Eclipsing Atlantis: Trans-Atlantic Multilateralism in Trade and Monetary Affairs as a Pre-History to the Genesis of Social Market Europe (1942–1950)*

MATHIEU SEGERS
Maastricht University, Maastricht

Abstract
The common understanding of the history of European integration obfuscates much of the strong bonds between European integration and its pre-history in western multilateral co-operation. This western co-operation centred around the inter-connected policy fields of monetary management, trade and social policies during the pre-phase of European integration. This contribution reconstructs the trans-Atlantic institutional framework, within which a unique multilateralism in post-war Western Europe, could emerge. The analysis suggests new explanations for the specific design, which characterizes this European variant of post-war multilateralism: a regionally oriented ‘social market’ pursued through a process of European integration.

Keywords: social market economy; multilateral organization; history of European integration; international monetary co-operation; history of international trade

Introduction
This contribution re-assesses the classic question of why European integration took off as it did in May 1950. The overarching goal of this contribution is to contribute to a re-integration of the histories of post-war western multilateralism and European integration, by composing a more comprehensive view on the origins of today’s European integration and its principles, goals and practices of social market economy. In doing so, the contribution brings together central elements of the rich research already done on the reconstruction of different parts and episodes of post-war western multilateralism (Bretton Woods, GATT, European Payments Union) in different scholarly domains. Moreover, the contribution combines this approach with new and existing multinational archival research. The contribution sheds new light on key factors in the shaping of the post-war Europe of integration, such as the key importance of the issue of balance of payments.

Central to the analysis is a reconstruction of the ongoing battle of (economic) ideas and blueprints, which has been fuelling a feverish ‘testing’ of different institutional arrangements for international co-operation in the laboratory of western multilateralism. This contribution focuses on the first phases of this ‘testing process’ in the 1940s, with an

* The author wishes to thank the Department of Politics and IR of the University of Oxford for an inspirational research fellowship that laid the foundation for this contribution (Professor Anne Deighton in particular), the participants in the STOREP conference in June 2015 in Turin, in the conference on ‘Free Trade and Social Charges in 20th Century Europe’ in November 2015 in Padova, and in the preparatory conference for this Special Issue at the UM Campus in Brussels in December 2017, who commented on earlier drafts, as well as two anonymous referees.
emphasis on the late 1940s. Essentially, during the second half of the 1940s, a key by-product of this ‘testing’ of international co-operation was the gradual narrowing down of the scope of policy options for Western Europe. Eventually, this steered the first efforts of European integration in institutional directions, which prefigured today’s EU and characterized a specific European variant of post-war multilateralism: a regionally oriented ‘social market’ pursued through a process of European integration.

The outline of the contribution is as follows. The next section sketches the general atmosphere of ‘new’ trans-Atlantic thinking on multilateral governance as of the mid-1940s. Sections II and III connect this general history of ideas to the challenges of practical post-war planning in matters of international co-operation in the financial-economic domain. Section IV takes stock of the conceptual and institutional state of affairs in matters of financial-economic governance in Europe, on the eve of the launch of the Schuman-plan in May 1950. This section explains how the developments in the trans-Atlantic management of economic and monetary affairs created extra political momentum for bold Franco-German (supranational) initiatives of European integration, and highlights the increasingly central role of West Germany in this. The final section summarizes the main findings.

I. In the Name of Stability

The ‘take-off’ of European integration did not come about in a historical vacuum. It was pre-1950 multilateralism among the democracies of the wider West which formed the institutional breeding space for post-war European integration. Pre-1950 multilateralism built an institutional ‘laboratory’, wherein quite divergent initiatives for closer European co-operation or integration were developed, tested and discussed, long before the European Coal and Steel Community (ECSC) came into being. As of the early 1940s, this laboratory developed gradually, first and foremost within the framework of Anglo-American co-operation. ‘Bretton Woods’ – already agreed upon in 1944 – to a large extent determined Europe’s financial-economic issues, as well as its room for manoeuvre (concerning socio-economic ambitions). This ‘system’ codified the trans-Atlantic reality of a monetary order of fixed exchange rates pegged to the dollar (which in turn was pegged to gold at the fixed rate of US$ 35 an ounce).

As such European integration emerged as an element in the general quest for resilient capitalism and democracy that preoccupied the western world of the 1940s, and resulted in an internationally co-ordinated system that John Ruggie, in 1982, famously described as the ‘regime’ of ‘embedded liberalism’. Ruggie based the concept of embedded liberalism on a twofold claim.

On the one hand, he explained that the ‘multilateral order’ that gained acceptance, ‘reflected the extraordinary power and perseverance of the United States’ (especially in trade). Yet on the other hand, he stressed that ‘multilateralism and the quest for domestic stability were coupled and even conditioned by one another’ and that this ‘reflected the shared legitimacy of a set of social objectives to which the industrial world had moved’ (Ruggie, 1982, pp. 397–398). This movement towards shared social objectives, such as

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1This implies that links to earlier episodes of international co-operation ‘testing’ (1930s), or a detailed assessment of the negotiations on the Bretton Woods system, largely fall outside the scope of this contribution.
full employment and battling poverty and inequality, had started during the Great Depression and gained momentum in the early 1940s.

Although the scholars of embedded liberalism never really engaged themselves with the phenomenon of European integration, the integration-process did form an integral – yet subdued – part of Ruggie’s post-war ‘industrial world’ of the *pax Americana*. In other words: in 1950 (the moment of take-off for European integration), any feasible model of European integration had to be nested somehow in the trans-Atlantic institutional structures already existing.

