit it? The first step that should be taken to assure successful international relations would

be to revive the convertibility of the several currencies ».

The first assertion goes too far. A country can rebalance its economy — as we have already said — only through the active operation of the mechanism of imports and exports. We are told that the plurilateral agreement signed last autumn in Paris is not working. But there is nothing surprising in this, for experience had already shown that even the plurilateral agreement of November 1947, pivoted on the Bank of International Payments, did not operate. After all, a plurilateral agreement is nothing but the grant of a credit, which, as such, must in due time be returned. But a credit is no longer one if the amounts due to the exporting country become a frozen asset, compelling it to have recourse to inflation to carry on its work.

How then can the skein be disentangled? Only by the active will of *all* the countries to collaborate. All the debtor countries (in the case of Italy, for instance, Great Britain and France) should realise that they must *first* pay their debts, at least in part; and only then export to the hard currency countries to earn dollars, or perhaps use in their home activities the goods that Italy might import from them. It seems absurd — I am convinced of it — but there is no other way out. Little by little a 100 % selfish outlook will have to give way to a cooperative point of view; to cooperation with others as a means of securing selfish ends of a more limited but permanent character. Otherwise the confusion will continue and then no economic structure — and still less that of countries which, like France and Great Britain, will not allow others who have exported to import — will be able to recover its economic balance.

It should however be noted that the import-export machinery ought to be able to work not only in a group of countries like those participating in the O.E.E.C., not only over a continent like Europe, but in all countries and in all continents, for the lasting recovery of an individual country is not possible if a start at least is not made with the durable recovery of all the others. This is a law of international

solidarity that holds good for all and which the severe lessons taught by history have never made more apparent than now.

#### VI - *What is required for the revival of currency convertibility?*

The second assertion that the clue to recovery could be found in the convertibility of the currencies, as some of our American friends are the first to assert, is also mistaken. Why are not currencies — why for instance, are not the pound sterling and the dollar — exchangeable one with the other? Or, to say it in other words, why must one give more of each pound sterling for each dollar than their metallic parities require? Because dollars are scarce. And why are they scarce? Because England, like all other countries, cannot freely export to the United States and procure herself the dollars that would make it possible to convert the pound sterling at the fixed parity.

The reason for the inconvertibility of the currencies is therefore to be sought in the obstacles the United States, and consequently so many other countries, place in the way of receiving from Europe, for instance, goods in payment of U.S. exports. But this being so, criticism of present ills should be levelled not against the superficial causes (the ratios between the currencies) but against the root cause (the obstacles still placed in the way of exchanges between the countries), and remedies should be found for them. Therefore, if the good will of all the countries were to succeed in reducing the obstacles in the way of trade, the convertibility of the currencies would automatically revive. But if this is not done, it will be vain to expect their convertibility, and still vainer to claim that the convertibility of the currencies would open the way for wider trade. The terms of the problem cannot be inverted.

For the time being we have, on the one hand, at the O.E.E.C., debtors — like France and Great Britain — who refuse to pay for the exports received from Italy by sending her the goods she desires; on the other hand we have creditors like the United States and other countries who refuse to allow their debtors to pay them in goods. Unfortunately, as long as these

resistances exist, not only will the convertibility of the currencies remain a mere wish, but no country will be able to draw up a plan of production and trade for the purpose of assuring itself a balanced economy as a preliminary to a period of social peace and stability.

#### VII - *Opportunities for emigration.*

The difficulties placed in the way of the transfer of men from one country to another are no less serious. It is true that excessive hopes should not be placed on emigration as a means for solving Italy's problem of unemployment. Nevertheless, emigration is a phenomenon grafted on the reality of the unequal distribution of the factors of production as between the several countries, the incomplete development of vast territories, the grievous insufficiency of consumption goods. This makes it urgent to correct the uneven distribution of productive factors, above all by the movement of capital which enables existing labour to be used on the spot; and next by moving large bodies of workers. When all the best conceived efforts for providing wider opportunities for steady employment have been reviewed, we find that emigration though painful offers the only means of escape for residual unemployment.

A study of migratory movements of workers might show the best means for promoting the *practical cooperation* of all the countries anyhow concerned in emigration. Such a study could review the possible outlets offered by the still sparsely inhabited countries or continents to over-populated countries. In the case of Italy we think of Latin America and to a very small extent of Africa and Australia. Light could be thrown on the innumerable *aspects* of this complex activity which is generally marked by great suffering and is always a delicate matter. Many of these aspects have already been carefully examined by individual students, national and international research organisations, congresses and conferences, while the Governments of the countries concerned have enacted many measures which have proved more or less efficacious in solving the many concrete problems that arise. Contacts with the immigration countries should be

arranged with a view to organising groups of emigrants to form the first land-settlement nuclei, which will serve later on as centres of attraction for individual emigrants.

### VIII - *Direction and planning of international trade.*

The dilemma we stated at the beginning of this paper need not remain one if common sense should prevail. Nevertheless, the intensification of trade — this decisive form of international cooperation — will still depend largely on the position taken by the United States. They are supplying the E.R.P. help to Europe and they are entitled to ask that the European countries should specialise in the production of quality goods suited for export, of a kind which do not compete with those of other countries. Our country has qualities of inventive ability and craftsmanship that can enable it to comply fully with these desiderata.

But at the same time the United States could supply credits to countries whose natural resources have still to be developed — Latin America and some parts of Africa — thus helping to raise their real income and to acquire a purchasing power which will assure the absorption of the exports of other countries: if it be true that the limit to the expansion of international trade is marked (in a given period and between several countries) by the purchasing power, and therefore the export possibilities, of the relatively poorer countries, and if this purchasing

power tends to increase with the development of the still backward areas. The fact is that today many countries have large export possibilities, but the obstacles placed in the way of international exchanges prevent them from availing themselves of these possibilities; so that, in spite of the many opportunities that exist for enlarging the productive activities of some countries to the advantage of all, international trade continues to be limited in volume to the injury of all.

Were there to be a gradual removal of trade barriers and were the United States at the same time to accept the idea of promoting by other loans the growth of the real income — agricultural and industrial — of still backward areas, not only would this promote, at least indirectly, the prudent emigration of European and more especially Italian workers needed for the development of those territories, but it would also raise their power of importing the quality products of European industries. Thus, through the growth of trade on prearranged lines, it would be possible to carry out the economic plans not of one country or group of countries only — that would be inconceivable — but of whole continents. And this — as has been repeatedly said — is the preliminary condition for rebalancing the economy of the individual countries. Let us open our windows on the world and let in air and the needed stimulus to work at home. Such is the advice that nearly forty years of painful experience give us.