AN ECONOMIC STUDY OF THE SCHUMAN PLAN

by

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INTRODUCTION

Before taking up the subject proper of this thesis, "An economic study of the Schuman plan", we would first like to introduce the reader to the Schuman plan itself.

When we refer to an economic plan, we generally have in mind a program of action aiming at certain modifications of the economy for a given period of time. The Schuman plan is not a plan of this kind. It is a treaty, which has been signed for a duration of 50 years. It represents in fact the Constitution which will regulate the action of a new independent power "The European Community of Coal and Steel", and also provides a statement of the basic principles which are to regulate and inspire the policy of this new power.[1] Six independent nations[2] agreed when signing the treaty to give up some of their national sovereignty and entrust it to a supra-national power, whose role it was to rule, according to the principles of the treaty, the coal and steel industry. From now on, then, the Community will have its own government, and foreign powers will send diplomatic representatives to its executive. It is important to realize that, although the purpose of the Schuman plan is mainly economic, it was considered necessary to create an independent government to carry out the economic policy agreed upon by the signatory powers of the treaty. Let us become acquainted with the functioning of this new government.

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[1] See: Treaty constituting the European Coal and Steel Community:
Title Two: The Institutions of the Community.
Title Three: Economic and Social provisions.

[2] Belgium, France, Germany, Italy, Luxembourg, The Netherlands.

The rule of the separation of powers, so dear to western democracies, was used to draft the constitution of this new power. This was necessary because the new government would have to bear not only the pressure of group interests but also that of nationalistic ones. Complete independence between the different powers was then even more important than in a national government. Another point which is peculiar to this new institution is its close relation to governments already in existence. When independent nations decided to give up some of their national sovereignty, they asked not only to receive guarantees for their national industries, but also to be entitled to work very closely with the new power. It was then decided that the representatives of the six nations would have a role to play in the new government.

The supra-national authority is composed of four independent institutions, which have a definite function to perform in the Community:

THE HIGH AUTHORITY. It is the executive of the Community. It is composed of 9 members nominated for a term of six years, and chosen on the basis of their general competence. One-third of the members of the High Authority shall be re-elected every two years. The representatives of the member States shall unanimously nominate eight members of the High Authority. These, in turn, nominate the ninth member, who is elected provided he receives at least five votes. A Consultative Committee appointed by the Council assists the High Authority. It shall consist of no less than thirty and no more than fifty-one members, and shall include in equal numbers producers, workers, consumers, and dealers. The High Authority may

consult the Consultative Committee in any case it deems proper. It shall be required to do so whenever such consultation is prescribed by the present treaty.

THE ASSEMBLY. It has supervisory powers over the High Authority but has no legislative power. It is composed of seventy-eight[3] representatives of the peoples of the member States of the Community. These representatives can be nominated by the parliaments of the member States or elected by "universal direct suffrage". The Assembly shall discuss the general report submitted to it by the High Authority. If a motion of censure is adopted by two-thirds of the members present and voting, representing a majority of the total membership, the members of the High Authority must resign in a body.

THE COUNCIL. It should harmonize the policies of the High Authority and those of the Governments which are responsible for the general economic policy of their respective countries. In certain cases, defined in the treaty, the High Authority cannot act without the approval of the Council.

The Council is composed of representatives of the member States. Each State designates thereto one of the members of its

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[3] Germany..... 18 delegates.
Belgium..... 10 "
France..... 18 "
Italy..... 18 "
Luxembourg..... 4 "
Netherland..... 10 "

Government.

THE COURT. The function of the Court is to ensure the rule of law in the interpretation and application of the present treaty and of its implementing regulations. Seven judges are nominated for six years by agreement of the Governments of the member states.

We see, then, that the Community will be ruled by an independent government, which is set us according to a Constitution to be found in the treaty. This new government, according to the constitution, will be under the control of the people forming the Community, or, at least, under the control of their elected governments. It is very interesting to note that it was thought necessary to create an institution of such an importance to solve an economic problem.

Before ending this brief survey of the institutions which govern the Community, we would like to say a few words about some characteristics of the plan which, if stressed now, may help the reader to understand better this essay. We will lump these characteristics under two headings: the relative vagueness of the economic plan, and the relative ambiguousness of the institution's powers.

The relative vagueness of the plan can be explained as follows. First, as we have said previously, the plan is in fact a treaty and not an economic plan in the ordinary sense of the term. Six countries agreed when signing the treaty not to indulge in certain practices and to accept certain regulations which are supposed to promote the development of the Steel and Coal industries

as a whole. This, of course, is quite different from an ordinary economic plan which sets up definite goals to be reached in a definite period of time by definite means.