The grand designs drawn up for post-war multilateralism, and engineered within the largely Anglo-American policy community of the 1940s – including key figures like John Maynard Keynes, James Meade, Paul Hoffman, Robert Triffin and Jean Monnet (Gardner, 1986, pp. 22–23; Daunton, 2010, p. 49; HAEU/JMAS, Interview Paul Hoffman, 1964, p. 9) – shared four main characteristics (*cf*. Gardner, 1986, p. 22; Ruggie, 1982, p. 394; Maier, 1987, pp. 5, 128).

First, these plans – how far-reaching their goals might have been – remained nested in institutional forms of capitalism and constitutional democracy (for example, a radical overthrow of the existing system was never on the cards). In the end it was all about re-adjustment, not revolution.

Second, the policy-engineers involved were strongly committed to sharing societal responsibilities internationally, and promoting co-operation across national borders (to soften these borders, as well as the connected hardened boundaries of identity). In other words: it was a goal in itself to ‘multilateralize’ the policies that dominated the domestic agendas (reconstruction, economic growth, full employment, social cohesion, etc).

Third, the joint western efforts in co-operation that sprang from the plan making were concentrated in technical policy domains well suited for apolitical planning: trade, finance and monetary governance.

Fourth, all grand designs for the post-war capitalist order shared one primary and overarching goal: stability. Planning and multilateralism were seen as the key new instruments to realize this.

Moreover, this grand designing was linked to an appealing prospect of another sort. It seemed to offer a great chance to free the trans-Atlantic world of free trade market dogmatism (Steel, 1980, p. 386), this false, and ultimately destructive, ‘utopia’ of the ‘self-regulating market’, as Karl Polanyi explained in *The Great Transformation* (published in 1944). To Polanyi, the gold standard and its inevitable decline (and the deflationary domestic discipline it enforced) represented the ‘proximate cause of the catastrophe’ the world had been thrown into in the first half of the twentieth century. Why?

Governments had been on a vain quest for stability in the inherently unstable reality of international trade. Initially – during the first decades of the twentieth century – this had ushered in a series of hopeless endeavours to stabilize world trade by stabilizing the exchange rates, based on the fiction of self-regulating markets; a ‘preoccupation which spanned the Atlantic’. What this ‘non-system’ brought about, according to Polanyi, was exactly the opposite of what it was designed for: It set off the great depression and subsequently made the United States go off gold in 1933, leaving the Gold Standard – the restoration of which had been ‘the symbol of world solidarity’ – in shambles (Polanyi, 1957, pp. 3, 26, 231).

By making this argument, Polanyi highlighted a general trend, which was widely registered among fellow academics and across political families, as well as among policy elites:
'we are witnessing a development under which the primacy of society over [the economic] system is secured … The market system will no longer be self-regulating, even in principle’.

From this politico-economic perspective, Polanyi concluded that this ‘situation may well make two apparently incompatible demands on foreign policy: it will require closer co-operation between friendly countries than could even be contemplated under nineteenth century sovereignty, while at the same time the existence of regulated markets will make national governments more jealous of outside interference than ever before’.

Hence, the (western) world Polanyi saw emerging was a place, where ‘economic collaboration of governments and the liberty to organize national life at will’ existed next to each other as integral parts of a new system, of which ‘federation’ – ‘an idea … deemed a nightmare of centralization and uniformity … under market economy and the gold standard’ – might well turn out to be one of the ‘great varieties of ways’ to realize ‘effective co-operation with domestic freedom’ (Polanyi, 1957, pp. 251–254).

It was precisely here, where the avenues for the great escape of post-war capitalism had to be sought. A substantive majority of the trans-Atlantic policy-makers was exactly on the same page as Polanyi, when it came to the engineering of post-war capitalist societies and the multilateral co-operation among them (cf. Ruggie, 1982).

However, during 1944 – the year of the publication of his book – it became unmistakeably clear that Polanyi had been plainly wrong with regard to a key element in his sweeping analysis: the fixation on stability of currencies was outliving the war. This had everything to do with the overwhelming desire for stability. In fact, when it came to real life policies to comfort this desire, post-war planning turned out not that innovative at all. The front men of western blueprinting indulged in the Atlantic fixation on the stabilization of exchange rates, just like the policy hot shots of the Gold Standard had done. Stable currencies, in the eyes of many, simply remained ‘the touchstones of rationality in politics’ (Polanyi, cited in Mark Blyth, 2002, p. 3; cf. Dyson, 2014, p. 578).

Relatively soon in the day, the multilateral grand designing of the post-war world in financial-economic affairs almost exclusively focused on exchange rate stabilization, which was perceived to be the conditio sine qua non for any sustainable order. The single most important effort to define that world in institutional terms was the conference of Bretton Woods, an undertaking fully aimed at stabilizing exchange rates. Both the tendency towards co-ordinated welfare state policies, and the ubiquitously adhered to multilateral efforts to subordinate the money-gold logic (that had governed the disastrous interbellum) were pushed firmly into the background.

However, stability appeared a multifaceted concept, far from easy to come to grips with. The most brain cracking of all the problems attached to it was the internal-external Janus-face of stability. To what extent did internal, domestic, socioeconomic stability (mostly translated in terms of full employment in those days) threaten the external stability of the international economy in terms of balance of payments equilibrium? Connected to this fundamental question were the deep fears of a repetition of the devastating (nationalist) economic dynamism that had fuelled the Great Depression. According to many, phenomena associated with this historical spiral of debacle, such as competitive devaluations and deflation, had to be curbed at all costs.

