

Note from the National Coal Board on the Schuman Plan (London, 17 May 1950)

Caption: On 17 May 1950, the National Coal Board, the statutory corporation for the British coal industry, gives its first impressions of the issues surrounding the Schuman Plan and analyses the possible repercussions for the national coal industry.

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**National Coal Board
General Purposes Committee
The Schuman Plan**

(Note by Sir Arthur Street)

My colleagues will be interested by the preliminary observations of Mr E. F. Schumacher, our Economic Advisor, on the Schuman Plan, which has set out in the note attached

The Schuman Plan

I

1. It has been emphasised by M. Schuman and universally recognised by commentators that the principal value and the significance of his proposal lie in the political field. Five years after the end of the war, the French Government are prepared to give up the attitude of victor to vanquished in their relations with Germany and to accept Germany as an equal partner. This far-sighted and magnanimous gesture not only puts Franco-German relations on a new basis but also opens up new possibilities of peaceful co-operation for the whole western world. The political merits of the French move overshadow whatever may be its economic merits or demerits.
2. At the same time there are some dangers. The main danger derives from the very enthusiasm which the proposal has generated in France and Germany and also in the United States. While the grand political gesture possesses a great and sometimes overriding value of its own, the practical and economic facts have a way of asserting themselves in the long run. If something impracticable is being attempted even the loftiest motives will not lead it to success.
3. The proposal may be described as an attempt at "functional internationalization". A certain sector of the national economy - in this case the coal and steel industries - is to be subjected to supra-national control. It is to be removed from the exclusive control of national governments. This raises many tricky problems. National governments continue to be responsible for employment, budgetary policy, total investment and consumption, wage and price levels, and the balance of payments. The internationalised sector impinges on every one of these general economic responsibilities, and every general economic policy necessarily impinges upon the internationalised sector. Can any national government discharge its general economic responsibilities, when an important sector of its economy is put outside its jurisdiction? Can it abide by international decisions regarding this sector when these decisions, as they might, come into conflict with general internal economic policy? (I have underlined the word "general" to put it into juxtaposition to "functional". My own view is that co-operation, integration, or internationalisation can each be a practical proposition when applied to these "general" economic policies, but would tend to create an unmanageable situation when applied "functionally", i.e. to specific sectors of the national economy.)
4. The fact remains, however, that specific economic sectors, like the coal and steel industries, may have important external relations by way of imports and exports, and that these relations require international co-operation. In the past, this requirement produced international cartels. If international cartels are frowned upon to-day, the requirement for some co-operation and co-ordination nevertheless remains.
5. The Schuman proposal will lead to something healthy and practical, in my opinion, if it succeeds in filling the gap left by the disappearance of the former coal and steel cartels. As formulated at present, it appears to aim very much higher and to reach into regions of "functional internationalisation", which I should consider to be definitely unhealthy and impracticable.

II

6. It may be of interest to look a bit more closely at the background of the French and German reactions to the Schuman proposal. As far as the French are concerned, the proposal has undoubtedly grown out of past events and represents an imaginative attempt to achieve old aims by novel means. The French have suffered many disappointments and failures in their post-war German policy. Their overriding objective is long-term security; but neither dismantling nor Allied control has eliminated the possibility of Germany one day recovering a preponderance of power on the Continent. Dismantling faded out because the bulk of Germany's war potential proved to be, at the same time, her essential "peace potential". Military Government had to give way to High Commission control, and High Commission control is acknowledged to be a strictly transitory phase. The Ruhr Authority has been the gravest disappointment, - an experiment in "functional internationalisation", conceived in a world of scarcities and without any clear-cut function now. Recent French attempts to enlarge the scope of the Ruhr Authority have failed precisely for the reason which is the basic weakness of "functional internationalisation", namely, that it would have stultified the ability of the existing governmental authorities in Germany - whether Allied or German - to conduct a consistent general economic policy within the area for which they are responsible.

7. There were other disappointments. The attempt to obtain German export coal at German internal prices failed in spite of powerful American support. So did the attempt to reduce German steel competition by enforcing an increase in German wages. The economic annexation of the Saar turned out, in many respects, to be an economic liability rather than an asset, not to mention the disturbance it caused to Franco-German relations. The Moscow sliding scale, so hard fought for, lost its value to France as the coal shortage subsided and is now, if anything, rather a boon to German coal exports. The Coal and Steel Control Groups, originally without French participation, all but lost their controlling functions as soon as the French had achieved full participation. Law 75, finally, designed to reorganise the ownership pattern of the German coal and steel industries, carries a preamble which the French find unacceptable (because it leaves the question of possible public ownership to be decided by the Germans) and have yet been unable to eliminate.

