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**RESTORING INTERNATIONAL PAYMENTS:
GERMANY AND FRANCE CONFRONT BRETTON WOODS AND THE
EUROPEAN PAYMENTS UNION**

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Restoring International Payments: France and Germany Confront Bretton Woods and the European Payments Union.¹

The Mt. Washington Hotel, Bretton Woods, New Hampshire, 1 July 1944. 730 persons, representing 45 nations, convene to draft an agreement setting up two international institutions—the International Monetary Fund and the World Bank—and a set of multilateral undertakings in the field of international monetary relations. Neither the meeting nor the agreement had historical precedent. The classical gold standard came into being piecemeal in the course of the second half of the 19th century. It rested on unilateral decisions by individual nations to buy and sell their national currencies at fixed rates expressed in gold. The reconstruction of the gold standard in the interwar years involved a far higher degree of cooperation between national governments and central banks, but this cooperation was expressed in a series of ad hoc agreements, not in the form of an overarching international treaty regulated by international organizations.

But even though representatives of 45 nations were invited to the Bretton Woods conference, and even though 29 of them had ratified the Agreement by 27 December 1945, the date fixed for its ceremonial signing, for all intents and purposes it was the product of bilateral negotiations between the USA and Britain.

The principals in these bilateral negotiations were Harry Dexter White, US Treasury Assistant Secretary, and John Maynard Keynes, the celebrated economist and adviser to the British Treasury. Each was the author of a plan for a postwar international monetary order; both of the plans were published in

¹ I would like to thank Monika Dickhaus, Hans-Otto Frøland, Lawrence Kaplan, Ton Notermans, Paul Pitman, and the participants at a panel discussion at the Annual Meeting of the Society for Historians of American Foreign Relations, Boulder, Colorado, 23 June 1996, and the participants at seminar discussions at the Instituto Juan March de Estudios e Investigaciones,

April 1943. The story of the elaboration of the Keynes and White Plans, and the ensuing bilateral negotiations has been told many times before. It is the subject of at least three historical monographs, not to say an anonymous poem, found among the documents:

In Washington Lord Halifax
Once whispered to Lord Keynes
"It's true *they* have the money bags
But *we* have all the brains."²

In part, the initial plans reflected the different economic situations of the two countries, and hence their contrasting interests. Britain was heavily in debt to the USA, and the Keynes Plan, therefore, was attentive to the interests of international debtors. The USA was the world's largest creditor, and had every expectation of continuing to run large current account surpluses after the war. Consequently, the White Plan reflected the USA's unwillingness as creditor to carry all of the burdens of restoring an open, multilateral system of payments. It proposed a much smaller provision of international liquidity than the Keynes Plan, and stronger mechanisms to induce debtors to make adjustments to bring their balances of payments into equilibrium.

But, as Richard Gardner in particular has set out brilliantly, the two plans also reflected the different lessons Britain and the USA had derived from the experience of the Great Depression.³ From the US point of view, the main objective of restoring an open multilateral system of payments was to facilitate

Madrid, 29 April 1997, and the ARENA (Advanced Research on the Europeanization of the Nation-State) Project, Oslo, 10 June 1997, for comments on earlier drafts of this essay.

² The poem is quoted in Richard N. Gardener, *Sterling-Dollar Diplomacy in Current Perspective* (New York: Columbia University Press, 1980) p. xiii. The other two monographs on the negotiation of the Bretton Woods agreement are: Armand van Dormael, *Bretton Woods: Birth of a Monetary System* (New York: Holmes & Maier, 1978); and Georg Schild, *Bretton Woods and Dumbarton Oaks: American Economic and Political Planning in the Summer of 1944* (Basingstoke: Macmillan, 1995). The Keynes and White Plans have been published in J. Keith Horsefield et al, *The International Monetary Fund 1945-1965: Twenty Years of International Monetary Cooperation*, (Washington: International Monetary Fund, 1969), vol. III, pp. 3-36 and pp. 37-96, respectively. See also Harold James, , (Washington DC, and New York: International Monetary Fund, and Oxford University Press, 1996).

the expansion of trade. The USA had learned that trade barriers were a threat to world prosperity; hence it must open its own markets, access to which had been closed with disastrous consequences during the Depression, notably by passage of the Smoot-Hawley Tariff in 1930. Liberalizing world trade and payments would require the USA, as the world's leading creditor nation, to take the initiative, and even make sacrifices in order to bring other nations along with it. (It remained to be seen whether the US Congress could be brought along in the policy of opening US markets.) But it also meant that Britain must dismantle the system of Imperial Preference it had constructed during the 1930s.

The main lesson learned by British policymakers from the Great Depression was very different: never again must domestic output and employment be sacrificed on the altar of the exchange rate regime. Internal equilibrium must take precedence over external balance; international monetary relations could not interfere with policies designed to achieve full employment. Trade, although beneficial, even essential, for a small, densely populated island nation, could be managed to support other economic goals. Indeed, whereas the USA was in the process of throwing off its longstanding policy of protectionism, in Britain the doctrine of free trade finally had been repudiated after a century of openness.

In the negotiations leading up to the Bretton Woods Agreement, trade issues were bracketed out, and dealt with in other fora. In the purely monetary sphere to which Keynes and White turned their attention, two great issues of principle had to be compromised: the responsibilities of debtors and creditors for adjustment in case of disequilibrium; and the degree of discretionary powers the proposed international monetary authority would have in proposing adjustment policies and withholding or granting funds to member nations.

³ The following discussion relies heavily on Gardner, *Sterling-Dollar Diplomacy*.

The Keynes Plan, naturally, provided for much more generous provision of international liquidity—a theoretical maximum of \$26bn, in bancor, as the proposed new international currency was styled. Member nations would be provided with overdraft credits in amounts proportionate to their pre-war trade. The overdraft facilities afforded debtors on current account wide margins within which they were under no obligation to undertake adjustments. By way of contrast, the only limit fixed on the amount of credit an individual nation in surplus would be required to extend was the sum total of the quotas of debtor nations. Theoretically, a single country such as the USA could have been required to create \$26bn. in bancor to finance the deficits of the rest of the world. This was the truly revolutionary feature of the Keynes Plan: creditors, and not just debtors (as under the gold standard) would face structural incentives to bring their international balances of payments into equilibrium.

At the same time, the Keynes Plan accorded little discretionary authority to the Clearing Union, that is, the international monetary authority. Such an authority, it was feared, was likely to fall under the control of the United States, particularly since it was expected that the US Federal Reserve at least initially would provide most of the liquidity to make the system work. An international authority dominated by the USA, and vested with far-reaching powers, might intervene in the domestic monetary and financial affairs of member countries in deficit, including Britain, making credits contingent upon the adaptation of restrictive macroeconomic policies, perhaps requiring them to abandon a commitment to full employment.

The Stabilization Fund envisaged by the White Plan, in contrast, was provided with far less liquidity—\$5bn. in total. Its resources would come in part from gold deposits of member nations. The structural incentive for creditors to reduce their trade surpluses was reduced correspondingly. Moreover, voting rights would be proportionate to member contributions, ensuring that the United States would have an important voice, if not control. The Stabilization Fund

would have far-reaching discretionary powers. Rather than being automatic, credits would be provided to debtors based on acceptance of and conformance to stabilization policies recommended by its staff.