The key question was: how? How to provide domestic socioeconomic certainty and fairness, international balance of payments stability and monetary and financial certainty all at the same time?
Initially, the new thinking, culminated in rather unrestrained attacks on the old world of the Gold Standard. Even if it was not quite clear what the alternatives would be. The search for salvation was simply too engrossing; making condemnation of the old system, in which defence of the exchange rate overrode the pursuit of domestic full employment policies (which evidently appeared to have been wrong), almost irresistible. However, when the reality of actual plan drafting and international negotiating kicked in, things turned out rather moderate compared to the original passion for change. This put financial-economic and monetary governance at the core of international co-operation, and set the boundaries of the multilateral institution building in the post-war West.

II. Grand Engineering: Banking without Banks

Undoubtedly, during most of the 1940s, societal planning for the emerging new old order of the post-war West was centred in the governmental organization of the United States (the Treasury and the State Department in particular) and the institutions that rested on the wartime Anglo-American partnership (Gardner, 1986, pp. 21–22; Ikenberry, 1993, p. 58f; Maier, 1987, pp. 121–122; Steil, 2013). Their prime goal was sustainable economic stability. The means to achieve it were to be found in multilaterally concerted state control.

During the first half of the 1940s, the search for stability rapidly evolved into something close to an obsession with new possibilities of state control via multilateral organization. State control was considered to be the key of any successful future order. Modern state control and intervention policy ought to encompass at least three broad policy fields: (1) trade and balance of payments, (2) employment, and (3) growth. Trade markets had to be curbed or regulated, in order to subdue disequilibria. To set full employment as a goal of policy-making was felt as an historical task, for it was seen as a necessity to ensure sufficient social cohesion to avoid violent conflict. Persistent growth had to be realized, to enable governments to moderate and cushion the booms and slumps of the business cycle (cf. Ikenberry, 1993, p. 72; Viner, 1942, p. 168).

The multilateral blueprinting was fuelled by the western-wide collective mood for state-action, Keynes and Keynesianism. Keynes pleaded for active intervention aimed at stabilizing the money demand (rather than its supply) to stabilize prices. His mission was a clean break with the status quo and classical thinking on monetary management (see The Collected Writings of John Maynard Keynes, XXV, 2013[1980], p. 2).

When it came to the general issue of multilateral state control, White and Keynes were in the same camp: that of the innovators. The Gold Standard and its laissez-faire system represented the corrupt and ‘lunatic’ old world they wanted to get rid of (Keynes cited in Ikenberry, 1993, p. 76). Closely connected to that striving was the conviction that money and capital movements should not rule the world (as they had done during the Gold Standard via a largely automatically working mechanism devised to react to cross-border movement in the gold stocks). According to Keynes and other innovators, including Harry Dexter White – who masterminded the Bretton Woods conference (Steil, 2013, p. 334) – it was better the other way around: the world ought to rule money and use it as an instrument to engineer more stable and just societies (Steil, 2013, pp. 125–155).

Consequently, capital movements in any future organization had to be controlled. This implied that freedom from exchange controls – a conditio sine qua non for any proper
international system based on free trade – would be limited to current transactions. Short-term capital and speculative ‘hot money’ were diagnosed as ill and disturbing movements that had to be battled by state control. Indeed, ‘a case could be made for capital controls as contributing to economic stability’, given that changes in the exchange rate destabilized the domestic economy but might become redundant if the balance of payments could be strengthened, even if only temporarily, by capital controls (Frances, 1981, pp. 82, 86).²

All in all, it was quite clear that international banking would not be part of the multilateral western world of the future.

Yet, paradoxically, the new world order that the innovators would piece together was all about borrowing and lending. They pointed a way to future stability, which essentially meant going down a path of international monetary co-operation including the inevitable ‘banking’, which had to be an integral part of it. In other words: the future was in banking without the banks.³ Capital controls, far more than free trade (as often is supposed), built the linchpin of the first post-war constructions of western multilateralism.

Buying Time: Entering the Monetary Realm

However, the principle of free trade – how elusive it might have been at the time – was not abandoned completely. If only because it was firmly anchored in the few institutions that actually existed and functioned up to a certain extent in the real world of the early 1940s, such as the Atlantic Charter and Lend Lease. Nonetheless, free trade would soon become a relic of the past, maybe not in rhetoric but certainly in practice. The reasons were obvious. Leading innovators, such as White and Keynes, embarked on an experimental policy course that would gradually, yet effectively, degrade free trade – and trade as such – to a matter of secondary importance for the multilateral organization of the post-war West.

For a substantial part this was a result of necessary pragmatism, as trade confronted planners with an endemic, and in fact unsolvable, problem. If free trade was considered a prerequisite for stabilization (as confirmed in the Atlantic Charter and the infamous Article VII of Lend Lease), than lending and borrowing to adjust balances of payments had to be subordinated to good commerce (buying and selling) as a means to that overarching end. Yet something stood in the way. The uncontrollable divergence of national economic developments in the West, as a result of the devastating effects of the war in Europe, made good commerce an utterly impossible priority in practice. What was needed in Europe was capital!

Money, loans and investment were the things most urgently demanded in order to manage the balance of payment chaos and curb the risks attached to that situation of disarray in Europe – not free trade. Solving the balance of payment chaos became the priority, monetary management the instrument (in addition the US would inject money into Western Europe through the Marshall Plan as of 1947).