Secondly, the directives and regulations which are to be found in the treaty are supposed to inspire and guide the High Authority for a period of 50 years. This long lapse of time explains the fact that in many cases no precise directives could be given but only broad principles which could be interpreted in different ways by the High Authority. We don't mean that the treaty is not specific on certain points but we would like to stress that in many cases the High Authority will have to rely on directives like the following: agreements made by a member of the Community with a third person are allowed if they do not "interfere with the application of the treaty"[4]. The expression "application of the treaty" could be of course interpreted in many ways. Thirdly, we should always bear in mind that for the first time six independent countries have decided to pool two of their most important industries and to give up some of the control they formerly exercised over them. If we remember that some of these countries had, to put it mildly, not very good relations during the past century, it should be expected that they have been very careful in the wording of the treaty and that, very probably, agreement was reached only when the sentence was vague enough to permit different interpretations. We would not like to give the impression that the six subscribing countries had only in mind, in drafting the treaty, the desire to include enough

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[4] Treaty, Article 75.

loopholes so that in the future they might act as they wished. However, the treaty has been drafted in such a way that sometimes it is difficult to forecast how such or such paragraph is going to be interpreted.

Turning to the political constitution of the Plan itself, we find, that the same problem of vagueness is in evidence. If the organization and functions of the different institutions have been clearly stated, it remains nevertheless that their real power will depend in the last resort on the good will of the member countries. We should remember that a treaty is effective only as long as the subscribers are willing to conform to it. The High Authority has no physical force at its disposal, and will have to rely for the enforcement of its decisions on the member states themselves. It can forbid, direct, and find delinquents, but the carrying out of the High Authority's orders and the imposition of the fines will be in charge of the member governments. Moreover, when the Schuman plan was drafted, the idea of a united Europe was favoured by more people than today, so that the Schuman plan at this time was considered as only a first step toward greater integration of the different European economies. This fact may explain a certain ambiguity in the future role of the institutions of the Schuman plan. Depending on the extent to which the integration of the European economies will be carried, the role of these institutions will certainly vary. We especially have in mind the influence that the High Authority could have in the harmonization of the economic policies of the different members. If the pace of economic integration is slow, the High Authority will certainly be asked to

concentrate its efforts only on the coal and steel questions and its powers will be reduced to the most strict interpretation of the treaty. On the contrary, if the pace of economic integration is speeded up, the role played by the first supra-national institutions will certainly be increased and their powers enlarged.

This indicates how cautious we must be in making any forecast of the future importance of the institutions of the Community. However, the treaty is in existence and it provides those institutions with a fair amount of power, and we may expect, as we shall see later, that even if the High Authority would not succeed in influencing the general economic policies as much as the proponents of the treaty had hoped, it will nevertheless be able to enforce fairly well the regulations of the treaty.

The last point we would like to make before starting our exposition is about the figures we used in this thesis, and here we are referring especially to those used in the last chapter. We thought it interesting to give some indications of prices and production, and the first results of the creation of the single market. The writer is perfectly aware, however, that those figures should be taken only as indications. In the first place, prices at the opening of the market were not allowed to fluctuate freely. The High Authority was afraid that the creation of the single market might result in price fluctuations which might have disorganized the market by encouraging speculation. This would have resulted in the formation of a strong opposition to the Plan and would have made its enforcement much more difficult. Secondly, the creation of the single market coincided with a mild depression in the Community, which, of

course, resulted in some overstocking, especially in the coal mines, so that production had to be reduced. And thirdly, the increase of exchanges which have been noticed since the beginning of the Community should be taken only as a trend; we should keep in mind that the single market is only beginning to operate, and that, during the transition period, artificial barriers will gradually be removed. Moreover, commercial exchange takes some time to adjust itself to any new situation.

Chapter I

THE HISTORICAL BACKGROUND OF THE SCHUMAN PLAN

When Robert Schuman proposed the pooling of coal and steel between France and Germany and invited all European nations to join this pool, a new era in the relations between European nations started. For the first time in the very nationalistic-minded Europe, independent nations were asked to give up freely some of their national sovereignty. This request was not made to solve some limited political problem but, on the contrary, to solve a long range economic one. A key industry, upon which so much of the strength of each nation is based, was to come under the control of a supra-national authority.

Of course, such a bold proposition did not come all of a sudden, but resulted from a progressive evolution in European thinking. The economic situation which followed the end of the war as well as the wish to avoid the pre-war errors induced Europeans to think their problems anew. The Schuman plan is an outcome of this new trend. It is necessary, if the Schuman plan is to be fully understood, to become acquainted with its historical background.

I. The Westminster Conference

The idea of unifying Europe is far from new. Throughout Europe's long history, many thinkers and politicians supported the idea that the different nations making up Europe should get united. The common struggle against Nazism gave a strong impetus to this idea.

It was felt then by the different movements[1] working for the unification of Europe that the time for action had come. They therefore decided to hold the first Congress of Europe. The main purpose of this Congress, which was held at The Hague on May 7-10, 1948, was to confront the different ideas of the numerous movements advocating a united Europe and draft some common plan for action. It was decided there that Commissions would be set up to prepare conferences during which limited problems would be studied and compromises, if necessary, reached by the different parties. It was thought that by this method some operational program could be drafted.

