

Internal note from the British Foreign Office on Paul Hoffman's strategy with regard to European economic integration (28 March 1950)

Caption: On 28 March 1950, in an internal note, the British Foreign Office analyses the strategy pursued by Paul Hoffman, US Administrator of the Economic Cooperation Administration (ECA), with regard to increasing the pace of European economic integration.

Source: The National Archives of the United Kingdom, [s.l.], Kew, Richmond, Surrey, TW9 4DU.

<http://www.nationalarchives.gov.uk/>, Records created and inherited by the Foreign Office, FO. European integration: economic and political union of Europe including Britain is desired by USA 1950, FO 371/87137.

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Mr. Hoffman's policy

Press surveys and other material reaching us from Washington indicate that many American newspapers have adopted the slogan of European integration without having much idea of what it means, and it is plain that, as Mr. Hoffman says, members of Congress will have a lot to say this year about the progress of European integration. At the same time well-informed international-minded commentators take a gloomy view of the prospects of success of the European Recovery Programme and expect that the United States will be called upon to provide considerable sums after the end of the present Programme. Some of them consider that the United States should already make up its mind to this necessity; others think more in political terms and suggest that the United States should commit itself more closely to Europe. All such people, even if of public eminence, are still too few to influence public opinion or the views of Congress, at least unless they are given a strong lead by the United States Government.

2. No strong lead is forthcoming. On the contrary, Mr. Hoffman has been stumping the country preaching about breaking down the barriers of economic nationalism in Europe and about the desirability of European integration. Why should he do this? And why, when he and the Chancellor dined with Sir Oliver Harvey in Paris, is it recorded that he demurred to the Chancellor's statement that the purpose of E.R.P. was to restore the dollar viability of Europe?

3. The usual explanation of his attitude is that he is temperamentally a person who "gets himself out on a limb" and that he probably believes in integration with a blind faith which has no particular relation to facts. On this hypothesis it is difficult to explain why he should think that E.R.P. was not designed to create dollar viability. It seems possible to suggest a more rational explanation of his process of thought.

4. Mr. Hoffman, like most other people who really know the European Recovery Programme, must (on this explanation) believe that the achievement of dollar viability in 1952 is unlikely and that those who say that further assistance will be necessary are right. The problem he has to face is, how is the Programme to be carried on?

5. When the Economic Co-operation Act of 1948 was going through Congress the Congressional Committees made it perfectly clear to Mr. Hoffman, and Mr. Hoffman accepted, that the condition upon which the United States voted large sums for E.R.P. was that the States of Western Europe should be unified. (This is not speculation, but known fact.) He is therefore politically and morally committed to the hilt to Congress to bring about the unification of Europe. He can only hope to obtain further supplies of dollars if he can show that the promise of unification has been fulfilled, or is at least substantially on the way towards fulfillment.

6. The argument is sometimes put forward to justify going cautiously that sudden unification would create such problems as to slow up the process of recovery. This may have little appeal to Mr. Hoffman. If he believes he will have to ask for a continuation of the programme beyond 1952, he may think that he will have more chance of success than if he can show that he has carried out his promise to Congress, even if the cost of the extended programme is greater than would otherwise have been the case. Congress regards unification as prerequisite to the economic independence of Europe, and might (though this is very speculative) be persuaded to overcome its objections to voting larger sums by the bright prospect of earlier relief from the burden.

7. In the short term, he is now "taking a tough line" about integration, because last year, especially after Mr. Mayhew's speech, he was accused of being too soft and easy-going in carrying out the mandate of Congress. His "toughness" may also be designed to forestall restrictive legislation by Congress.

8. This would appear to be a logical line of policy which would account for his insistence on "integration" as the first necessity even if it is a little startling from our point of view. Mr. Hoffman probably does not regard his Mandate as requiring him to promote the political, as distinct from the economic, unification of Europe

since he is the Head of a purely economic agency; it is plain, however, that unless all Governments are prepared to adopt policies of complete laissez faire, economic unification cannot, in the circumstances of to-day, be achieved without the surrender of some sovereignty over national economic policies.

9. Our attitude hitherto, our reluctance to commit ourselves irrevocably to the uncertainties of putting to sea in a leaky boat with a company of dagoes, is probably by now well understood by American officials and has led to such thoughts as those attributed to Mr. Kennan, with his plan for closer relations between the United Kingdom and the United States, or the speech recently made by Mr. Dickinson of E.C.A., in which he suggests that the achievement of integration will only be attained if the United States are prepared to commit themselves politically, economically and militarily to United Europe.

10. In common with other participating countries, however, we have subscribed to "the purposes and policies" of the Economic Co-operation Act, which include (at first by reference, and now specifically) European unification. The Americans have always looked to the United Kingdom, as the politically strongest member of O.E.E.C., to set the lead to the rest. From the beginning, however, our basic E.R.P. policy (recommended by officials and approved by Ministers) has probably been incompatible with American policy. We have pressed that each O.E.E.C. country should seek individual dollar viability, as we seek it for ourselves. Our interpretation of European integration starts not from the premise of the mass market in Europe, but from world free trade (a thing which is unlikely to be fully attainable). Our present policy is that we will co-operate with Europe as far as we can without committing ourselves irrevocably to loss of full control over our own economic policy.