²Also, capital controls were deemed necessary because of a shortage of international reserves after the devastation of the war (Brodo and Eichengreen, 1993, p. 38).
³The level of capital mobility in the early post-war period was historically low in comparison to both the preceding era of the gold standard. This was due to: (1) capital controls, (2) limited international reserves and the dollar gap, and (3) the European currencies (and the Japanese yen) were not freely convertible – this lack of convertibility also slowed the expansion of international banking.
During the early 1940s, Keynes had become preoccupied with schemes for an international organization to deal with the thorny balance of payments issues. At the core of his thinking was the idea that balances of payments could be managed by using the lever of monetary policy (Vines, 2007).

This was a Copernican twist in economic thinking that set off ‘a shift from contentious trade issues to monetary issues’. But most crucial to it was that it opened a fresh realm for planning, blueprinting and multilateral organization. Here, in this new interface between trade and money, the (American) inventors found, as John Ikenberry pointed out, ‘an emerging “middle ground”’ created by Keynesian ideas (Ikenberry, 1993, pp. 58, 61–62, 76). This new middle ground was full of opportunities for progressive policies. But above all, it was the manifestation of the new hope culminating in the Bretton Woods Agreements during the summer of 1944, representing ‘a new beginning … a belief that there was a future and a promise’ (James, 1996, pp. 56–58).

Reality was something else, however. The planning that underlay Bretton Woods merely enabled the states involved to buy time in their struggle with the core paradoxes of post-war planning. Keynes had pointed the way to escape them. He had found the keys to open the ‘golden fetters’ of laissez-faire and led the way into a supposedly more just world of unspoiled technocracy. This world would be freed from gold fetish, servile politics and banal politicians. The trick was to broaden the horizon of international economics. In the mist of (monetary) calculations for the future, the problems of the real world were cast in a more hopeful (twilight). The monetary realm offered possibilities, up till then largely unknown, to redefine the hard problems of the inherently unstable socioeconomic situation, both within countries and internationally.

That was not to say, however, that the innovators of the 1940s had crossed the Rubicon that flows between adjustment to disequilibria (immediate reallocation of productive resources, such as reduction of domestic spending) and the financing of these, avoiding immediate reallocation or reduction by running down the international monetary reserves and/or borrowing (Cohen, 1982, pp. 460–461).

Nonetheless, the die was cast. Keynes’ multilateral twist to ensure domestic social policies lightened a path out of the woods of the existing trade disequilibria. Yet, when followed further, it might inevitably lead to a point where the western world (again) would be confronted with a principled decision on the above-mentioned Rubicon-crossing.

The monetary realm became the main construction site of post-war planning and the builders included Keynesianism at the site. Keynesianism enabled the redefinition of socioeconomic reality, as it ought to be in the eyes of many in the trans-Atlantic circles of the engineers of the post-war West. The communis opinio in those circles read that the budget must be available to policy-makers to smoothen the business cycles, which, alas, would remain part and parcel of the imperfect markets that came with any capitalist order (Ikenberry, 1993, p. 77; McNamara, 1998, p. 85). What Keynes seemed to have on offer, was a situation in which the budget would be transformed to an instrument in the hands of the policy planners and engineers, a landslide shift from politics to policy.

The intellectual inspiration for the Bretton Woods system largely came from Keynes’ famous plan for an International Clearing Union. Key to this plan was a multilateral (originally supranational) overdraft facility to create and manage tens of billions of a new international currency to settle disequilibria in balances of payments.
The Vicissitudes of Multilateralism

In the end, what started as a struggle in favour of fixed exchange rates (which should be overlooked by a supranational institution), because those were seen as a precondition for stabilizing the international economy, and trade in particular, resulted in a multilateral experiment characterized by (1) far-reaching state control, and (2) international funding, underpinned by (3) capital controls for an unlimited time (see Daunton, 2010, pp. 52–59).

Most strikingly, as such, the quest for stability through (multilaterally co-ordinated) control brought about a system with a built-in tendency towards multilateral ‘decontrol’. This was due to two features of the Bretton Woods system. First, the explicitly guaranteed domestic autonomy – and the lack of any form of supranational supervision (Gardner, 1986, p. 27) – reduced the system to a gentlemen’s agreement, which easily could be undermined by future short-term political calculations of a more patriotic sort, in one or more of the member states. Second, future convertibility was seen as a fundamental requirement to let the system function. The post-war non-convertibility was considered acceptable only for a transition period; to overcome the severe balance of payments instabilities of the first post-war years (McNamara, 1998, p. 65). However, future convertibility unavoidably would mean pressure on the temporary regime of capital controls (because it required freeing of (investment) capital flows).

In sum: if both built-in tendencies in the system ((1) prioritizing national short-term goals in the domains of growth and/or social policy over the virtues of multilateral co-ordination, and (2) the strive for convertibility) would materialize, the net result would most probably be something quite distant from the system envisaged at Bretton Woods. Such a scenario would lead to the emergence of bloc-creation within a financially integrating West, that drifted on largely uncontrollable capital flows. Obviously this would also include a comeback of international banking (implying that financial markets would, unavoidably, increasingly judge over domestic room for manoeuvre).

Moreover, if one of the above-mentioned built-in tendencies would be set free, it could be expected that this would strengthen the other tendency. In more direct wording: bloc formation would stimulate regional convertibility and regional market integration. That in turn would increase the pressure in favour of free movement of capital, whereas free movement of capital in a world of welfare states would provoke regional (protectionist) reflexes.