The Economic and Social Commission prepared the Westminster Conference which was held on April 20-25, 1949. To this conference was sent a delegation from each country that had joined the O. E. E. C.[2] In these delegations were people representing very different and often opposed opinions. The purpose of this conference was to bring these people together, and, through common concessions, to prepare an economic program which could be used as a basis for the coordination of the different European economic policies.

As we could have expected, strong divergences of opinion showed up due to conflicting nationalistic interests and to doctrinal

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[1] The most important movements were:
L'Union Européenne des Fédéralistes.
Le Mouvement Socialiste pour les Etats-Unis d'Europe.
Les Nouvelles Equipes Internationales.
United Europe movement et Conseil Français pour l'Europe Unie.
La Ligue Européenne de Cooperation Economique.
L'Union Parlementaire Européenne.
Each one of these movements represents different groups of people having in common the desire to create a United Europe, but differing on the best methods to create it.

[2] O. E. E. C. abbreviation for: Organization for European Economic Cooperation. Seventeen European nations are members of this organization.

disagreements; a compromise for this had to be reached. One should realize that in present day Europe, if nationalistic feelings are still very high, divergences in doctrines are also very sharp. The latter is particularly noticeable in the field of economics where the proponents of the liberal school are very much opposed to any socialistic planning. Nevertheless, after much discussion, a compromise was reached. To the British, who are particularly eager to retain their preferential tariffs, it was conceded that some nations would be allowed to keep preferential tariffs on a temporary basis. The advocates of the liberal school got agreement on convertibility of currencies and free movement of capital, goods, and labor. The socialists obtained the commitment that, in principle, no agreement between key industries would be allowed, if they were not supervised by a European body. Those key industries were: coal, steel, electricity, and transportation means.

The new European institution, whose role it was to supervise the key industries would be composed of three kinds of organizations:

1) "Une institution publique européenne"[3], which would define the overall policy of the industry, especially with regard to investment, volume of production, and prices.

2) "Un corps consultatif"[4], made up of representatives of the

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[3] E. Bonnefous, L'Europe en Face de son Destin, Paris, Presses Universitaires de France, n.d., p. 103.
André Philip, L'Europe Unie, Paris, Presses Universitaires de France, 1953, p. 200-201.

[4] Ibid.

entrepreneurs, workers, and the public. Its duty would be to advise the European institution in the framing of its general policy.

3) "Des ententes industrielles"[5] representing the industries, which would enforce the decisions made by the European institution.

In these rather vague recommendations, one can find the main principles of the Schuman plan. A supra-national institution composed of an executive to be advised by a consultative body would direct the activities of industries to be represented by some kind of association. Obviously, the treaty modifies to a certain extent these recommendations and adds many other regulations. However, we should be aware of the fact that the Westminster conference supported the basic principles of what will later become the Schuman plan.

II. The Economic Commission for Europe

The Economic Commission for Europe is an organization of the United Nations. It is made up of economists of different nations and its purpose is to study problems dealing with Europe as a whole. In 1949, the Steel division published a work on European steel trends in the setting of the world market.[6] This study had a great influence on the thinking of policy makers.

After a thorough study of the steel situation in the world in general and in Europe in particular, the conclusion was reached that, if the European steel industry were to maintain the same policy, over-supply in certain branches of activity would follow, and a new

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[5] Ibid.

[6] United Nations, European Steel Trends in the Setting of the World Market, Geneva, E.C.E., 1949.

cartel would have to be created. The idea of restoring a steel cartel is at the present time extremely unpopular in Europe. In particular, the fact that the pre-war steel cartel had enforced a policy of limiting production to keep prices from falling has been denounced as one of the most short-sighted policies of the inter-war period.

The report clearly stated that the situation could not be relieved by the automatic adjustments of the market:

> "It is sometimes said that no special measures should be taken because 'things will adjust themselves'. This might perhaps be true if an ideal pattern of unrestricted mobility of economic factors prevailed in every European country and if competitive forces were allowed to play their role unhampered. This is, however, not the case in a Europe where, in some parts, there is a centrally directed economy, in others, a semi-directed economy, and in a few others, a free market economy. This being the situation at present and probably in the future, it is not possible for conditions to adjust themselves without some sort of co-ordination among the countries concerned."[7]

Faced with this situation, the steel commission listed what it called, "Possible Remedies". We are going to summarize these briefly because, as the reader will see later, the recommendations made have been widely used by those who set up the Schuman plan.

A) "Co-ordinate measures should be studied and applied in order to increase steel consumption when signs of under-consumption or recession appear."[8]

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[7] Ibid., pp. 73, 74, 75, 76.

[8] Ibid.