The Bretton Woods agreement rested in part on the reconciliation and in part on the fudging of differences between the two plans. Briefly put, the resources placed at the disposal of the IMF were expanded somewhat beyond the total envisaged by the White Plan (to \$8.8bn., of which \$3.175bn. came from the USA), but they remained well below the total envisaged by Keynes. The articles of the Agreement deliberately left the scope of the International Monetary Fund's discretionary authority in allocating credits ambiguous. Not surprisingly, given the balance of power between the two nations, on the whole the compromise was closer to White than to Keynes.

As Gardner informs us, the British won a number of important concessions to compensate for the reduction in the IMF's resources with respect to their original plan, and for the sharp limits on automatic drawing rights for debtors. One concession was far more liberal provision for exchange rate adjustment than had been envisaged in either the White or Keynes Plan. If debtors could expect little aid from the IMF, they must be freer to cope with balance-of-payments deficits by devaluing their currencies. Although changes in exchange rates were only allowed to correct a "fundamental disequilibrium," for changes in par value less than 10%, the authorities in the country in question, and not the IMF, would decide what circumstances constituted a fundamental disequilibrium. Even for larger changes, the IMF could not object on the basis of "domestic social or political policies of the members proposing the change:" full employment could not be vetoed by an international organization.

The second concession extracted from the Americans at Bretton Woods is particularly important to this discussion: it freed members from having to implement the Agreement for a transition period of five years following the end

of the war; at that time, consultations would take place to determine whether the agreement could be implemented or not. Still a third concession was a paragraph inserted in the articles of agreement which allowed member countries to discriminate in trade against nations with currencies deemed scarce by the IMF. If structural imbalances emerged in trade with the USA, as the British feared, they would have the option of discriminating against American goods, rather than importing deflation from the United States.

Now we must fast-forward five years to Château de la Muette, Sixteenth Arrondissement, Paris, 10 December 1949, to a meeting of the Organization for European Economic Co-operation. Richard M. Bissell Jr., a former professor of economics at Yale and MIT (and future spymaster), in his capacity as Assistant Administrator for Program at the Economic Cooperation Administration in Washington, is presenting a proposal for a European Payments Union. Within Europe, trade and payments are still entrapped in a web of over 200 bilateral accords.⁴

So what has happened to Bretton Woods? In the meantime the international institutions have been set up, and the defeated and occupied nations of Europe have acceded to them or will do so shortly. But the Bretton Woods institutions exist in a state of suspended animation; the multilateral world monetary system they were meant to sustain still exists as a goal to which policymakers aspire, but it is no nearer now than in 1944 to becoming a reality.

⁴ On the European Payments Union and its negotiation see Alan S. Milward *The Reconstruction of Western Europe, 1945-51* (Berkeley: University of California Press, 1984); Barry Eichengreen, *Reconstructing Europe's Trade and Payments: The European Payments Union* (Ann Arbor: University of Michigan Press, 1993); Jacob J. Kaplan and Günter Schleiminger, *The European Payments Union: Financial Diplomacy in the 1950s*, (New York: Oxford University Press, 1989); Robert Triffin, *Europe and the Money Muddle: From Bilateralism to Near-Convertibility, 1947-1956*, (New Haven: Yale University Press, 1957); William Diebold Jr., *Trade and Payments in Western Europe: A Study in Economic Cooperation 1947-1951* (New York: Harper and the Council on Foreign Relations, 1952). See also Richard M. Bissell Jr. with Jonathan E. Lewis and Frances T. Pudlo, *Reflections of a Cold Warrior: From Yalta to the Bay of Pigs* (New Haven: Yale University Press, 1996).

In the meantime, the USA has poured prodigious quantities of aid into Europe, since 1948 primarily through the Marshall Plan. Although output and consumption have recovered in Europe, in most countries to levels above those of 1938, the volume of trade lags well behind. The Economic Cooperation Administration has accomplished little in the way of the structural reforms which were put forward to the American Congress and voters as goals to justify its labors: the creation of economic and political unity among European nations, and the overcoming of Europe's structural trade deficit with the USA. Marshall Plan administrators are engaged in a last-ditch effort to forge a liberal European market, the possibility of an open, multilateral system of payments and trade on a world scale having been by now discarded as a short- or even medium-term goal.

During the following months, through the signature of a preliminary agreement on 7 July 1950, another epic battle over the structure of an international (albeit this time merely regional) monetary system is waged. Once again, it pits primarily American against British negotiators, with the continental nations (except Belgium) remaining largely in the background. Many of the issues of contention at Bretton Woods are also central to this debate: the degree of automatism to be contained in the European Payments Union versus the degree of discretionary power to be exercised by its Managing Board; the responsibilities and obligations of net debtors versus those of net creditors. In the background once again are questions regarding trade: are discriminatory practices to be tolerated?; will the agreement force Britain to abandon preferential practices within the sterling area?

The compromises struck this time around are closer to the Keynes than to the White Plan. To being with, the main purpose of a European Payments Union was to establish a soft currency area that would institutionalize discrimination against the United States.

Secondly, the EPU provided far more liquidity than the IMF under Bretton Woods. Participating nations were assigned quotas, in most cases amounting to 15% of their trade balances in 1949. The quotas were divided into five equal tranches. The first tranche was an automatic credit from or to the Union. After that, the settlements for debtors were in some proportion of credits to dollar or gold payments, with gold payments exceeding credits above 60% of the quota, and reaching 100% for amounts over the quota. Settlements for creditors were in proportions of 50% credits and 50% gold or hard currency for all four tranches beyond the first. Net balances were calculated on a monthly basis, but creditor and debtor positions were cumulative. In addition to the quotas based on trade, six countries were given additional margins as structural debtors, and three granted extra credits as structural creditors. As a result of the asymmetries in settlement terms for debtors and creditors and in initial debtor versus creditor positions, it was theoretically possible that the EPU might have to pay out more gold than it took in; to meet this possibility, the United States gave the Union \$350m. in start-up capital.

The size of the gold-free credit margins thus recalled the overdraft provisions in Keynes's original plan. Moreover, as Albert O. Hirschman, an economist working with the US Federal Reserve at the time, pointed out, "the mode of settlement as finally agreed goes farther than any previous international monetary mechanism in placing responsibility to maintain international balance on the creditor as well as the debtor."⁵ Debtors within the EPU faced progressively stronger incentives to balance their trade, since they had to pay increasingly in gold or hard currencies as they went through their quotas. Creditors, in contrast, continued to accumulate credits in proportions of 50% for their surpluses.

⁵ Albert O. Hirschman, "The European Payments Union: Negotiations and the Issues" *Review of Economics and Statistics* 33 (1951), pp. 49-55, cited passage p. 53.

Thirdly, the EPU relied far more on rules and far less on the discretionary authority of its Managing Board than the Bretton Woods Agreement. Within the quotas, settlements occurred automatically, according to the agreement's rules. Although the Managing Board could make recommendations to both extreme debtors and extreme creditors to modify their macroeconomic and trade policies with a view to bringing their payments position back into balance, its powers were left imprecisely defined. The Board took decisions by majority vote, but they could be overridden by the OEEC Council, where unanimity prevailed.

This time the international organization created by the agreement did not go into suspended animation; instead it worked and proved a resounding success. European trade increased rapidly, at a rhythm in excess of growth in output, reversing the relationship between the two variables up to then. Moreover, the EPU took root in European soil. As the US presence at the OEEC diminished, and after US aid ceased, the EPU continued to work, carried forward by the support of its European members, particularly its continental members. Moreover, it fulfilled the function assigned to it by the United States of serving as a halfway house to Bretton Woods. The settlements were hardened progressively beginning in 1954. Discrimination against the dollar area was reduced. When the EPU was wound up at the end of 1958, most member currencies became fully convertible.

