'Flying tour of Europe' from Il nuovo Corriere della Sera (19 August 1949)

Flying tour of Europe

Following in the footsteps of US Secretary of the Treasury John Snyder, Paul Hoffman, the Administrator of the Economic Cooperation Agency (ECA), the body that determines the allocation of European Recovery Programme (ERP) aid, is again on a tour of 'Marshall Plan' Europe. The nature of his office meant that Secretary Snyder dealt mainly with monetary issues, whereas Paul Hoffman is looking at more specifically production-related problems. Two sides of the same coin. Two closely interrelated aspects of the major problem of the European balance of payments deficit vis-à-vis the dollar zone that shows no sign of being resolved, plans notwithstanding. The tour by the two US dignitaries is alleged to be for information gathering. The whistle-stop contacts make it impossible to enter into discussions and commitments. But the information they have garnered will be largely used as a basis for the decision currently to be taken in Paris, at the OEEC, on how ERP aid for 1949-50 is to be distributed among the participating countries and for the decision to be taken in Washington, next September, when the International Monetary Fund meets to review exchange rates between the European currencies (and sterling in particular) and the dollar.

This despite the plans, as I have just said, even if they are sometimes no better than forecasts. The plan that was to be used as a basis for the distribution of 1949–50 aid was ready back in December. But much has changed since then. The tumbling raw material prices and more sluggish trend in the US economy, one of the main reasons for the reduction in total ERP aid from 4.5 billion US dollars to 3.7 billion US dollars, are just two examples. Looking at the plan now, it is clear that many of the figures it contains are out of date. The change in the international economic landscape is illustrated by the fact that whereas in December the United Kingdom, with the largest slice of the ERP, was able to contemplate a 25 % reduction for 1949–50 as compared with the aid received in 1948–49 (1.239 billion US dollars in total minus 290 million US dollars in drawing rights accorded to other countries, leaving 949 million US dollars net), it now believes it cannot manage with less than 1.518 billion US dollars — in other words, a 20 % increase. For some months now, British exports, to the dollar zone in particular, have been in rapid decline. There is an increasingly dramatic shortage of dollars, hence the United Kingdom's request to cut the ERP aid quotas to the other participating countries to supplement its own portion.

And so a complex issue to which Italian economists first drew attention as soon as there was talk of the ERP has come under the microscope: how to establish an objective criterion for the distribution of the aid. The most conspicuous feature of Europe's straitened economic position is and has been the dollar shortage. And so, given the failure to devise any more appropriate indicators, it was decided to fix the total amount of aid by reference to the individual countries' balance of payments deficit in dollars. Each participating country was thus assigned aid equivalent to that assumed deficit. In vain did our negotiators point out that that Italy's position was quite special. Its surplus workforce — unable to use emigration as an outlet — compared with the available production capacity, further diminished as a result of war damage, has left Italy with major structural problems, given its low level of national income. Consequently, distributing the aid by reference to dollar balance of payments deficits to some extent crystallises the differences in living standards in the various European countries. In any event, it is now too late to change the system, for 1949–50 at least. We shall therefore have to accept a reduction from 550 million to 420 million US dollars. That is a relatively modest reduction bearing in mind falling prices and the cuts Congress has made in total aid.

As we know, within the OEEC, Paul Hoffman cannot interfere in the distribution of ERP aid. The United States itself wanted the OEEC to be an embryonic European economic government. It wanted to put us to the test and, once the total amount of aid had been set, invited the Europeans to handle the distribution of aid themselves. But Paul Hoffman has been given many examples of our absolute determination to bring about economic reconstruction, epitomised by the monetary stability achieved and the improved balance of payments.

But we should bear in mind the need to maintain the pulse of our economy through the appropriate investments and by financing emigration. In that connection, Prime Minister Alcide De Gasperi drew Secretary Hoffman's attention to the need to speed up the procedure for implementing the 'lira fund' currently languishing at the Banca d'Italia. As we know, that fund is made up of the proceeds of sales of ERP goods imported by both the State and private individuals. The general programme for implementation of the lira fund was drawn up on the basis of anticipated revenue of 300 billion Italian lire for the first 15 months of ERP aid. The individual programmes are referred to parliament for approval on the basis of the appropriate legislative acts. From an Italian point of view, programmes accounting for 262 billion Italian lire can be said to have met the legal requirements. But although these Italian programmes received informal ECA approval back in November 1948, they now have to obtain specific ECA approval before the relevant funds can be released. In late June, approximately 93 billion Italian lire were released for transport, agricultural redevelopment, public works and so on. Other monies were released in July. Those figures clearly show that the ECA needs to deal more rapidly with lira fund investments.

As I pointed out above, the economic reconstruction of Europe is closely linked to rebalancing the different countries' balance of payments vis-à-vis the dollar zone. But in discussing this issue and encouraging Europe to export to obtain dollars, we must bear in mind what the other side wants. There must be buyers or, better still, facilitators. Paul Hoffman openly acknowledged this, declaring that the United States must buy more, send more tourists to and invest more in Europe. I should mention that the United Kingdom has put forward other solutions, partly in an attempt to justify its request for more ERP dollars. But those proposals are unlikely to succeed. For example, I am not convinced by the proposal that the United States should resume the policy of stockpiling raw materials just when their prices are collapsing. I therefore believe that the best ways of encouraging a flow of dollars into Europe remain the traditional ways: increasing investment and labour productivity in Europe and cutting costs; opening up the dollar markets to European goods; increasing the number of US tourists to Europe; and private investment, if possible with US Government guarantees, in European economic activity.

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