8. M. Schuman's proposal, it will be observed, contains a distinct echo of all these disappointments. France's fundamental objective is the retention of some long-term control over the German coal and steel industries in the interest of European peace. It has become abundantly clear that this cannot be achieved in the long run on the basis of the victor's superior power over the vanquished, and France has now declared her readiness to pay the price of giving the Germans an equal degree of control over the French coal and steel industries. The French Government have evidently come to the conclusion (and I think correctly) that without the payment of some such price the trend of increasing German sovereignty in matters of coal and steel could not possibly be arrested or reversed.

9. Not surprisingly, therefore, the French pursue their proposal with enthusiasm, although they cannot be unaware of the fact that they are risking one day to find themselves the weaker partner of a bipartite organisation. Hence they are hoping anxiously for British participation to restore the balance.

10. From the German angle the proposal looks enormously attractive. It appears to end the period of German inferiority and to inaugurate a period of equal partnership. It holds but the hope that the remaining restrictions on German steel output may soon disappear. The Germans, even more than the French, have nothing to lose and a great deal to gain. If the attempt to subject these industries to a "higher authority" succeeds, the Germans will have achieved equality of status. If it fails, their position will be no worse than before.

11. M. Schuman's proposal has been presented as a scheme to create a Franco-German "higher authority", in other words, as a bipartite scheme. The invitation to other countries to join has been noted but has not nearly had the same impact on public opinion. German enthusiasm for the proposal, it seems to me, relates specifically to the bipartite scheme. For it is a paradoxical fact that the handing over of powers to a bipartite organisation, in which each partner has 50 per cent of the votes, represents no real surrender of power at all. It creates a new forum for negotiation and co-operation, which may be highly valuable in itself, but implies no sacrifice of sovereignty.

12. I expect, therefore, that both the French and the Germans will push this proposal with a great show of enthusiasm and possibly with a certain lack of realism as long as the project is bipartite. Even if Belgium joined in, the real surrender of power to the "higher authority" would be small. The scheme would still be essentially bipartite, because the weight of the third partner would be insufficient to permit of any one of the Big Two being outvoted. The French and the Germans may thus be prepared to hand over to the "higher authority" far more powers and responsibilities than that authority, in actual practice, will be able to use effectively and efficiently. The agreement they might reach together would none the less be held up as a model of international co-operation, and great pressure would be put on the United Kingdom to join in.

13. The joining in of the United Kingdom as a third partner, however, would radically alter the significance of the whole arrangement. Each partner of a truly tripartite organisation would (presumably) have less than 50 per cent of the votes and could thus be outvoted by the other two acting in unison. The surrender of powers to the higher authority would become real. The Germans would be quick to see this point, - the point, that is to say, that in a tripartite organisation they could find themselves at any time in a minority position vis-à-vis two powers who would happen to be also two occupying powers. They would thus become much more sober than they are at present in their approach to "functional internationalisation".

14. The argument so far may be summed up as follows:

(a) The proposal is of the greatest political importance as a magnanimous French gesture which opens up entirely new possibilities of beneficial European co-operation.

(b) The proposal involves (in my opinion) a degree of functional internationalisation which is economically unsound and, in practice, unworkable.

(c) None the less, if reduced in scope, the scheme can be extremely useful to all concerned by creating an organisation to control the international trade in coal and steel on a co-operative basis.

(d) The French and the Germans, if left alone to set up a bipartite organisation, will tend for political reasons to press functional internationalisation beyond the point of practicability, thus making it impossible for the United Kingdom to join at a later date without insisting on far-reaching "retrograde" modifications. Handing powers to a bipartite organisation means no surrender of power at all.

(e) A sobering influence is required to achieve a workable scheme. No nation, at this stage, could play the role of critic and sceptic without being accused of "dragging its feet". The sobering influence, however, would be provided automatically as soon as a third nation, i.e. the United Kingdom, would declare its readiness to come in as a founder member. Handing powers to a tripartite organisation means a real surrender of sovereignty.

(Note: I should like to make it clear that I am not against the surrender of sovereignty as such. My objection is against functional internationalisation which I believe to be incompatible with the conduct of an efficient internal economic policy.)