This raises an interesting question: how did continental Europeans view the restoration of international payments after World War II? They were all but absent from Bretton Woods and the negotiations leading up to the Agreement signed there. They were still in the background during the negotiation of the EPU treaty in 1950, although their support for EPU after the treaty was signed was vital for its success, beginning with the first severe test the organization faced, namely the German balance-of-payments crisis in 1950-1.

This question still has not received the attention it deserves. In this essay, I will confine myself to discussing France and Germany. They are not the only nations of consequence with respect to European monetary affairs in the late 1940s and early 50s; Belgium, for example, was also important, because of its large surpluses in intra-European trade, and its formidable creditor position. But neither the EPU nor Bretton Woods could have functioned without France and Germany. Moreover, the construction of Franco-German entente was crucial to building a peaceful and prosperous Europe, and the agreements these two nations forged in the monetary sphere must have played a part in the construction of that entente. To make matters more interesting, these two countries appear to stand at opposite ends of the spectrum with respect to basic orientation in monetary policy. France had higher rates of inflation during the 1940s and 1950s than most OEEC nations; Germany among the lowest. During much of the period in which the EPU agreement was in effect, Germany was the largest net creditor; France was the largest net debtor. How did these two nations reconcile their differences and satisfy national policy goals within EPU?⁶

Let us begin with France. Among the major continental nations, we know most about the views of French officials concerning international monetary problems during the period in question. Representatives of Free France in London and Washington were in contact with their British and American counterparts during the war, and exchanged views with them concerning the reconstruction of international trade and payments. A French proposal for reconstructing international monetary relations after the war was drawn up in the spring of 1943 by two representatives of Free France, Hervé Alphand and André Istel. It was discussed at length in the *New York Times* on 9 May 1943, and a version later was published in the official history of the International

⁶ Monika Dickhaus reproduces the cumulative net surplus and deficit positions of the leading members of EPU between June 1950 and June 1958 in "It is only the Provisional that Lasts': The European Payments Union," in Richard T. Griffiths, ed., *Explorations in OEEC History* (Paris: OECD, 1997), pp. 183-200, table p. 184. The interrelationship between mounting German surpluses and French deficits within the union is graphically illustrated here.

Monetary Fund edited by J. Keith Horsefield. Moreover, Free French plans for post-war monetary affairs are the subject of two provocative recent articles, based on extensive archival research, by Robert Frank and Chiarella Esposito respectively.⁷

The first proposal for reconstructing payments after the war in the archives at Quai d'Orsay is unsigned, and dated 21 May 1942. It apparently was drawn up by Hervé Alphan in London. Alphan was a foreign ministry official who defected from Vichy while on assignment in the United States in May 1941, and subsequently joined de Gaulle in the British capital. This first proposal assumed that bilateral agreements would represent the first step in restoring postwar trade and payments. A model was the trade agreement signed by Britain and France in the fall of 1939, during the phony war, in the negotiation of which Alphan himself had played a prominent role. The two countries had agreed to fix their reciprocal exchange rates, with compensation provisions in case of devaluation by either party. They held specified amounts of each others' currencies to make purchases for the other side in their respective currency zones; these funds were not available for purchases in third markets. Credit surpluses above specified ceilings were to be funded through conversion into low-interest treasury bonds. Either country could devalue unilaterally vis-à-vis third countries (a provision which assumed the possibility of multiple exchange rates). The author of the proposal found it particularly significant that balances were held in the debtor country's currency, not in gold or in the creditor country's currency.

The 1942 French proposal went on to posit that a web of bilateral agreements of this nature would be created among the nations of Western

⁷ Robert Frank, "Contraints monétaires, désirs de croissance et rêves européens (1931-1949)," in Patrick Fridenson and André Straus, *Le Capitalisme français, 19e-20e siècle: Blocages et dynamismes d'une croissance*, (Paris: Fayard, 1987), pp. 287-306; Chiarella Esposito, "French International Monetary Policies in the 1940s," *French Historical Studies* 17 (1991), no. 1, pp. 117-140. For the Alphan-Istel Plan see J. Keith Horsefield et al, *The International Monetary Fund 1945-1965*, vol. III, pp. 97-102.

Europe following the war. As the web expanded, a *Caisse internationale de compensation* could multilateralize payments. This *Caisse* would pressure countries in deficit to devalue, and countries in surplus to reduce their barriers to imports.⁸

The Alphand-Istel plan, as published by Horsefield, represented a reworking of the older document discussed above, dating from the spring of 1943, shortly before publication of the Keynes and White Plans. Istel was a commercial banker who had entered French government service in 1939. He had been involved in the negotiation of the Anglo-French financial agreement in 1939 along with Alphand. This plan was more conservative than the earlier draft, perhaps, Frank speculates, as a result of compromise among its authors. In it, the *Caisse* has been downgraded to an *Office internationale de stabilisation des changes*. But this proposal too refers explicitly to the 1939 Anglo-French accord. Once again, the idea was to multilateralize bilateral agreements gradually. Unlike the 1939 agreement, reciprocal credits would not be for unlimited amounts; there would be ceilings, above which debtors would have to settle in gold. Even below the ceilings, debtors would have to make collateral deposits, equivalent to 10-30% of their debts, in gold, hard currencies or raw materials. The long-term objective was to return to an international gold standard. However, unlike the classical gold standard, exchange parities would be adjustable. Changes would be based on consultation and concerted action among member nations, recalling the Tripartite Agreement of 1936.

The French Plans were designed to restore international payments and trade in a manner compatible with proposals being drawn up for domestic

⁸ This description is based largely on Robert Frank, "Constraints monétaires." Such ideas may have been rather common in the European exile community in London at the time. Jan Willem Beyen, the future Dutch Foreign Minister, drew up a rather similar proposal in December 1942, that also referred directly to the payments agreement between France and Britain in 1939. J.W. Beyen, "Notes on Monetary Conditions after the War," 30 December 1942, Handschriftliche Abteilung, Universitätsbibliothek, Basel, Switzerland (hereafter HAUB), Per Jacobsson Nachlass, Schachtel 26, "International Institutions, I, 1943-61."

economic reconstruction and modernization. Free French planners envisaged an ambitious program of postwar investment. They anticipated that high levels of domestic demand would exert pressure on the balance of payments, and they believed it would be necessary to control trade and payments. At least in the short run, discriminatory trade would be necessary to ensure that limited foreign exchange earnings were expended upon essentials, while luxury imports were kept out. In the long run the French were also in favor of liberalizing trade. Among the economic planners, the conviction was widespread that modernizing France would require the stimulation of foreign competition, to stir French industry from its Malthusian torpor. The open, multilateral world envisaged in the Anglo-American plans was a desirable goal; the problem was how to get there.⁹

The differences between the French and their Anglo-American interlocutors emerge in an entry in Alphan's diary dated 20 August 1943, describing a meeting between himself, Istel and Keynes in London:

Lord Keynes received Istel and me. He appears to us a sort of monetary dreamer. It is impossible to deflect him from his current preoccupations. His plan would put every country on the same footing--regardless of their past, their capacity to pay for imports, their reputation--in a sort of depersonalization of debts and credits. It is a magnificent construction, but Istel and I cannot believe in it. In our skepticism, we proposed a more modest program, which consists in beginning with bilateral accords, which would interpenetrate one another, forming with time a nucleus destined one day to become the universal Clearing Union that Keynes dreams of creating with a single stroke.¹⁰

⁹ In addition to the cited published sources, this account is based on unpublished documents in the Jean Monnet Papers in the Fondation Jean Monnet pour l'Europe, Lausanne. Of particular importance are Hervé Alphan, "Quelques elements pour l'elaboration d'une these française de la reconstrucion economique," 3 August 1943, Hervé Alphan, untitled memo, 17 September 1943, both in AME 33/2; and André Istel, "Les problems monetaires internationaux," undated, but from internal evidence probably from the late summer or early fall of 1943, in AME 48/2.