In the end, both developments would undermine the halfway house of Bretton Woods and press for a choice, or more probably, regional choices, between free-floating exchange rates or monetary union (see NA, T230/156, ‘Points for discussion prepared by R. Triffin’, December 1949; HAEU, EH, 5, ‘UDIT: Le Renouveau de la France’, 1943, pp. 2–8). In essence, within the framework of Bretton Woods, there were only two back-stops left to ward off this ominous choice: American hegemony and national capital controls. Maintaining or removing these implied shaping post-war order in western Europe in radically different ways.

III. The Primacy of Balance of Payments

Many illusions of planning were smashed in 1947. The Sterling crisis of that year thwarted ambitious schemes for the extension of trans-Atlantic financial-economic
management beyond Bretton Woods (cf. Milward, 1984, pp. 43–55). Moreover, an extremely harsh winter generated a coal crisis in Europe, and a disastrous harvest led to even more pressing food shortages. The main conclusion among the policy engineers of the West was that more rather than less planning was needed.

After all, and in spite of the setbacks, a halfway house of multilateralism had been erected: the ‘system’ of Bretton Woods. The focus shifted from grand designing to fine-tuning.

For the policy-engineers of the West, the main effect of the crisis of 1947 was that their focus narrowed down to practical governance and problem solving in troubled western Europe, first and foremost through the institutions of the Marshall Plan and the European Recovery Programme (ERP). Consequently, Bretton Woods must be ‘extended’ with the institutions in the making within the framework of the Marshall Plan, such as the Organisation for European Economic Cooperation..

Eventually this gradual shift of scope – from ‘one (western) world’ to a more regional approach (Steel, 1980, p. 404) – would set the stage for the launch of the Schuman-plan, which resulted in the ECSC and laid the foundations of the process of European market integration based on socioeconomic planning (cf. Clayton, 1963, p. 501).

The ITO-Story

The institutional path-dependencies inherent in this process, to a large extent, came about due to a structural flaw in the trans-Atlantic efforts for financial-economic governance that preceded it. During the second half of the 1940s, the single most important flaw in the post-war western world of multilateralism was the failure to create an International Trade Organization (ITO) – a true ‘trade counterpart’ to Bretton Woods and the IMF. This failure became evident in 1947.

It was a shortcoming especially felt by those western Europeans who were sympathetic towards Bretton Woods. Harold Wilson, then President of the Board of Trade, summed it up neatly in November 1947: ‘the multilateral, all-convertible trading world envisaged in 1945 crashed in the summer’ (Toje, 2003, p. 930). This ‘crash’ was a direct consequence of the British government refusing to agree to dismantle the imperial preference system. But it was also due to the dollar-shortage in Europe, which prevented the western Europeans from going along with ITO (Toje, 2003, p. 929).

Moreover, as convertibility was suspended, many British grand designs for post-war society – such as the impressive pieces of planning by the economist James Meade, which were based on the belief that macro management and micro liberalism should go together (Vines, 2007) – became obsolete. In addition, the emerging circumstances of inconvertibility were inducing discussion on the question of whether the pursuit of multilateralism should be ‘on the same terms as Labour’s earlier thinking on free trade – on condition that it was firmly linked with domestic redistribution and employment?’ The answer the Attlee-government gave to this question was yes. This led to serious tensions with Washington and produced new problems in the post-war structure of multilateralism (Daunton, 2010, p. 55).

Without a credible solution for the persistent balance of payments problems, the British pleas for ‘free competition’ through ‘the abolition of quantitative restrictions’ (and under the condition of freely transferable drawing rights, insofar as such transferability did
not involve gold or dollar losses, including losses of conditional aid) swiftly lacked credibility. Evidently, the British approach was putting the horse, of intra-European payments, behind the cart, of intra-European trade (NA, T230/155 (Intra-European Trade and Payments), OEEC, Paris, 27 June 1949; cf. FO 371/87108, Cabinet Office, ‘EPU and Trade Rules’, 6 March, 1950). Eventually, London ended up with the ‘special position’ of the pound sterling within the European Payments Union (EPU) it desired.

This British position in the EPU was one of many signs of the growing aloofness of the United Kingdom in the process of Europeanization, which as of 1947 kicked in under American impulses (NA, T230/158, ‘Report’, 3 May 1950). Meanwhile, the newly constructed Federal Republic of Germany (FRG) was in fact ‘taking over England’s role’, as it was put in an internal government memorandum in The Hague (DNA, 2.05.117, 22481–2, ‘Nota […] West-Duitsland’, 28 April 1949). During the summer of 1948, the new German Economics minister Ludwig Erhard had launched a bold liberalization programme, as well as a daring currency reform. This was the decisive move to unchain intra-European trade in the massive manner western Europe needed.

In parallel it became clear that ITO would never fly. In 1948, US Congress did not ratify ITO. Consequently, American policies effectively gave up the pursuit of a western encompassing multilateralism and convertibility. The western world now entered, in the words of Martin Daunton, ‘an intermediate phase of widening trade between countries, in conjunction with the European Payments Union’ (Daunton, 2010, p. 75; compare Maier, 1987, pp. 144–149). Grand designs transformed into institutional pragmatism.5

The European Payments Union

The European Payments Union (EPU), agreed upon during the last days of 1949, represented a fine institutional reflection of the blurry state of affairs in the management of financial-economic affairs in the western world at that moment. The EPU was a regionally oriented, ‘European’ organization. At the same time, however, it was located within the framework of the Atlantic-oriented OEEC, of which the free trade-mission, as envisaged in Washington, had been fatally hindered by unwilling European governments almost immediately after its coming into force in 1948 (Milward, 1984, pp. 466–470). The growing primacy of balance of payments issues also contributed to the French inspired plans of Fritalux and Finebel (for a free trade association of Belgium, Luxemburg, the Netherlands, France and Italy), which originally were based on floating currencies within a new union (DNA, 2.08.50, 15.50, 15 November 1949; cf. Dyson and Quaglia, 2010, p. 29).