The demand for steel and steel products is one of the areas of the economy to be most affected by upward or downward movements of the economy as a whole. In time of recession, measures tending to increase steel consumption will be a good anti-cyclical policy. The very fact that so many are engaged in activities resulting from steel processing is a good indication of the importance of maintaining and even increasing steel consumption. Moreover, a great part of the steel processing industries required highly skilled labor, which is rare in many parts of the world but relatively abundant in Europe. It seems, then, that a further development of such industries as machine tool industries and other steel consuming steel industries in Europe could improve greatly its export trades.

B) "Steel investments and production programs should be co-ordinated in order to ensure an overall satisfactory level of crude steel production and an adequate supply in each of the main categories of rolled or drawn steel products."[9]

The problem of planning investments is becoming more and more acute. As the means of producing steel are becoming increasingly complex, a greater division of labor is required. The danger of over-supply as well as shortage is more serious when firms are only performing a limited part of the general process of steel manufacturing. Improved techniques, which result in greater division of labor, require an elaborate organization of the production process. This organization is greatly hampered in Europe by political boundaries which make very difficult the integration of the different firms

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[9] Ibid.

required for steel production.

C) "Co-operation among European countries should ensure adequate supplies of good quality and cheap raw materials for steel making. No country should take advantage of temporary raw material shortages."[10]

This point stresses the importance of planning for an adequate supply of raw material for the steel industry, and the dangers of exploiting the consumer in time of shortage. This exploitation had particularly bad effects in Europe where no country is self sufficient as to raw material, so that price discrimination on a national basis could be easily practiced. Price discrimination of one good automatically brings about retaliation on the part of the exploited, which, in turn, results in a reduction in the whole process of exchange, obviously detrimental to the general economic development. European countries must therefore cooperate in their production of raw materials if European industry is to provide an increasing standard of living.

D) "Wide exchange of information on improvements in steel producing techniques, on measures taken to increase productivity etc....should be organized."[11]

This recommendation is especially appropriate for the European industry, which is going through a process of intense reorganization and modernization, but where many entrepreneurs maintain the old attitude of keeping to themselves every bit of experience and information they have. This attitude seems really out

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[10] Ibid.

[11] Ibid.

of date, and more cooperation in the field of research will benefit the industry as a whole. Moreover, modern research requires team work and large spending. Cooperation will save both time and money.

E) "The evolution of the European and even of the world market situation from the point of view of steel production and consumption ought to be studied periodically so as to determine, in time, factors which might influence the decisions to be taken under (A), (B), (C), (D)[12] above.[13]

This statement points to the necessity of creating a central body which will gather all information related to the steel supply and demand, and help the different governments to coordinate their economic policies as well as the entrepreneurs to organize their production. The fact that adequate measures, taken at the proper time, could make adjustments much less painful than if carried out later on, is a strong incentive for the establishment of such a central institution which would constantly study the evolution of the market.

These recommendations are of great interest to us because, as we will see later, the proponents of the Schuman plan have followed them closely.

III. The Consultative Assembly of Strasbourg

The Council of Europe was created in 1949 to study the

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12 A: Consumption.
B: Investments.
C: Supply of raw material.
D: Exchange of information.

13 Ibid.

problems dealing with the unification of Europe. Among the different organizations of which the Council of Europe was composed, was the Consultative Assembly. The purpose of the Assembly was to discuss the problems related to the integration of Europe and to offer advice as to how to deal with them. Among many questions submitted to the Assembly was the advisability of creating European companies which would supervise the basic industries.

In 1949, Mr. Edouard Bonnefous, in a speech delivered before the Strasbourg assembly, stated:

"Les différents pays devraient, malgré leurs repugnances, consentir à mettre en commun leurs ressources naturelles avec une administration internationale commune. Il faut choisir une industrie fondamentale pour faire éclater sur un plan capital les frontières nationales et les souverainetés étatiques. Tout conseille de choisir l'industrie du charbon."[14] This point of view was backed by the French delegate Mr. André Philip, who asked that steel be added to coal. Other members of the Assembly, belonging to different nations and political parties, gave their full support to these propositions. The Assembly voted a resolution on September 5, 1949, alluding to the necessity of unifying the basic industries.