¹⁰ Hervé Alphan, *L'étonnement d'être. Journal (1939-1973)* (Paris: Fayard, 1977), p. 165-6.

But the work of Frank and Esposito makes it clear that the Free French had few illusions about their ability to influence the Bretton Woods negotiations. The delegation, to the conference, led by Pierre Mèndes France and Istel, did not insist upon the Istel-Alphand Plan, which it characterized as *moin large*, than the Keynes and White Plans. Rather, the French sought to achieve their objectives by amending the other plans.

Not surprisingly, they liked the Keynes Plan much better. They approved of the much larger credit margins envisaged by Keynes. The French supported most of the concessions wrung from the Americans by the British in the Bretton Woods agreement. Of particular importance for them were the provisions that allowed countries to ration currencies deemed scarce by the IMF, and the ability of countries ravaged by war to maintain controls on payments and capital transfers for five years after the end of hostilities, with consultation with the IMF to follow, in order to determine whether controls could be abolished safely. They also favored the relatively easy devaluation procedures Keynes persuaded the Americans to agree to, in compensation for his acceptance of an IMF with relatively modest resources. In light of France's substantial gold reserves, they were, however, critical of Keynes's proposal to delink international payments entirely from the yellow metal.

During the negotiations the French expended their relatively modest political capital on issues of direct interest to France, rather than issues of principle. They insisted strongly on expansion of the French quota in the IMF, which would determine the size of their special drawing rights: eventually it was raised from \$450m. to \$525m. France also obtained a seat on the IMF executive committee.

Meanwhile, the French proceeded to negotiate bilateral clearing agreements on the lines set out by Alphand and Istel earlier on. The first accords were signed with Benelux on 21 October 1943; additional trade accords

with other European nations followed the Axis defeat. As both Frank and Esposito point out, the actual path followed in the reconstruction of trade and payments in Europe after the war was similar to that set out in the French plans in 1942-3: a web of bilateral agreements gradually was multilateralized, culminating in the European Payments Union agreement of 1950. Frank concludes:

Wasn't there a sort of revenge of the Alphant-Istel "suggestions" on the Keynes and White Plans and on Bretton Woods? . . . For once, pragmatism was on the French side, and it ended by prevailing.¹¹

Neither Frank nor Esposito suggest that the proposal for the European Payments Union presented to the OEEC by Richard Bissell in December 1949 was based directly on Istel-Alphant. Their arguments are much more that French ideas conformed more closely to the logic of the postwar situation, and after trial and error the Americans too came around to adopting a similar strategy. In effect, they suggest that French ideas, and Anglo-American ideas, for postwar monetary arrangements were implemented seriatim: first the EPU, then, after the return of the major European currencies to full convertibility in 1958, Bretton Woods.

It should be pointed out that at the moment Bissell submitted his proposal, the French were engaged in intense negotiations with Italy and Benelux to create a smaller customs and payments union (Fritalux or Finebel). The EPU proposal threw this small European project off the rails, to the immediate dismay of French diplomats. Frances Lynch's work illustrates that French officials, far from being unreserved supporters of EPU in 1949-50, were divided concerning its utility. If Robert Schuman's proposal for a coal and steel community had not been under negotiation during the same months, French

¹¹ Frank, "Contraints monétaires," p. 302.

proponents of structural economic integration and small European solutions might have blocked the EPU accord.¹²

Moreover, France was far from a model member of the OEEC during much of the EPU's existence. In 1952, in response to a balance-of-payments crisis, the French suspended quota restrictions on trade vis-à-vis other OEEC members. For much of the rest of the lifetime of the EPU agreement, France was in technical violation of the OEEC's trade liberalization code. Frances Lynch and Paul Pitman have demonstrated that the neo-liberal project championed by Alphand and Istel (and also by Jean Monnet) was sharply contested within French coalition governments, and within the public administration from 1952 until 1957.¹³

The point that needs to be made here, however, is that with time even the proponents of neo-mercantilism in France came to appreciate the virtues of the EPU. The automatic credit mechanisms provided a buffer during France's recurrent balance-of-payments crises. Additional credits, well in excess of the EPU margins, were negotiated periodically on a bilateral basis with the net creditors within the agreement, notably Germany. France's partners in the OEEC tolerated its restrictions on trade, and refrained from retaliatory measures. Finally, despite its net trade deficits, France's exports, notably its exports of manufactures to OEEC Europe, grew steadily during the EPU era. It was this success in developing new European markets that convinced politicians and public officials that they could risk entering the European Common Market, and restoring the convertibility of the franc in 1958.

¹² Frances M.B. Lynch, *France and the International Economy: From Vichy to the Treaty of Rome* (New York: Routledge, 1997), pp. 119-125 and passim. My understanding of the relationship between the Fritalux and EPU negotiations has been shaped also by unpublished documents in Bundesarchiv Koblenz, (hereafter B. Arch., Koblenz), B 146 (Marshallplanministerium)/447, "Vorbereitende Verhandlungen zum EZU-Abkommen," 1949-50; and Banca d'Italia (Rome), Ufficio Ricerche Storiche, Carte Menichella, Fascicolo 81/Sottofascicolo 1, "O.E.C.E.— unione regionali— corrispondenza, memorie e appunti, 5.11.-20.12.1949."

Now we turn to the Germans and their perspectives on postwar monetary arrangements. Despite the fact that Germany was an enemy nation during World War II, the Keynes-White negotiations aroused lively interest in Berlin. One important source of information concerning German reactions to the Keynes and White Plans are the diaries and papers of Per Jacobsson. Per Jacobsson was Head of the Monetary and Economic Departments at the Bank for International Settlements (BIS) in Basel, Switzerland during World War II. This institution had been set up under the Young Plan in 1930 to serve as a clearing for German reparations. With the support of Montagu Norman, Governor of the Bank of England, it evolved into a sort of central bankers' club in the course of the 1930s—a place where central bankers could meet and hold both formal and informal discussions out of the public's eye. As a citizen of one neutral country (Sweden), working for an international institution with headquarters in another neutral country, Jacobsson was well-suited to serve as go-between in Europe as international relations deteriorated. For the purposes of historians, he had the added merit of keeping a detailed diary, and preparing memos carefully describing his encounters with visitors.¹⁴

Jacobsson received visits from Emil Puhl, the deputy governor of the Reichsbank throughout the war. As early as May 1942, Puhl was questioning Jacobsson about the USA's postwar intentions, vis-à-vis Germany and more

¹³ Lynch, *France and the International Economy*; Paul Marsh Pitman III, "France's European Choices: The Political Economy of European Integration during the 1950s," Ph.D. dissertation, Columbia University (1997), chapter 5 and passim.