11. Up to now this difference of outlook has not led to serious difficulties between us and the Americans (though there has been plenty of recrimination in the Press), because the Americans were prepared to wait while the first phase of recovery, as they call it, was carried through. We have tried, perhaps successfully, to make clear to the Americans that our special responsibilities might make it impossible for us to join in a European Union. Up to now, however, we have not tried to take advantage of this reservation. For E.C.A., however, a European Union without United Kingdom participation probably has little to commend it. From now on there will be increasing pressure for unification from the American side, and, if we continue on our present course, there will be grave risk of disagreement between us and the Americans which might lead to a cut in our dollar aid. Cutting assistance to the United Kingdom will be a risk for the Americans too, since the consequences could jeopardise the whole of their foreign policy. We shall be playing them at poker, risking the dollars which we need to maintain our reserves, our standard of living and our present level of employment against the possibility of inducing the United States Congress to adopt a new and more favourable conception of policy towards Europe. We shall be chancing the possibility that Mr. Hoffman might be charged to go ahead with the unification of Western Europe, including Germany, without us, and that we should be deprived of E.R.P. dollars, against the possibility that without us Congress would think the investment not worth while.

12. There are so many uncertainties in the political atmosphere both here and in the United States that it is difficult to estimate what the odds are. It must be remembered, however, that the pressure in Congress for a reduction in Government expenditure would be likely to fall in the scale against us. Even so, our present policy might be the right one from the point of view of economic policy, though the chances of effective recovery without dollar aid and in competition with a Franco-German-Benelux union supported by extended American assistance might seem slender. What the political consequences might be, it is hard to say. If a new continental union were formed with American financial backing, it might offset their political support as well in matters where the new Union and the United Kingdom were at variance though the Administration would probably do all in their power to prevent such a situation arising. If we were deprived of dollar aid, and were obliged to reverse our present policy of freeing trade and payments, we should suffer further irritations with the Americans, particularly in relation to the loan agreement. If Marshall aid were suspended altogether, we might find ourselves an outlier of a distressed and bankrupt Europe.

13. It may therefore be time to try seriously (as we are thinking of doing in relation to the Payments Scheme) to establish a special relationship to Western Europe, in which, although not members of the unified grouping, we continue to receive Marshall aid. From the American aspect it would be important to

show that if we are to persuade E.C.A. and Congress not to cut off dollar assistance to the United Kingdom we must prove to E.C.A. that the existence of the sterling area is more desirable than European integration; that it is incompatible with it, and that we are nevertheless contributing substantially to the success of the integrated group of countries and deserve assistance in return for the help which we are giving to the group. These justifications for our attitude will not be easy to establish, particularly if it appears that a European group cannot exist without our participation; but if we are able to establish them we may have facilitated the idea of a closer political and economic relationship between the United States and the British Commonwealth.

14. A closer relationship between the United States and the United Kingdom seems in such circumstances to be highly desirable and even necessary to us to balance and to complement the growth of a Western European State.

15. There may be many alternatives to this course of establishing a special relationship to Western Europe, but trying to persuade the Americans to drop the idea of unified Europe is not one of them. The opposite extreme from the policy we have been following so far would be to commit ourselves irrevocably to a regional grouping in Europe, in the faith that in 1952 Congress would recognise what had been achieved in Europe and would vote for a continuation of the European Recovery Programme for a further period of years. To take this step would be a great act of faith, the more so as there is a presidential election in the United States in 1952, and there can be no certainty of the attitude of Congress either in that year, before the election, or under the new administration which will follow it.

Summary

16. (a) We should take into account the possibility that Mr. Hoffman is giving first priority to the economic unification of Europe because he regards dollar viability as not attainable by 1952 and the fulfillment or at least the partial fulfillment of unification is a necessary premise to asking for an extension of Marshall Aid.

(b) If so, continued reluctance on our part to commit the United Kingdom to unification without making any new initiative is likely to create serious difficulties between us and the Americans and might influence the whole of American foreign policy.

(c) One possible course for us would be to make fresh efforts on the lines of paragraph 14 above to see whether we cannot establish to the satisfaction of Congress and of Americans generally that we can and will play a constructive part in supporting Western Europe without becoming members of a European economic union.

17. American department have seen and concur.

(Sgd.) J. E. Chadwick.

10th February, 1950.

I have waited for a chance to discuss this paper which has not occurred, but I very much welcome an occasional 'think piece'.

It is difficult to do justice to so large a subject in a few words, but I will comment as follows:-

(1) Mr. Hoffman is expected to resign in the middle of this year.

(2) I do not think that we should try and read too much into his tactics which, in my view, are almost entirely dictated by his desire to put up a good case to Congress for the next appropriation. As a salesman he concentrates on a few selling points and his sincerity is largely his well-known selling technique.

(3) It is generally recognized that what Mr. Hoffman thinks will be most acceptable to Congress by no means necessarily reflects the views of the latter.

(4) I do not think that what will happen after 1952 is influencing Mr. Hoffman's present tactics.

(5) I do not agree with Para. 5 namely that a unified Europe was a basic condition for the whole E.R.P. Programme. It was a recognised objective but not a condition.

(6) Even within E.C.A. there are many divergent views as to the advantages of integration, and how it should be carried through. There is, indeed, no clear American policy about this.

(7) The right course, in my view, is for his country to continue to give a lead in all measures which will increase the economic health of Europe without prejudice to our wider responsibilities. This is a very vague statement but I personally agree with present ministerial policy namely that we must not "go into Europe beyond the point of no return." I, however, also agree that a unified Europe with Germany, and without the United Kingdom, would be a disaster for this country.

My conclusion is therefore that increased co-operation and co-ordination of policies and the freeing of trade and payments without the merging of national sovereignties is in fact, the best thing for this country and for Europe.

The above is not a carefully considered policy statement and is only meant as a reply to Mr. Chadwick, so please do not circulate it outside E.R.P. Department.

E. A. Berthoud.

28th March, 1950.