In January 1950, the under-commission for basic industries of the Economic Commission of the Consultative Assembly, fearing the rapid reconstitution of the steel Cartel, asked for the creation of a Supreme Authority for steel and coal. Its resolution reads as

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[14] E. Bonnefous, op. cit., p. 160.

follows:

> "La sous-commission estime que:
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> 1) L'équilibre économique de la sidérurgie européenne ne saurait être atteint, ni par une liberté anarchique d'action nationale qui conduirait rapidement à la crise, ni par une cartellisation qui relèverait les prix de revient, mais par une harmonisation de la production et des investissements dans l'industrie de l'acier effectuée sous l'autorité des pouvoirs publics dans le cadre d'une coordination des productions et investissements d'ensemble.
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> 2) A cet effet, il est nécessaire de créer une autorité publique de l'acier, comprenant des délégués des gouvernements producteurs et consommateurs d'acier, autorité qui recevrait le pouvoir de définir la politique générale de l'industrie, en particulier pour tout ce qui concerne les investissements, le volume de production et les prix. Cette autorité européenne serait responsable à la fois devant les divers gouvernements et la Commission économique de l'Assemblée Européenne.
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> 3) Cette autorité publique devrait avoir à ses côtés un corps consultatif composé d'une part, de producteurs (employeurs et salariés) d'autre part, de representants de l'intérêt public et des industries consommatrices d'acier; elle aurait à conseiller l'autorité européenne sur les sujets présentant un intérêt général pour l'industrie considérée."[15]

In other words, the under-commission proposed the creation of a public authority which, with the help of a consultative assembly, would organize and supervise the European steel industry.

We see that the idea of pooling some of the European key industries under the direction of a supra-national authority has been studied and advocated by many specialists. It was then up to the politicians to make these ideas known and to gain for them public support. Among the politicians of those days, one was especially interested in the matter. He was Robert Schuman, at the

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[15] Ibid.

time foreign minister for France. In a letter to the general Secretary of the Council of Europe, dated May 4, 1950, he stressed the keen interest of the French government in the creation of European Companies for certain key industries.

But, at the same time, it was realized that the Council of Europe would not be able to carry through the pooling of any European resources because Great Britain was very reluctant to give up any of its sovereignty and so would probably veto any project of this kind.

This is why Robert Schuman decided to take action, and, on May 9, 1950, he made public a declaration in the name of the French government. He proposed the pooling of the coal and steel industries of France and Germany and invited all European nations to join in the pool. We would like to quote a few excerpts from this declaration, because they highlight the political as well as economical implications of the Schuman plan.

I quote:

> "La Paix mondiale ne saurait être sauvegardée sans des efforts créateurs à la mesure des dangers qui la menacent...
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> "L'Europe ne se fera pas d'un coup, ni dans une construction d'ensemble: elle se fera par des réalisations concrètes créant d'abord une solidarité de fait. Le reassemblement des nations européennes exige que l'opposition séculaire de la France et de l'Allemagne soit éliminée. L'action entreprise doit toucher au premier chef la France et l'Allemagne.
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> "La mission impartie à la Haute Autorité commune sera d'assurer dans les délais les plus rapides: la modernisation de la production et l'amélioration de sa qualité, la fourniture à des conditions identiques du charbon et de l'acier sur le marché français et sur le marché allemand, ainsi que sur ceux des pays adhérents, le dévelopment de l'exportation commune vers les autres

pays, l'égalisation dans le progrès des conditions de vie de la main d'oeuvre de ces industries.

"A l'opposé d'un cartel international tendant à la répartition et à l'exploitation des marchés internationaux par des pratiques restrictives et le maintien de profits élevés, l'organisation projetée assurera la fusion des marchés et l'extension de la production."

The main ideas which inspire the Treaty are contained in the above quotation.

1. Peaceful coexistence of the different European powers.

2. Unification of Europe through economic integration.

3. Economic expansion based on the policy of a wide market and of a collaboration between the different nations.

IV. The Paris Conference and the Negotiation of the Treaty

The declaration of Robert Schuman was followed by the Paris Conference, where delegates of the six powers who had agreed on the principle of the pool came to draft the treaty which would create the European Coal and Steel Community.

Mr. Monnet headed the French delegation and submitted a draft to the other delegates. The draft dealt mainly with the institutions to be responsible for the administration of the pool. A High Authority to be composed of members nominated by each government would function as the executive power of the supra-national body. It would be sovereign; non-member governments could accredit representatives directly to it. It would rule upon technical matters, (reallocation of resources, investments, quotas of production) as well as deal with commercial problems (discriminatory practices, trade policy). An international assembly would supervise its

activities. Governments and enterprises would have to follow the recommendations of the High Authority but they would retain the freedom to choose the means by which these directives would be put into effect.

This draft was used as a basis for discussion and was later modified. In December 1950, the different governments agreed in principle upon the creation of a High Authority, a Consultative Assembly, a Council of Ministers, and a Court of Justice. They agreed also upon the creation of a "single market"[16], but not upon the means to create it. While each nation was willing to accept the creation of a single market, they all feared the result of unlimited competition. It was therefore decided, that each case would be studied individually, and that a limited and temporary protection would be allowed in certain cases. Such protection was not to be given to maintain high cost industries, but to permit a reorganization and a modernization which would make these industries competitive. Belgium and France were going through an important reorganization and modernization of their coal industry; guarantees were therefore granted them to enable them to carry on those reorganizations without entering immediately the field of unlimited competition. Italy was in the process of developing a small coal mine, and she received temporary protection for her coal industry, and also for her steel industry, which needed some transformation to stand the test of competition. The case of Luxembourg is a little different. This small country depends very much on its steel industry, and any

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16 "Marché Commun".

extensive change in it would bring about great perturbations in its social life. This was fully understood, and some guarantee was given to its government. We would like once more to stress that these protections were aimed not at protecting vested interests but at permitting an adjustment between industries that had been working for a long time under government protection.