¹⁴ The following account is based on Per Jacobsson's diaries and personal papers, which are housed in HAUB. For published accounts of Jacobsson's wartime conversations with German commercial and central bankers concerning the Keynes and White Plans see, Erin E. Jacobsson, *A Life for Sound Money: Per Jacobsson, His Biography*, (New York: Oxford University Press, 1979); Erin Jucker-Fleetwood, "Per Jacobsson on Bretton Woods," *The Banker* 120 (1970), no. 535, pp. 964-71; Harold James, "Post-War German Currency Plans," in Christoph Buchheim, ed., *Zerrissene Zwischenkriegszeit: Wirtschaftshistorische Beiträge; Kurt Borchardt zum 65. Geburtstag* (Baden-Baden: Nomos, 1994), pp. 205-18; and Harold James, "The Deutsche Bank and the Dictatorship, 1933-1945," in Lothar Gall et al, *The Deutsche Bank, 1870-1995* (London: Weidenfeld & Nicolson, 1995), pp. 277-356. In all cases where there are discrepancies between the accounts of Erin Jacobsson/Erin Jucker-Fleetwood and James, James's versions are correct.

generally. Jacobsson noted in his diary that Puhl was convinced America could not lose the war: at most it might be forced to accept a compromise settlement. In late April and early May 1943, Puhl was in Switzerland again, heading a delegation of German central and commercial bankers, including Hermann Abs of Deutsche Bank, and Carl Goetz of Dresdner Bank, that was to engage in bilateral talks with the Swiss. The Keynes Plan had been published in *The Times* on 8 April; Puhl and his colleagues took advantage of their presence on neutral soil to discuss the Anglo-American plans with Jacobsson. A first discussion, at which Abs and Goetz were present, took place over tea at the Hotel Baur en Ville in Zurich on 1 May. Puhl continued his discussion with Jacobsson at a second lunch meeting in Basel, accompanied this time only by Paul Hechler, the German representative to the BIS, on 14 May. Thereafter, Puhl actually arranged for Jacobsson to travel to Berlin, to make a presentation on the Keynes and White Plans to Reichsbank officials and leading commercial bankers on 1 June. Officially, Jacobsson was invited to speak on 'banking rationalization' by Otto Christian Fischer, chairman of the peak association of German bankers. In order to avoid arousing suspicion, he brought no notes with him across the border, preparing his presentation from scratch while on the train en route to Berlin. The day after his presentation, at the offices of Reichsgruppe Banken at Unter den Linden 35, Jacobsson held a second meeting with the chief economists of the big Berlin banks, including E.W. Schmidt from Deutsche Bank, and Kurt Hunscha, from Dresdner Bank.¹⁵

It is clear from Jacobsson's notes on his conversations with the Germans that they much preferred the Keynes to the White Plan. Jacobsson enumerates several reasons for this preference. The Keynes Plan bore many similarities with the wartime German system: "the clearing union is probably meant to

¹⁵ HAUB, Per Jacobsson Nachlass, 26, "Per Jacobsson in Berlin 1943 on the Keynes and White Plans," memo, 15 June 1943; "Notes on Conversations with Vize-Reichsbankpraesident Puhl Regarding the Keynes and White Plans," memo, undated; "Conversation on the Keynes and White Plans with Vize-Praesident Puhl and Herr Hechler at a Lunch on 14th May 1943," memo; Diaries, vol. 43, account of conversation on 28 May 1942; vol. 45, entries for 6 May 1943; 19 May 1943, and 6 June 1943.

represent the ideal at which the multilateral clearing in Germany would be aiming.” More pertinently, Jacobsson also noted that under the Keynes Plan Germany would receive book credits in an amount sufficient to replenish its monetary reserves, making it possible to open up relatively free trade: “The Keynes Plan has been called the ‘Club des Invalides’ but there would attach no stigma for Germany to belong to this club since England would be very much in the same position.” This was undoubtedly an important concern. Further, the White Plan seemed, in the eyes of the Germans, to establish US hegemony. At the Zurich meeting, Abs called White’s unitas “a figleaf” for the dollar.¹⁶

In Jacobsson’s judgment, the general attitude of the Germans seemed to be more hostile toward the USA than toward Britain. Jacobsson felt the anti-Americanism he encountered in Berlin reflected the subtle influence of Nazi propaganda, which was directed particularly against the USA at the time. This may have been true, but it is also clear that the German bankers shared the fear, widely held in Britain and France at the time, that another depression could propagate outwards from the USA, threatening output and employment in Europe. At a subsequent dinner in Basel, Fischer predicted another depression would follow the war, owing to US trade and monetary policies.¹⁷

Jacobsson himself was more concerned about the possible inflationary consequences of the Keynes Plan. Moreover, as he told his German listeners, it was exceedingly unlikely that the USA would ever except a monetary arrangement that obligated the US Federal Reserve to create as much international liquidity as envisaged by Keynes. He anticipated, correctly, that the final agreement would be closer to the White Plan than to Keynes, and he sought to convince his audience that Germany (and implicitly a defeated Germany) could live with this result.

¹⁶ For the Keynes Plan as a “Club des Invalides” see HAUB, Per Jacobsson Nachlass, 26, “Per Jacobsson in Berlin on Keynes and White Plans;” for Ab’s characterization of the unitas as a “figleaf” for the dollar see diaries, vol. 45, entry for 6 May 1943.

¹⁷ HAUB, Per Jacobsson Nachlass, diaries, vol. 45, entry for 15 July 1943.

In light of the “stability-oriented monetary policy” followed by the German central bank after the war, the clear preference for Keynes over White in 1943 may appear remarkable. However, there is at least some evidence in the Jacobsson papers to suggest that officials at the Reichsbank were concerned about the possibly inflationary bias of the Keynes Plan too. On a subsequent visit to Basel, in October 1943, Jacobsson records that Puhl worried that the Keynes Plan was “inflationistic,” while the White Plan was “deflationistic.” The prospect of uncontrollable inflation within Germany was, in any case, much on the minds of Reichsbank officials. In April 1944, in a conversation about the causes of the collapse of the Weimar Republic, Puhl told Jacobsson he thought the effects of the inflation had been more disastrous than those of the Versailles Treaty. “It is almost impossible to imagine what a social upheaval the inflation caused.” Two months later, Rudolf Eicke, head of the Statistical Division of the Reichsbank, told Jacobsson that people in Germany were already asking themselves how wartime obligations expressed in Reichsmarks possibly could be met.¹⁸

Additional clues as to wartime German attitudes about postwar international monetary arrangements can be derived from Ludolf Herbst’s pathbreaking study of postwar planning in the Reich’s Economic Ministry (*Reichswirtschaftsministerium* or RWM) and within industrial associations in close contact with the RWM (and from the archival sources Herbst used to prepare his study). Herbst points out that once the *Blitzkrieg* strategy of limited mobilization for a series of brief military campaigns failed with the drive to take Moscow in 1941, it became necessary for the Nazis to ask for immense sacrifices from the civilian populations, both at home and at least to some extent in the occupied and allied nations of Europe, consistent with waging total economic

¹⁸ For Puhl’s characterizations of the Keynes and White Plans see HAUB, Per Jacobsson Nachlass, diaries, vol. 49, entry for 25 October 1943; for Puhl’s remarks on the post-World-War I inflation see vol. 49, entry for 28 April 1944; for Eicke’s remarks see vol. 50, entry for 10 June 1944.

war. At this point, the NS regime had to let civilians—Germans and Europeans—know what they were fighting and sacrificing for. They had to articulate a vision of the future, of what life, and what the economy would be like in an NS-dominated Europe. This they were very reluctant to do. In fact, the regime had engaged in a certain amount of planning for the postwar world so long as it was winning, that is, until the winter of 1941-2. But the vision articulated at this time - of a Europe enslaved to the Germans or Aryans, of a German economy in which private property and free initiative for entrepreneurs would be sharply limited - was scarcely appealing. Once the Germans started losing the war, the regime actually imposed a ban on postwar planning.