III

15. The Schuman proposal provides that the essential principles and undertakings which are to underlie the operation of the scheme "will be the subject of treaties signed between the States and submitted for the ratification of their Parliaments". It is not known to me whether a French draft of these principles and

undertakings already exists or whether the working out of such a draft is to be the first task of the "founder members". It would be fortunate if the letter were the case and if the first draft would be worked out on the assumption that the scheme was to be tripartite and not merely bipartite.

16. Assuming that in this sense the door is still open, it is now necessary to consider in more detail how far it would be wise and reasonable to go. The proposal, as published, suggests that the "higher authority" should be charged with very far-reaching tasks, namely:-

- (a) the modernisation of production and the improvement of its quality;
- (b) a common price policy;
- (c) a common expert policy;
- (d) a common policy with regard to wages and living conditions of the workers in the industries concerned.

The following specific proposals have so far been formulated for the implementation of these tasks :-

- (i) abolition of all coal and steel customs duties between member states;
- (ii) formulation of production and investment plans;
- (iii) creation of a revolving fund (Fonds de reconversion) for financing the rationalisation of the industries;
- (iv) creation of "compensating machinery for price equalisation".

17. It will be convenient to consider the tasks of the "higher authority" in turn. As regards the modernisation of production and the improvement of the quality of the product, - and limiting our consideration to the coal industry, - it is clear that this is a job to be accomplished primarily "on the ground" and not "from the top". The National Coal Board is charged with the duty of "securing the efficient development of the coal-mining industry", and it has been found by experience that the ability of the National Headquarters to improve the efficiency of operations in an individual mine is strictly limited. It may be doubted whether the establishment of an even higher Authority - anyhow at this stage - would do any good at all. The distance from the "top" to the "bottom" would become even longer, which could only mean either that the "higher authority" completely surrenders this responsibility by way of decentralisation to National Headquarters or else that it strangles initiative all down the line by over-centralisation.

18. Three methods are suggested in the Schuman proposal to further rationalisation and modernisation. The first is the abolition of customs duties. Such duties do not play an important part (as far as I know) in the international coal trade between the prospective member countries. In any case, no "higher authority" seems to me to be required in order to abolish any such duties as do exist.

19. The second method suggested is the formulation of production and investment plans. Something of this kind - at least in crude outline - is being attempted within the framework of the E.C.E. It is not a "formulation" of plans, because, at the present stage of knowledge and planning technique, it is necessary to start from National Plans formulated at National Headquarters. But there is an exchange of information and subsequent discussion. The practice of exchanging the maximum of information is undoubtedly helpful and valuable to all participants and should be maintained and developed. The Schuman plan might give it a valuable impetus and new spirit. But would it be practically possible now to move even further to the actual formulation of, let us say, a European Coal Plan? I doubt it. I doubt that there exists anywhere the intellectual capacity for such a venture. I cannot see that a "higher authority", treating the various national coal industries as "Divisions", could carry through the type of exercise which the N.C.B. Headquarters carried out with the N.C.B. Divisions.

(I shall show later how I believe that some international co-ordination can be achieved by tackling the problem from the angle of international trade.) In short, I consider the method of joint international planning

as utopian and impracticable.

20. The third method proposed is even more problematical - the creation of a revolving fund for industrial rationalisation. As long as the world is organised as a series of national economies, I cannot see that major investment activity can or should be financed from external sources except where such investment is directly dependent upon additional imports. The bulk of coal-mining (and also steel) investment in France, Germany, and the United Kingdom makes a call on internal (national) resources and not on imports. No French Francs or Deutsche Marks are required to carry through worthwhile investment projects in the British coal and steel industries. The same general argument applies to France and Germany.

21. The basic idea behind this French proposal is obscure and requires further elucidation. There may be the notion that a pooling of depreciation allowances would simplify the task of contracting an industry in one country and expanding it in another. The owners of the contracting industry would automatically become part-owners of the expanding industry abroad, because their depreciation funds would be invested in the sister industry abroad rather than at home. But even this would hardly be applicable in the case of the coal industry where ownership in the traditional sense has been abolished in the United Kingdom and France and even (though less obviously) in Germany.

22. As regards task No. 2, - the establishment of a common price policy, - this is an extremely intricate problem even within each national industry. The "higher authority", I feel, could not usefully concern itself with purely internal price policy questions, such as price differentials on account of differences in product quality or delivery charges. It would have to confine its attention to import and export prices. Again, this is a problem of international co-ordination from the angle of international trade, with which I shall deal later. The same applies to task No. 3, - the establishment of a common export policy.