The problem raised by the admission of Germany was much more complicated and required compromises of greater significance. Before the war, the steel industry in Germany was highly centralized. In 1938, in the Ruhr district, six Konzerns produced 98% of the pig iron of this area and 95% of the steel. Moreover, these six Konzerns controlled mines producing nearly half of the Ruhr coal (in 1937, 42.5%). The steel industry was also closely connected with the Rheinisch-Westphalisches Kohlensyndikat which, in 1938, controlled 69% of the total German coal extraction.[17] Obviously, this situation gave the German steel and coal industries a great advantage over their competitors, especially in view of the fact that the steel industry of the other members of the Community had to import large quantities of coal and coke. At the end of the war, the Allies tried to break up this vertical integration of steel and coal as well as the horizontal integration of the different firms producing them. Different methods were studied and tried out by the Ruhr Authority, which was created by the Allies for that purpose. When the Schuman plan was proposed, it was understood that it would replace the Ruhr Authority and take care of the problem of decentralizing the German

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[17] A. Piettre, L'Economie Allemande Contemporaine, Paris, Librairie de Medicis, 1952, p. 137.

coal and steel industries. The trouble was that, at the time of the negotiations, the situation had greatly changed compared to what it had been at the end of the war. Due to the Korean boom, the demand for steel was high, and the German industrialists were in a very good position to argue that the former concentration of their industries was necessary in order to produce the quantity of steel demanded. This type of argument could not be accepted by the proponents of the Schuman plan, because it seemed to them that it would prevent all possibility of competition. The Plan recognizes that some concentration is necessary because of technical reasons, but it does prohibit any type of concentration that would hamper competition. So a compromise had to be found. After much discussion[18] it was agreed by both parties:

1) That the German steel Konzerns would be broken down into twenty-five different companies. (The Allies were asking for twenty-nine, and the Germans for twenty-two.) The most important result of this decentralization was the breaking down of the giant Konzern Vereinigte Stahlwerke, which was producing, in 1938, 8 to 9 million tons of steel, i.e., 56% of the pig iron and 53% of the steel produced in the Ruhr area. From now on, the largest Konzern in the Ruhr, the Hutten-Werk-Horde, will have a capacity of 2,200,000 tons, which does not exceed the capacity of the other large steel firms of the Community.[19]

2) That the vertical integration, that is to say the combination

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[18] Ibid.

[19] Ibid., p. 152.

of steel and coal, which was to be abolished just after the war, will be only restricted. The steel firms will no longer control the totality of their coal supply. But twelve steel firms will have the right to get 75% of their supply from coal mines which they own. It is true that those mines will be separate companies and will have to sell their coal at the market price. The result of these transformations is that, from now on, the steel industry controls only 16.5% of coal production instead of 56% as was the case before the war. As regards coke, 26% of the German production is to be reserved for the vertically integrated firms, instead of 56% as before the war. This means that 74% of German coke production will be put on the single market.[20]

3) That the concentration of the selling organizations will have to disappear progressively and be replaced by organizations working under the control of the High Authority.

This compromise seemed acceptable to both parties because it respected the principle of competition as well as the technical necessity of producing steel in firms of a certain size.

With some other minor transformations, the treaty was accepted, and was ratified on April 16, 1951. If the necessity for compromise was responsible for many modifications of the original draft presented by the French delegation, the spirit of Robert Schuman's initial proposal was nevertheless respected.

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[20] E. Bonnefous, op. cit., p. 171.

V. Reactions Toward the Schuman Plan

We would now like to review briefly the reaction of some of the great powers to the Schuman plan.[21]

Countries outside of the Community:

On the whole, the United States government reacted very favourably towards the Schuman plan. This can be readily understood. Since the end of the war, the U.S. government has been advocating very strongly that European nations cooperate to solve their economic problems. One of the prerequisites for the granting of the Marshall aid was cooperation between the nations aided. The Truman administration, in putting pressure on the Bonn government, contributed to the ratification of the treaty. It is true that in some circles it was feared that an independent and unified Europe might become neutral in the cold war. But the influence of those holding this view was negligible. The Soviet Government did not favour the ratification of the treaty. The Communist parties of the six signatory powers respectively voted against it, and no country under Soviet influence was allowed to participate in the Community. The case of Great Britain was different. While there was evidence of a British opinion favouring the Schuman plan, the government refused to relinquish any of its sovereignty for the benefit of a supra-national authority. The Labor party, then in power, did not want to commit itself in a time of economic reorganization, and the conservatives did not show much enthusiasm either. The role that Great Britain has to play in the Commonwealth no doubt strongly influenced the British decision.