This proved singularly unhelpful. For one thing, the Allies articulated their own vision of a postwar world, and both Germans and other Europeans were bound to ask themselves whether they preferred to live in the world described by the Allies or in the world likely to emerge in the event of German victory. Even individuals friendly to the regime felt that failure to answer Allied proposals would cost the regime support.

The first sketch of an Allied vision was presented in the Atlantic Charter, proclaimed by Roosevelt and Churchill during their meeting in Newfoundland in August 1941, with its rejection of totalitarianism and its proclamation of the rights to work, to nourishment, clothing, shelter, and medical care. It took up many of the themes of Roosevelt's famous State of the Union message of January 1941, in which he articulated his vision of the four freedoms: freedom of speech and expression, freedom to worship, freedom from fear, and freedom from want. Later, in Britain, there was the Beveridge Plan with its promise of full employment and an expansive welfare state. All of these proclamations and plans promised that the postwar world would be radically different from the 1930s: depression would not recur, mass unemployment would not be tolerated, misery would be eliminated.

The publication of the Keynes and White Plans in April 1943, and the convocation of the Bretton Woods conference in July 1944 represented a projection of this Allied vision into the international sphere. They represented an Allied explanation of how full employment and economic expansion could be made compatible with an open international economy. In the view of officials at the RWM, a German reply was imperative. Drafting an alternative German vision was an important task at the ministry in 1944. It took the form of a radio speech by the minister, Walter Funk, on 7 July 1944, coinciding with the opening of the Bretton Woods conference. The moment was inauspicious: the Allies were breaking out of Normandy, making German defeat in the war inevitable. Stauffenberg and his fellow conspirators were moving ahead with their plans to kill Hitler; the bomb would detonate in his headquarters in East Prussia just two weeks later. In the rush of events, Funk's speech was all but forgotten, but the themes he took up provide interesting clues to German thinking about the future.¹⁹

In the speech, Funk stressed that among the great industrial nations, only Germany had solved the problem of unemployment prior to the outbreak of war. As for foreign trade and payments, Funk conceded that the clearing agreements Germany had signed with other European nations had not functioned altogether satisfactorily, but he attributed this to war-driven scarcity, and insisted that Germany's productive power would eliminate all problems after the return of peace.

With regard to the two Allied monetary plans, Funk expressed greater sympathy for Keynes, and for the British concerns to create an international framework compatible with their domestic program of full employment. The

¹⁹ The speech was published as Walther Funk, "Wirtschaftsordnung gegen Währungsmechanismus," *Die Deutsche Volkswirtschaft* 13 (1944), no. 21, pp. 601-9. I am relying on a typescript in B. Arch., Berlin., R7 (Reichswirtschaftsministerium)/2005. For discussions in the secondary literature see Ludolf Herbst, *Der totale Krieg und die Ordnung der Wirtschaft. Die Kriegswirtschaft im Spannungsfeld von Politik, Ideologie und Propaganda 1939-1945* (Stuttgart: Deutsche Verlags-Anstalt, 1982), p. 310 and James, "Post-War German Currency Plans."

White Plan he rejected as being tantamount to the resurrection of the Gold Standard, which had led to the Great Depression. Funk identified US policies with classical liberalism, ignoring the changes that had occurred under the New Deal. An Allied victory, he warned, would result in American hegemony over Britain as well as the continent: Germany would become a sort of colonial dependency, exploited by *raumfremder Mächte* (extra-regional powers). Thus the alternative to German victory for Europe described by Funk was American domination, a return to outmoded economic doctrines, and another depression.

The alternative vision that Funk presented to his German and European listeners was a multilateral currency union within continental Europe. This idea is sketched out very vaguely in the speech, but Funk pointed out that similar ideas had been aired by him repeatedly in the past, including in another prominent speech in the summer of 1940, when Germany was at the height of its military fortunes. Similar proposals were also aired by Reichsbank officials, including Vicepresident Puhl, during the early years of the war. None of these proposals achieved the clarity of the White and Keynes Plans, and never was a serious attempt made in Nazi Germany to implement any of them. What is striking about them, however, are certain similarities to the Alphant-Itel proposal, both in terms of how the agreement would work, and in terms of the stages in which it would be implemented.²⁰

Like the French proposals, the wartime German plans for a monetary union involved the multilateralization of existing bilateral clearing agreements. In the medium term, a continent-wide payments union would come into effect. Payments within the union would be delinked from gold with, not surprisingly, the German mark serving as the key currency. Once the European monetary

²⁰ Walther Funk, *The Economic Future of Berlin* (Berlin, 1940); "Entwurf zu einem Artikel des Herrn Vizepräsidenten Puhl über 'Neugestaltung der europäischen Währungsbeziehungen' für die Januarnummer der Zeitschrift 'Weltwirtschaft,'" Berlin, 27 November 1940, B. Arch. Berlin, R 25.01 (Deutsche Reichsbank)/7018; "Grundsätzliche Fragen einer Wirtschaftsunion," undated, unsigned memo, but clearly drawn up during the war years by Reich Economics Ministry personnel, B. Arch., Berlin, R7 (Reichswirtschaftsministerium)/2303.

union came into existence, according to at least one of the plans, it might be possible to negotiate a worldwide payments system, in which gold might have some role. In none of the proposals that I have seen in German archives is there any discussion of what measures could or would be taken to bring the international accounts of structural debtors or creditors back into equilibrium again, and this alone underscores the impractical nature of such planning exercises.

One should take care not to read too much significance into these documents. Harold James points out that any multilateral payments agreement must be largely rule-based, and by definition limits national sovereignty. Nazi Germany, he goes on to argue, notoriously was unwilling to subject the conduct of foreign policy either to rules or to constraints on a very narrowly and crudely defined national interest. Herbst also recognizes that the purpose of the 1944 Funk speech was to mobilize support within Germany and within Europe for a Nazi victory. However, he goes on to argue that the speech was based on study and discussion among non-party technocrats in the RWM, industrial peak associations, and the Institut für Weltwirtschaft in Kiel, Germany's preeminent research institute dealing with the world economy. The speech itself, he believes, was written largely by Wilhelm Lautenbach, one of the most talented and innovative young German economists.²¹

Having reviewed most of the archival material upon which Herbst bases his account of the Funk speech, I am inclined to be more cautious in assessing its authorship. While it is clear from the available documents that Lautenbach prepared a draft for Funk's speech, that draft apparently has not survived, and it is unclear how heavily Funk drew upon it. The speech that Funk actually gave hardly testifies to the presence behind it of a great economic mind. It is reasonable to assume, however, that it reveals a series of preoccupations that

²¹ James, "Post-War German Currency Plans," pp. 217-8 and passim; Herbst, *Der totale Krieg*, p. 306.

were widely held in German political and business circles at the time. The striking thing about many of the opinions expressed in the Funk speech, once the Nazi propaganda is stripped away from them, is that they echo the concerns of the more expansion-minded planners in Britain, and among the Free French.²²

Still another clue regarding German ideas about the postwar world can be derived from Herbst's account of the planning for postwar trade which took shape within the Working Circle for International Economic Questions (*Arbeitskreis für Aussenwirtschaftsfragen* or AAF). The AAF was founded at the instigation of the RWM in early 1944. It was part of a broader effort on the part of the Economics Ministry to draw private businessmen and industry peak associations into government work. The AAF formed three subcommittees: one for monetary questions, one for agriculture and food, and one for basic issues. Members of the monetary subcommittee included Karl Blessing, a former Reichsbank official who would later become President of the Bundesbank, and the ubiquitous Hermann Abs of Deutsche Bank. Abs quickly began participating in the meetings of the AAF as well. In early 1944, the AAF was primarily involved in collecting materials for trade negotiations with Germany's allies, the occupied territories, and neutral countries. But after September, as Germany's foreign trade began to collapse as a result of the deteriorating military situation, it busied itself increasingly with postwar planning. Although the regime was still trying to save itself, businessmen and government officials realized that the NS-game was up, and they began to look ahead to the next task, namely saving what could be saved from the looming German defeat.