23. There remains the fourth major task, - a common policy with regard to wages and living conditions of the workers. This task, on the national scale, is a familiar one to the National Coal Board. It involves the most detailed and complicated negotiations with the trade unions and a continuous checking back to the general wages policy of the national government. I fail to see how these negotiations could be taken out of their national context and subjected to directions from a "higher authority". It might well be possible to co-ordinate the general wages policies of a number of national governments; but it would seem to me to be impossible to deal with the wages and conditions of coal and steel workers on the international plane, while dealing with the wages and conditions of all other workers on a national basis. Nor can wages be easily compared from one national economy to another. Social patterns, tax levels, the social services, and so forth are all widely different, and so is the share of wages and profits respectively in the National Income. If the "higher authority" concerned itself with these problems, the result would not merely be frustration but confusion. "Functional internationalisation" shows its dangers and limitations most clearly when extended to wages and workers' conditions.

IV

24. Is there then nothing positive and practicable in the Schuman proposal, - except the magnanimous political gesture towards Germany? That would be going much too far. The proposal can lead to a most fruitful development in international co-operation if the tasks of the "higher authority" are approached from the angle of, and (at least initially) limited to, the co-ordination of international trade matters in coal and steel.

25. There is danger in the national planning of whole industries, because attention becomes fixed on national requirements, and exports - except dollar exports - tend to be considered as the residual or "balancer" item. With basic commodities like coal or steel, this puts the importing countries in a somewhat invidious and insecure position. Coal and steel are as fundamental a requirement of their own economy as they are of the economy which disposes of "exportable surpluses". Yet the importing countries are expected to bear the brunt of any accidental fluctuations of supply and demand in the exporting country. The free market price mechanism is free from this particular danger because it distributes available supplies without regard to national boundaries and with sole regard to satisfying the highest bidder. The normal adjunct of national

planning, however, is the consideration of priorities, and there is a real danger that, through selfishness or ignorance, the least essential requirement of the home economy may be given automatic preference over the most essential requirement abroad.

26. It is here that the Schuman proposal can fill an important and dangerous vacuum, which so far has not been adequately filled by the O.E.E.C. or the Coal Committee of the E.C.E. The "higher authority" would provide the organisational frame-work within which, by means of free and open negotiation, a fair international distribution of coal and steel can be sought. To what extent the "higher authority" should be endowed with coercive powers for these purposes is a question on which I cannot offer an opinion at this stage. I incline to the view that such powers may be found to do more harm than good, because the risk of their application may induce member countries to be much less frank in the disclosure of information than they would otherwise be. However, once an agreement has been reached without coercion, there would have to be "teeth" in it, in the form of certain sanctions, to ensure compliance.

27. If such a "higher authority" existed today, and Britain were a member, what would, or should, happen in connection with Britain's National Plan for Coal? I should think that the preparation of the Plan would have proceeded in exactly the same way as it has proceeded: as a purely British affair. After adoption by the Board, the Plan would go to Ministers and would not be submitted to the "higher authority" until it had been approved by them. Once officially adopted, I should think, it would be fairly fully disclosed to the "higher authority", - probably in substantially greater detail than the published version of the plan. A tripartite working party, under the auspices of the "higher authority", would try and study the plan alongside with a study of similar plans from the other member countries. The essence of the study would relate to imports and exports: do these various national plans show up compatible figures for export expectations on the one hand and import requirements on the other? Are the likely requirements of member countries going to be satisfied and, thereafter, the requirements of non-member countries? What measures could jointly be taken to stabilise both export availabilities and import demands? If the import demands of some countries are likely to show short-term fluctuations, can storage facilities be developed not only in the exporting countries but also in the importing countries so as to give greater stability both to production and the flow of trade? As a first result of these studies agreed recommendations might emerge which would induce member countries to make marginal amendments to their respective national plans. In other words, to say that international co-operation should start from the angle of international trade does not mean that it is excluded from influencing the national planning of production, investment, distribution, or storage. All these matters are interconnected and every point of the complicated pattern can be reached from whatever starting point may be chosen. But it seems to me to be none the less important to choose the right and natural starting point for international action. And that point, unquestionably, is imports and exports.

28. This approach will then automatically lead to agreements with regard to export prices and marketing areas. It will fill the gap left by the disappearance of private international cartels, although it is legitimate to hope that it will lead to more acceptable results than the private cartels have frequently produced in the past. The Schuman proposal demands a "common price policy" and a "common export policy". The word "common" in this context is of doubtful meaning. But the approach outlined here should certainly lead to freely agreed and co-ordinated national policies with regard to exports and export prices.