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[21] Ibid., p. 166-169.

Nevertheless, the British refusal was a blow for the Community. The fact that the biggest producer of steel and coal was not a member of the pool was certainly unfortunate. But, although Great Britain did not become a member of the Community, it pledged itself to work in close cooperation with it, and accredited an ambassador to the High Authority.

Within the nations who became members of the Community, opinions were also divergent:

In France, the parties which supported the government on the whole agreed with the policy of the foreign minister. Opponents were found both in the right and extreme left. Industrialists were rather cool towards the plan as could have been expected. By definition, protected industries do not like competition, and the prospect of a new administration which would, to a certain extent, rule over them was obviously not palatable to them. In Germany, the case was different. The Schuman plan put an end to the Ruhr Authority, and, from the German point of view, it was certainly an improvement. Government circles, unions, and public opinion in general favoured the plan. Industrialists were much cooler towards this innovation; they feared that the decartelization policy of the High Authority might hamper their ability to compete with the newly rebuilt French steel industry. Even the social-democrats feared that the Schuman plan might put Germany in a state of inferiority. The Belgian reaction was mixed. The steel industry, which was up to date, did not fear competition and was hoping to get cheaper coal. The coal producers were much less enthusiastic; they fully realized that they would be the first to be hit by the rationalization of

production, which was one of the major aims of the treaty. In Luxembourg, steel producers feared that, due to the pool, the Belgium market would be much more difficult to retain; this, because the lowering of the price of coal would allow steel to be produced at a lesser cost. In Holland, practically no opposition met the Schuman plan. On the contrary, the organized competition proposed by the treaty was perfectly suited to the main interests of the country. In Italy, public opinion favoured the ratification of the plan. But the steel industry, knowing how artificial it was, feared the competition resulting from the pool. The steel consuming industry, on the other hand, favoured the opening of a single market.

From this brief survey of opinions in various countries, we can see that in each one some feared the consequences of the Schuman plan, but that the majority thought it wise to accept this bold innovation. More specifically, the opposition was made up of those who felt that they would have to make serious adjustments if they were to compete without artificial protection. These adjustments would mean the end of rents, which were the result of the artificial protection. Obviously, those who were getting the benefit of these rents did not favour their disappearance. We should add that, apart from those directly affected by the Schuman plan, many people feared that a loss of national sovereignty would damage the development of the country. It is quite normal that such a revolutionary innovation would scare people who have believed for so long that full sovereignty was the foundation upon which a prosperous and strong country should be built. It is true that any new experiment involves a certain amount of risk, and the Schuman plan is no exception to this general

law. But it is also true that, without innovation, progress is impossible. And that is what the majority realized. They were aware that the Schuman plan was, to a certain extent, and, as some of its opponents pointed out, "un saut dans l'inconnu"[22], but they also realized that present problems require new solutions. They decided to take the risk, and so the Schuman plan was ratified.

Conclusion

As a conclusion to this chapter, we would like to point out again the political background of the Schuman plan. If the Schuman plan is an economic plan, which aims at solving the coal and steel problems of Western Europe, it has also another purpose, namely, to prepare the political unification of Europe in creating a de facto economic integration.

During the debates of the Consultative Assembly in Strasbourg regarding the methods to be used in the unification of Europe, two trends of thought developed. The followers of each were called respectively constitutionalists and functionalists.

The constitutionalists advocated the immediate federation of Europe, and the creation of a federal government which would deal with the problems resulting from the European political and economic integration. Their basic argument was that, as long as national governments retained their full sovereignty, no operational agreement could be reached, each one fearing that the other took advantage of

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[22] M. van Zeeland, "Le Plan Schuman constitue un saut dans l'inconnu"; quoted by André Metral in "Le Plan Schuman", Nouvelle Revue de l'Economie Contemporaine, No. 16-17, Paris, n.d., p. 37.

him. In other words, political integration had to come first, the economic one would follow.

The functionalists had a different approach. Their ultimate goal was the same as that of the constitutionalists, namely a full integration of Europe. But, because of the way matters stood at the time, they believed that no nation would take the chance of giving up its national sovereignty except in a very limited way. One should remember that, if the unification of Europe may be good in itself and, probably, in the long run, of benefit to everyone concerned, it will initially necessitate vast readjustments, which will modify the present economic and social structure of the various nations involved. The methods used to carry out these transformations will greatly affect the life of the people living now. It is then understandable that, with distrust still prevailing among nations, national governments were not eager to relinquish some of their sovereignty for the benefit of a federal government whose future policies were rather unknown. Confronted with that issue, the functionalists advocated that unification be carried out first in the sectors of activity where the transformations expected would not be too great; by solving problems step by step, a de facto integration would be achieved, and, then, little opposition would be met toward the establishment of a federal government.