The EPU created a temporary system to overcome the difficulties of non-convertibility and acted as a clearinghouse for intra-European settlements of surpluses and deficits (lasting from 1950 to 1958, when the western European countries began to post current account surpluses and finally moved to currency convertibility). As such it preceded the process of European integration of ‘the Six’ in the form of the ECSC.

5One of the by-products of this course of events was that the General Agreement on Tariffs and Trade (GATT) – ‘this supposedly interim agreement, which was meant to provide a framework for tariff reductions in advance of the creation of the ITO’ – would continue as the basis on which world trade was regulated (Toye, 2003, p. 912). GATT, however, would remain an empty shell in institutional terms when compared to Bretton Woods and the International Monetary Fund (IMF). As such it did not set new institutional boundaries to European integration, whereas the EPU and the FRG did.
In many ways EPU marked the beginning of the eclipse of the Atlantic world. This vanishing world had been the outlook of Bretton Woods and ITO, as well as of the connected trans-Atlantic efforts for deeper multilateral management of financial-economic affairs. The EPU represented something different: a second ‘half-way house’ (next to Bretton Woods), in the sense of a second multilateral financial-economic (sub-) framework for co-ordination in Europe, without a proper organization for trade-economic co-operation. But this one was built in Europe. As such, the EPU formed part of the European ‘transition from bilateralism to currency convertibility’; something Bretton Woods had tried to bring about, but had failed to deliver (Kaplan and Schleiminger, 1989, p. 1).

The EPU would evolve into ‘an instrument of Europe’s integration’, as it enabled the freeing of intra-European trade and became a key ‘forum for multilateral negotiations about European financial policies’. The coming about of EPU marked the beginning of the ‘web of financial and commercial relations’ so urgently needed to grow intra-European trade after the Marshall Plan had ended (Diebold, cited in Kaplan and Schleiminger, 1989, p. 24). This was all the more urgent, as the 1940s had proven how difficult a task it was to overcome the old-fashioned bilateralism that seduced every European country to strive for surplus and to be paid for it in dollars, which was utterly self-defeating, endangering intra-European trade (Kaplan and Schleiminger, 1989, pp. 22–24). It was the threat of this dreadful situation, which made European balance of payments issues emerge ‘as the central policy problem of … international economic cooperation’ (Dyson and Quaglia, 2010, p. 28). Rather unexpectedly, the EPU created an institutional context, in which economic welfare in Europe could be promoted.

The regional approach inherent in the EPU, matched the European ‘policy mission’ that became leading in influential circles within the State Department as of the summer of 1947. This mission put West Germany centre stage; and, as such, overruled the so-called ‘Morgenthau Plan’, an up until then influential ‘vision of a pastoralized post-war Germany’ in the American administration (Steil, 2018, p. 6). It thrived on the maxim that integrating western Germany into western Europe would decisively benefit the economic recovery of western Europe as a whole. In turn, approaching western Europe as a unit (instead of approaching its separate states bilaterally) would stimulate its (economic) integration and as such strengthen the western position vis-à-vis the Soviet-Union. Against the background of the unfolding Cold War, this argument won the day and redefined American European policy in strictly European terms: ‘building Europe’ (Weisbrode, 2009, pp. 99–103).

Against the backdrop of the consistently risky slow pace of European recovery and a US Congress increasingly unwilling to unlock more funds for Europe yet remaining ‘attracted by the idea of a united Europe’, ‘Building Europe’ replaced ‘building Atlantis’. Eventually, it turned out that the EPU could bridge ‘the visionary’ and ‘the practical’ in western Europe, and in such a way that both the US government and the governments of western Europe were willing to commit to it.

Central to the success of the EPU was the fact that the institution encapsulated four efforts of vital importance for the future of Europe. First, the EPU enhanced the modernization and industrialization of the economies of western Europe. Second, it freed international trade and payments, which resulted in ‘an enormous increase in economic efficiency’. Third, the EPU ameliorated ‘the adjustment of economic policies to control foreign exchange imbalances’. Fourth, and essentially, the EPU made possible the
integration of the economies of western Europe into a common market, which started working through the EEC-treaty in 1958, the year EPU ceased to exist (Trachtenberg, 2000, pp. 63–65; Kaplan and Schleiminger, 1989, pp. 1–8, 15, 21).

However, the rise of the EPU came at a price: a relative disengagement of the Anglo-Saxon world, which up till then had been the central arena for plan-making drafting and testing concerning the future of Atlantis and Europe (in that order). The EPU marked a shift of initiative from Washington and London towards Bonn and Paris. Soon, the institution turned out not to be the stepping-stone towards (supranational) monetary union envisaged in the offices of the ECA (Compare DNA, 2.08.50, 15.50, 10 November 1949). Instead it merely remained a multilateral payments system that could underpin gradual trade liberalization in Europe – essentially by allowing member states to manage bilateral trade deficits by credit margins and providing ad hoc loans to states with balance of payments problems (Dyson and Quaglia, 2010, p. 29; Milward, 1984, pp. 208–211; cf. Doc 1/26, in Dyson and Quaglia, 2010).