Of course it was impossible for the working groups of the AAF to state baldly in official documents that the regime soon would cease to exist, but by skirting the issue, these groups produced studies which only make sense when that assumption is understood. They often began with lengthy analyses of the

²² In B. Arch, Berlin, R 7/2121, there is a list of studies commissioned by the RWM, which refers to Lautenbach's draft of the Funk speech, but I was unable to find the draft itself.

situation in 1919, noting of course that such conditions could not recur, but inviting the reader to suppose that they would indeed recur.

The AAF planners noted that postwar Germany would be heavily dependent on imports of foodstuffs and raw materials for its industry. They discounted the possibility that Russia or Eastern Europe could be a source of such imports after the war, for reasons that were only too clear by late 1944. Rather, foodstuffs and raw materials would have to come from America or from overseas sources of supply to which the USA controlled access because of its domination of world shipping lanes and tonnage. As for how Germany would pay for necessary imports, AAF studies concluded that it would have to revive exports of its metallurgical and engineering industries. They too would need imports, including iron ore, and other materials necessary for refining steel, including chrome, manganese, and wolfram. The studies posited a transition period, during which Germany would be unable to pay for imports with exports.

To summarize, Herbst's account of the deliberations of the AAF illustrates not only awareness among German officials and businessmen of Germany's approaching dependence on the United States; it also documents the widespread recognition, even before the war ended, that German economic recovery would depend crucially on the revival of trade. A quick expansion of German exports would be necessary to pay for essential imports. The revival of trade, in turn, could only take place if appropriate mechanisms for international payments were created.

Thus German as well as French planners during World War II favored the revival of open, multilateral trade following the war, although for slightly different reasons. French planners believed international competition would be necessary to force domestic industry to modernize; German planners were less concerned about the productivity of their industry, but they were convinced that achieving an acceptable standard of living and an acceptable level of economic

output would require substantial imports; in order for Germany to pay its way in the world, it would have to export as well. As we shall see, these asymmetrical but complementary perceptions regarding the importance of trade to the national interest would form part of the cement which held together the EPU.

During the period of Allied military government which followed the defeat of Hitler, Germans largely dropped out of the picture as architects of key economic policies. The Allies, and in the three western zones increasingly the Americans, made the major decisions. The currency reform of 1948 was carried out under the auspices of the US military, although German officials and experts were consulted informally about the details. Foreign trade was also in the hands of the occupying powers, and it was the Americans who insisted that exports from the Western zones of Germany to the rest of Europe be made only against payment in dollars, a requirement that stifled the expansion of West German exports until 1949.

West Germans began to reemerge as decision makers in international economic and monetary affairs with the creation of a central bank for Trizonia, the Bank deutscher Länder (BdL), established to manage the new German mark after the currency reform in June 1948, and with the creation of the Federal Republic a year later. West Germany joined the OEEC just in time to take part in the negotiation of the European Payments Union in 1949-50; indeed, it was the first significant international issue facing the newly independent state.

Thanks to Monika Dickhaus's recent study, we have available a study of the West German central bank's international policy during its crucial first decade, 1948-58.²³ The picture that emerges from it is rather different from the German Bundesbank's self-presentation of its history and origins. We see the relationship between the *Länderbanken*, within the individual West German

states, and the central institution still somewhat unsettled. More significantly, Dickhaus describes substantial differences of opinion between members of the Bank's two executive committees, the *Zentralbankrat* (ZBR or Central Bank Council), and the *Direktorium* (Directorate) concerning the Bank's mission. To be sure, the inflation hawks who would contribute so much to the institution's future reputation for price-level stability were well-represented from the beginning on these bodies; but other bank officials in the early years also felt the institution had a duty to take employment and growth into account in setting monetary policy. During its first two years, Dickhaus documents instances in which the inflation hawks lost in internal policy disputes at the BdL.

In this regard, the attitudes of BdL officials to the EPU are particularly revealing. A perusal of the relevant documents in the *Bundesarchiv* in Koblenz suggests that three important points need to be made about the German position during the negotiation of the EPU Treaty between December 1949 and July 1950. First, even though the so-called Marshall Plan Ministry under Fritz Blücher formally led the German negotiating team, BdL officials played a decisive role in formulating the German position from the beginning. Within the BdL, *Zentralbankrat* member Victor Wrede monitored the negotiation of the agreement, and wrote the crucial memorandum setting out the Bank's, and hence Germany's, position. The second point that needs to be made is that the BdL strongly and consistently supported the agreement. Two documents can be cited as illustrative of the BdL's position. On 9 January 1950 Wilhelm Vocke, President of the *Direktorium*, wrote to Fritz Blücher: "The construction of a EPU . . . must be supported with emphasis." Two weeks later, a working group established by the *Zentralbankrat* reported: "The German position must be that

²³ Monika Dickhaus, *Die Bundesbank im westeuropäischen Wiederaufbau: Die internationale Währungspolitik der Bundesrepublik Deutschland 1948 bis 1958*, Schriftenreihe der Vierteljahrshefte für Zeitgeschichte, vol. 72 (Munich: Oldenbourg, 1996).

the most important point is to reach a reasonable agreement, and not to be stubborn about details.”²⁴

The third point to be made is that the German experts involved in the process, most notably Wrede himself, recognized from the beginning that the Bissell Plan was the reincarnation of the 1943 Keynes Plan on a regional level. They felt that it represented the vindication of Keynes over White, and they never questioned the provisions that gave creditors as well as debtors incentives to adjust to payments imbalances, for example by liberalizing trade. This is particularly noteworthy since bank experts cautiously expected Germany to become a net creditor.²⁵

The BdL’s opinions with respect to the EPU’s Managing Board illustrate that it feared importing deflation as much as inflation from an international monetary union. The BdL sided with the British in wanting to limit the discretionary powers of the Managing Board as much as possible. It should not be able, a BdL memo indicated, to “force deflation and choke off expansion” in a member nation.²⁶

During the first year in which the agreement was in effect, Germany ran trade deficits in excess of its EPU quotas, confronting the organization with its first major crisis. It would exceed the scope of this paper to describe at length the German balance-of-payments crisis of 1950-1. Suffice it to say that the author concurs with Volker Hentschel’s judgment that the credit facilities

²⁴ Vocke to Blücher, “Betr.: Neuen europäischen Zahlungsplan,” 9 January 1950; Referat Marshallplan, “Niederschrift über die Sitzungen des ERP-Arbeitsstabes des Zentralbankrates vom 24. und 26. Januar 1950;” 27 January 1950; and Victor Wrede, “Zur Problematik einer europäischen Clearing-Union,” 21 January 1950, all in B. Arch., Koblenz, B 146/447.