29. I cannot see that joining into such an arrangement would expose the British coal industry to any risks which could be avoided by staying outside. Pressure against "dual pricing" would be strong, but not necessarily stronger than if Britain stayed outside. The proposal to create "compensating machinery for price equalisation" is rather obscure; membership might enable Britain to clarify it and to achieve agreement on the whole issue of "dual pricing" without undue American ideological interference. The risk of suddenly being faced with hot competition from "vagabonding" French or German coal exports in third markets might be substantially diminished. It would become much easier for France to sell Saar coal to Germany, thus enabling Germany to free for export certain qualities of coal for which demand is still in excess of supply. Agreements could be reached to prevent, say, a temporary French, Belgian or German coal surplus from breaking into, and ruining, Britain's traditional export markets.

30. The Schuman proposal, of course, does nothing to solve the problem of Polish coal. The scheme has

been put forward in such terms (like "pooling the coal and steel resources of France and Germany") that the Poles could not join in even if they were ready to join something in the nature of a straightforward international price and marketing arrangement for coal. This, it seems to me, may turn out to be a serious disadvantage of M. Schuman's initiative. However, there still remains the possibility of the participating nations jointly establishing agreements and understandings with Poland which, while not as far-reaching as those established among themselves, will nevertheless fit Polish coal exports into the general pattern. The Polish problem would be difficult, if not intractable, even if the Schuman proposal had never been made.

V

31. It remains to consider what the position of Britain and of the British coal industry in particular would be if the United Kingdom stayed out and left the French and Germans to their own devices. I have mentioned before that a bipartite scheme is a fundamentally different proposition from a tripartite one; that I should expect the French and Germans, if left alone, to evolve a plan which will look like a model of international co-operation but will turn out to have promised far more than it can keep; and that I should expect great pressure to be exerted on the United Kingdom to join such a scheme which, upon becoming tripartite, would become quite unacceptable. Thus I consider that the political consequences of staying outside might be very serious and disturbing.

32. The economic consequences of non-membership, on the other hand, do not seem to me to be alarming. I take this view, firstly, because the basis of real understanding and mutual confidence as between France and Germany is still slender. While coal is a rather less controversial subject between them than it used to be, the steel problem is still extremely acute. The Germans are in no way reconciled to having their own steel production limited to 11.1 million ingot tons (only just over 60% of Western German production in 1938), while the French are straining to step up their production to over 12 million tons (i.e. to over 200% of their 1938 production). I am convinced that the setting up of a bipartite "higher authority" will do little to resolve this basic conflict, irrespective of what may be written into the constitution of the authority. Nor would it induce the French (or the Germans) to modify their attitude any more than the establishment of the Ruhr Authority has induced them to do so. This conflict will inevitably cast a shadow over the effectiveness of Franco-German co-operation, particularly as long as the United Kingdom stays outside. Although it arises on steel, it will also affect coal.

33. My second reason for believing that the economic consequences of non-membership would not be alarming to the British coal industry derives from the structure of the French and German coal economies. They are generally speaking complementary rather than competitive. From the point of view of export potential, the addition of the French potential^(c) to the German does not seem to make a great deal of difference. The advantage would be that the natural flow of Saar coal into Germany could be resumed in a regular and predictable fashion; a danger might be that German export coal could replace British export coal in France. In the period January to November, 1949, French imports of British coal amounted (according to French figures) to 1.36 million tons, or 8.5 per cent of total French coal imports, excluding Saar coal, of 16.12 million tons. In view of the general argument advanced in the preceding paragraph, it is difficult to believe that the French would be willing or able to carry their co-operation with Germany to the point of excluding this comparatively modest tonnage of British coal from their market. It is not denied that there are certain dangers. On the other hand, there might also be certain dangers in membership, e.g. as regards export prices.

34. I conclude, therefore, that from the point of view of the British coal industry there appears on balance to be no alarming economic or commercial danger in leaving the French and the Germans to come to any arrangement they please, without British participation. But I also believe that an important opportunity for achieving a far-reaching European co-ordination of export and import policies would thereby be missed and that the political consequences of staying outside might be very serious and disturbing.

E. F. S.

17th May 1950.

(x) French coal exports January to November, 1949, amounted to just over one million tons, compared with Germany's 26 million tons and Great-Britain's 19 million tons.