Indeed, ‘as a bank’ the EPU exerted its lending power to force compliance, whereas ‘as an institution’ the EPU stimulated longer-term planning and thinking, thereby strengthening ‘the credibility of the Marshall Plan liberalization policy’, both within and outside the EPU. As such the EPU, in fact, made Bretton Woods (with ITO missing) work; yet in a way largely unforeseen. Moreover, as the Deutsche Mark moved towards convertibility during the first half of the 1950s, the EPU evolved into a ‘bilateral affair’, ‘with accumulating German surpluses covering deficits in much of the remaining union and especially in France’ (Gillingham, 2003, pp. 20, 40, 42). These were the practical fruits of the European regionalism that started in 1947.

**Europeanization**

Importantly, at its basis, the above-described process of Europeanization was neither sustained by Anglo-Saxon planning, nor by trans-Atlantic-wide management of financial-economic matters. The key driver was the combination of unorthodox liberalization and currency reform in West Germany. A policy carried out under the direction of the Ludwig Erhard (KAS (ed.) 1975, Doc. 25: 861–862; Morsey, 1987, p. 16; Koerfer, 1987, pp. 50–54) – the minister of Economics in every Adenauer-government from 1949 to 1963. These policies placed the FRG at the heart of the unfolding process of European integration.

Momentously, the ITO-story strengthened the ‘regionalization’ and ‘Europeanization’ of trans-Atlantic planning efforts in the spheres of monetary management and trade (cf. Toje, 2003, p. 933). This divergence created two distinct arenas for western and European policy-making: a trans-Atlantic and a European one. The latter of these would develop into the main laboratory of new experiments of international co-operation driven by socioeconomic ambitions.

**IV. The FRG and the Eclipse of Atlantis: The Birth of Social Market Europe**

The growing aloofness of London in European matters built political momentum for bold Franco-German (supranational) initiatives of European integration. Animated by Jean Monnet, an influential group of policy-makers and politicians in key positions in the
French government, as well as in the bureaucracy of the Marshall Plan, was keen to rise to this European occasion _par excellence_.

Moreover, the force of American planning was counterbalanced by home grown European ideas, tailored to the regional situation of western Europe. This situation crystallized ever more clearly as the United Kingdom retreated from the leader’s position in Europe. Nonetheless, the Monnet-inspired pro-European vision that would prevail in France met with deep scepticism in circles of German economists.

Many of the influential German ordoliberal abhorred this regionally oriented institutional route. These were the defenders of free enterprise anchored in framework-treaties (guaranteeing respect for property and contract, protecting free competition and honouring monetary prudence). They were, however, strongly on the defensive; just like their kindred spirits on the other side of the Atlantic (Burgin, 2012, pp. 87–122). Yet unlike the latter, the German ordoliberal, were in a rather unique position to influence the history of European institution building through the first governments of the FRG.

The ordoliberal representative with the deepest impact on the policy-making in Bonn was Wilhelm Röpke, professor of Economics in Geneva, dedicated to the _Freiburger Schule_ and prominent member of Hayek’s _Mont Pèlerin_ Society (Jones, 2012, p. 123).

**Ordoliberalism and the Rise of Regionalism**

Röpke was an opponent of planning in general and had been not much of a fan of the Marshall Plan (which he characterized as an opportunistic blood transfusion). He was on the same page as Schumpeter when it came to the policies of the Labour government in the UK (Schumpeter, 1979). The Attlee-policies were utter horror to Röpke. In his view, the British government proved how planning, indebting and centralism could demolish an economy and a currency in no time – in 1947 Röpke energetically and consistently had called upon Bonn to gear up a counter-experiment of the planning at home in occupied western Germany (Hennecke, 2005, pp. 171–173).

According to Röpke, only a freed market and a process of price correction through deflation could point the way to a new sound (and more spontaneous) order – hence, exactly the opposite of the interventionist policies of planning, ‘dirigisme’, lending and price-fixing, en vogue in the 1940s. Crucially, Röpke even went so far as to argue that it was in Germany’s own interest to eliminate tariffs regardless of what other western European countries did (NWR, IWP, Lose Blattsammlung, ‘Europäische Wirtschaftsintegration: Illusionen und Möglichkeiten’, June 1953; Plickert, 2008, p. 144; Gillingham, 2003, p. 13).

From 1948 onward, Röpke engaged himself with the unfolding process of Europeanization that took off in the slipstream of the developments within Bretton Woods, the coming about of the Marshall Plan and the (Monnet-inspired) institution building connected to it (see above). Röpke’s approach to balance of payments problems and the linked prospects for European economic integration remained clear-cut ordoliberal.

In his view, any balance of payments crisis was a symptom of inner disorder in the country concerned. This meant that a true restoration of the economy concerned was only possible through _Preiswahrheit_.

This made Röpke an ardent supporter of currency convertibility, which, in his view, should build a necessary precondition for any sensible European programme. Western
Europe was still very far away from such a situation, according to Röpke. The state of affairs emerging, including the creation of EPU reflected a ‘fake multilateralism’, for it implied subordinating intra-European trade to a system of financial settlements, which ultimately was aimed at enabling the governments to force through their planning obsessions with domestic goals of extraordinary social policies inspired by dangerous trends of ‘europäische Planwirtschaft’ and ‘Superkollektivismus’ (or, in other words, socialism).