²⁵ “It is rather piquant to note that this [Keynes’s] Plan is now being proposed by the Americans for a part of the Western economic area, namely for the European Marshall Plan countries,” Wrede, “Zur Problematik einer europäischen Clearing-Union,” 21 January 1950. Wrede goes on to argue that even if the agreement caused Germany to build up a strong net creditor position with the EPU, at the expense of some loss of exports to the dollar area, the agreement could be to its advantage.

²⁶ Dickhaus, *Die Bundesbank im westeuropäischen Wiederaufbau* p. 83.

granted by the EPU saved Germany during this crucial period from massive cuts in imports and severe macroeconomic restraint, policies which might well have seriously compromised German economic recovery.²⁷

More interesting in light of the issues addressed in this essay is the evolution of German policy after the Federal Republic overcame its balance-of-payments crisis in spring 1951. Shortly afterwards, the intra-European trade surpluses that German officials had predicted a year earlier began to emerge. By 1952 Germany had emerged as far and away the largest net creditor within the EPU, and it would remain so until the Union was dissolved at the end of 1958. Support for membership in what was in effect a soft currency area was by no means universal in Germany in the early 1950s. Academic critics, including Wilhelm Röpke, urged a speedy return to full (dollar) convertibility. They argued that net creditors within the Union were forced to import inflation from their trading partners. As Röpke put it, Germany had become a *Zwangsbankier* (obligatory banker).²⁸ In early 1952, Ludwig Erhard, the Minister of Economics, took a similar position in a public speech. Thereafter, he would continue to criticize the EPU: as a “regime of controlled exchange rates;” as “the logical consequence of an inflationary policy oriented toward full employment and cheap money;” and even as “international disorder.”²⁹

But these arguments, as Dickhaus’s study shows us, were flatly rejected by Germany’s central bank. The main preoccupation of its officials remained securing the revival of German exports. They feared that a quick return to dollar convertibility on the part of Germany would force many of its European

²⁷ Volker Hentschel, "Die Europäische Zahlungsunion und die deutschen Devisenkrisen 1950/51," *Vierteljahrshefte für Zeitgeschichte*, 37 (1989), pp. 715-58. See also Volker Hentschel, *Ludwig Erhard: Ein Politikerleben* (Munich: Olzog, 1996).

²⁸ Wilhelm Röpke, "Wege zur Konvertibilität," in Albert Hunold ed., *Die Konvertibilität der europäischen Währungen* (Zurich, 1954), pp. 76-122, cited passage, p. 87. Quoted in Dickhaus, *Die Bundesbank im westeuropäischen Wiederaufbau*, p. 46. See also Wilhelm Röpke, *Ist die deutsche Wirtschaftspolitik richtig? Analyse und Kritik* (Stuttgart: W. Kohlhammer, 1950).

²⁹ Quoted in Dickhaus, *Die Bundesbank im westeuropäischen Wiederaufbau*, p. 131. See also Hentschel, *Ludwig Erhard*, pp. 186-94, 201-10, and *passim*.

trading partners to reimpose import controls, and perhaps even force trade back into bilateral clearing agreements. BdL officials, among them Wilhelm Vocke, the Managing Director, and Otmar Emminger, who was responsible for international monetary affairs, were convinced that Europe's dollar gap was structural, and hence could not be overcome by adjustments in exchange rates or export promotion. The real problem, in their view, was restrictive US trade policies; until US tariffs were lowered substantially, it made more sense for Europe to continue discriminating against dollar imports, while moving ahead with trade liberalization within the OEEC. The inclusion of the sterling area and French colonial territories within the EPU zone provided Germany with access to the foodstuffs and raw materials it so desperately needed, without requiring expenditure of dollars.³⁰

It is not that BdL policymakers opposed convertibility—the activation of the Bretton Woods agreement remained their long-term goal—but they differed with the academic, 'Ordoliberal' economists and Erhard about the timing and the manner of achieving it. Rather than a unilateral declaration of convertibility by Germany or by a small group of European nations with more favorable trade balances and adequate foreign exchange reserves, they favored what came to be known as the 'institutional approach:' the gradual hardening of settlements within the EPU and the merger of the EPU as a bloc with the dollar area. The tempo of the return to convertibility thus would be set by the members with the weakest balance of payments positions and the smallest foreign exchange reserves. This was, of course, the path actually followed.

In sum, the German obsession with securing export markets and expanding foreign trade, already evident in wartime studies, must be accepted as a large part of the explanation for why most German authorities, including the leading officials of the central bank, came to love the EPU. But there may be

³⁰ In addition to Dickhaus, see Otmar Emminger, "Die Europäische Zahlungsunion als Etappe der europäischen Währungs-Neuordnung," *Zeitschrift für die Gesamte Staatswissenschaft*, 107

more to it than that. Beginning in 1951, if not before, Germany pursued more conservative macroeconomic policies than most of its European partners. The federal government accumulated substantial budget surpluses; the central bank kept the rate of inflation well below the European average. The relative conservatism of postwar German macroeconomic policy is often explained as a product of the traumatic experience of two hyperinflations within a generation. But the German trauma was not limited to inflation. It may be more accurate to posit a unique German aversion to macroeconomic instability—unemployment and stagnation, as well as inflation and balance-of-payments difficulties. The hypothesis at least must be considered that the EPU allowed German monetary authorities to institutionalize an expansionary bias in the formulation of monetary policy in the manner least likely to generate inflationary fears. The EPU allowed Germany to import macroeconomic stimulus from its trading partners, without the usual distress signals that accompany domestic overheating, such as balance-of-payments deficits and downward pressure on exchange parities.

Wilhelm Vocke, president of the Direktorium of the BdL from 1948 to 1957, liked to summarize the goals of his monetary policy as being avoidance of both inflation and changes in exchange rates. His associate Otmar Emminger has written in his memoirs that Vocke simply failed to comprehend that Germany could import inflation over fixed exchange rates if its trading partners pursued more expansive macroeconomic policies than it did.³¹ Although one must be cautious in underestimating Vocke's obtuseness, it is difficult not to suspect that in defending the EPU Vocke had discovered the perfect way for Germany, in light of its unique and painful experiences, and the aversion of policymakers and the public to macroeconomic instability, not only to regain export markets, but also to introduce an expansionary bias into its policies, without arousing unmanageable inflationary fears.

(1951), pp. 605-59.

If this hypothesis is correct, EPU rested upon asymmetrical but complementary policy imperatives in Germany and France in two fields. First, the expansion of intra-European trade allowed Germany to earn a living by expanding its exports in order to pay for essential imports. France was less dependent on imports, but liberalization of trade subjected domestic industry to foreign competition and thus promoted modernization. Secondly, EPU allowed both France and German to achieve their respective macroeconomic objectives. It was expansionary enough to soften the balance-of-payments constraints that France confronted while implementing its modernization program. It allowed the Germans to pursue what appeared to be very conservative macroeconomic policies: government budget surpluses, accumulation of foreign exchange reserves, a stable exchange rate, lower rates of domestic inflation than the OEEC average. But EPU also anchored economic expansion by allowing the Germans to import the macroeconomic stimulation from abroad they found it imprudent to create at home.

³¹ Otmar Emminger, *D-Mark, Dollar, Währungskrisen. Erinnerungen eines ehemaligen Bundesbankpräsidenten* (Stuttgart: Deutsche Verlags-Anstalt, 1987), pp. 90-3.