In sum, according to Röpke the EPU was a European waster (cf. NWR, IWP, Lose Blattsammlung, ‘Europäische Wirtschaftsintegration: Illusionen und Möglichkeiten’, June 1953). This was a radical stance; yet it would become quite influential. And there was a reason.

The German Economics Minister Erhard would become the political voice and policy hand practicing Röpke’s views. Right from the start of his first term in office Erhard battled for convertible currencies and trade liberalization as the principles of post-war European integration, that is, functional integration grounded in free markets and anchored in national framework-treaties (guaranteeing respect for property and contract, protecting free competition and honouring monetary prudence) instead of the deeply politicized European institution building à la Monnet (NWR, IWP, Korresp. II 60–66, ‘Der Schumanplan – ein europäisches Experiment’, 1950; BAK, N1254/84, Etzel to Erhard, 31 May, 1954; cf. Hennecke, 2005, pp. 175–178, 184; Erhard, 1953).

According to Röpke, national governments (not international organizations or international cartels) ought to be held responsible for setting the framework conditions for national order. Out of this ‘international order’ would ‘emerge as a by-product’. In this respect, Röpke fervently hoped and believed that a cleansed and reformed German nation could provide a beacon of light that ‘other governments would follow through competitive emulation’ (Gillingham, 2003, p. 13).

Through policy channels that reached the highest political levels of the successive CDU-FDP Adenauer governments, German ordoliberalism would profoundly influence the ‘European experiment’, as Röpke called it. As such these ideas created a forceful counter-balance to the supranational agenda of the European ‘planners’ under the leadership of Monnet, and would fuel the next round of the ongoing battle of (economic) ideas and blueprints in European integration history. This round, however, was set in the more regional laboratory of European integration (which eclipsed Atlantis) and focused on the perennial debate between (French) dirigisme and (German) ordoliberalism and the feverish search to reconcile these concepts within the framework of European (market) integration (see the contribution of Laurent Warlouzet to this Special Issue).

Conclusions

This ‘European experiment’ would take the continental European geographical form of ‘the Six’ (France, Belgium, the Netherland, Luxemburg, the FRG and Italy) as of 1950, with the United Kingdom retreating from integration initiatives. At the same time, the US strongly pushed for Europeanization with the FRG as its linchpin. Within this setting, ordoliberal thinking could gradually gain influence beyond the FRG and, in parallel set boundaries to the ambitions of the institutional engineers of European integration. This, however, demanded a certain tenacity.
After all, from the launch of the Schuman-plan, the Adenauer governments conceived supranational European integration as the vital precondition to secure the future of the FRG – in fact openly doubting the primacy of European integration was a taboo in Adenauer’s Bonn. Consequently, the question of European integration for the FRG-government was not if, but how? How to organize it? This clear stance gave the West German engineers a head-start in the building up of the institutions of European integration, and its social market economy in particular. This did not mean that the West Germans were in agreement about the ‘how’ of it all among themselves.

The organization of European integration’s governance formed the key issue to wrangle about for the Ministries and planning staffs of the FRG. Moreover, the ordoliberal-inspired Adenauer-governments (essentially lame duck in foreign affairs until the mid-1950s) considered the issues of financial-economic governance at the very heart of Germany’s adventure with European integration. During the 1950s, it would become increasingly clear that it was through modes of financial-economic governance that the European conditionality of the (costly) politics of West German self-binding would and could be influenced and, to a certain extent, controlled (cf. Dyson, 2014, p. 579).

This made financial-economic governance within the process of European integration a decisive matter for the immediate democratic legitimizing of the whole European experiment, as well as the ratification of it in domestic politics. This was not all, however. It would also become of crucial importance for the durability and inner strength of the integration process in general.

The launch of the Schuman-plan in May 1950 happened against the backdrop of the rapidly fading promise of Atlantic Community. Crucially, this created extra momentum for a separate (continental) European effort of multilateralism in order to cope with some pressing and peculiar problems on the continent. Among these European problems the ‘German problem’ (including the issues of the Ruhr and Saar) and the management of intra-European balance of payments issues were two of the most prominent. The literature and research on the influence of the first on the process of European integration is vast, while the role of the latter has been often overlooked in the existing historiography on European integration.

Generally, the topic of balances of payments remains confined to (niche) studies in economic history of western Europe, stripped from assessments of its potentially wider impact in post-war western Europe. Moreover, writing institutional histories of Bretton Woods and the General Agreement on Tariffs and Trade (GATT) have become terrains of study for economists, economic historians and lawyers, and scholars of international political economy alike. These scholars only seldom truly engage themselves with the history of European integration. There are but a few exceptions that delve into the link between the management of Europe’s balance of payments problems and institution building in the post-war West and western Europe. These studies, however, remain mostly limited to the history of monetary integration (cf. James, 1996; McNamara, 1998; notable broader studies are: Dyson and Quaglia, 2010; Gillingham, 2003).

Nonetheless, precisely the multilateral ways, in which the intra-European balance-of-payment-issues were managed, have been of key importance for the institutional form and geographical shape European integration took as of 1950: a social market economy centred around the Franco-German axis and the powerful German economy, in which the market economy has primacy, and ‘the social’ communicates its unique regional (continental) European edge and political promise.
Correspondence:
Mathieu Segers
Professor of Contemporary European History and European Integration
Maastricht University
Zwingelput 4, 6211 KH Maastricht,
The Netherlands
e-mail: mathieu.segers@maastrichtuniversity.nl

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