The Schuman plan was the first limited integration advocated by the functionalists. It was meant to be not only an economic plan, whose purpose it was to solve a purely economic problem, but also the first step towards a full integration of Europe. We should always bear in mind the dual purpose of the Schuman plan.

It represents a political as well as an economical attempt to solve the problems of Europe by creating a United Europe.

The purpose of this thesis is not to study the validity of the belief that the unification of Europe will solve many of the present European problems. We will limit ourselves to the economic study of the Schuman plan itself. But it will be important, as we will see later, to remember that the Schuman plan is not meant to represent a final answer, but is a starting point to be followed by more and greater integrations.

Chapter II

THE STEEL INDUSTRY BEFORE THE SCHUMAN PLAN

A brief survey of the steel industry is necessary to understand the aims and the proposed policies of the Schuman plan. We will review where the main resources supplying the industry as well as the industries themselves are located, what is the technology of production, then stress the recent changes in the European steel industry. Following this, we will conclude by showing that, due to its economics, this industry requires administrative control rather than the reliance on the free market mechanism. We will see how this had been felt already during the inter-war period, and how the steel cartel had been created to replace the free market. It will remain to point out that the Schuman plan represents an attempt to replace the cartel policy.

I. The Location of Resources

It is necessary to be familiar with the location of resources if one is to understand the evolution and the prospects of the steel industry. We are going to consider here only the main raw materials which make the production of steel possible: coal, iron ore, and scrap. The first two are bulky and heavy raw materials, which makes it necessary for the steel factories to be located in relation to these resources. In the case of the European steel industry, it is essential to bear in mind how political boundaries so often separate the sources of raw material from the factories which are processing them. This situation had a strong impact on the evolution of the different European steel industries.

Coal

Coal remains the most important fuel for steel production. Though electricity is used for the production of special steel made from scrap, its use is very limited.[1] However, the coal used by the steel industry is of a special kind, i.e., one which can be treated to become coke.

Every member of the Community produces coke, but the great steel producing countries have to import large quantities of coke from Germany, which is the main supplier of the Community. Germany is not only the greatest producer of coke in the Community but it also has the greatest reserve of it.

Estimated Production and Reserves of Coking Coal in Europe

Country	Production present annual rate		Actual reserves	
	million metric tons	%	000 million metric tons	%
U.K.	90	47	50	59
Germany	64	34	27	33
Others	36	19	7	8[2]
Total	190	100	84	100

The question now is to find out to what extent the Community

[1] Seven per cent of French steel production is made in electric furnaces. See J. Ferry et R. Chatel, L'Acier, Paris, Presses Universitaires de France, 1953, p. 15.

[2] United Nations, European Steel Trends in the Setting of the World Market, Geneva, E.C.E., 1949, p. 41, Table 23.

as a whole depends on German coke. The situation in 1952 for coke is summed up in the table below.[3]

	Production	Export to member countries	Import from member countries[4]
	(The figures represent millions of tons)		
Germany	34.5	6.6	0.2
France-Saar	12.8	0.2	4.2
Bel.-Lux.	6.2	0.2	3.2
Holland	2.9	0.6	0.2
Italy	2.2	0.1	0.0

This table shows that the steel industry of France, Belgium, and Luxembourg rely heavily on German coke. We are speaking only of coke and not of coal in general, in which case figures would be much greater. We should always bear in mind this dependence of the steel industry on German coke; it will help us to understand later why national price discrimination was a common practice in European trade.

The post-war coke situation was very difficult due to the breakdown of the German economy and to the increasing demand for coke. Consequently, a great effort was made to increase the production of the coke ovens already working, to create new ones, and to develop new methods so that a wider range of coal could be used in the production of coke. "Promising experiments in this field have

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[3] United Nations, Economic Survey of Europe since the War, Geneva, E.C.E., 1953, p. 316.

[4] In 1952, no coke has been imported from outside the Community.

already been made in the Lorraine Bassin in France."[5] "Actually, provided coking coal is produced in sufficient quantity, metallurgical coke is not likely to become a bottleneck for the implementation of pig-iron production plans."[6]

Iron Ore

The question of iron ore is a little different. The greater producer of iron ore in the Community is France, but its production capacity cannot entirely meet the requirement of the Community, and its iron ore is not of a very high grade.

The Community Supply Sources of Iron Ore (in %) for 1952[7]

Country	Home Prod.	Import from member countries	Import from non-member countries	Total
Germany	44%	4%	52%	100%
Belgium	1%	62%	37%	100%
France-Saar	98%	00%	2%	100%
Italy	54%	00%	46%	100%
Luxembourg	50%	37%	13%	100%
Netherlands	00%	15%	85%	100%

It can be seen from the table that, with the exception of France, each country relies heavily on imports to satisfy its iron

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5 United Nations, European Steel Trends in the Setting of the World Market, Geneva, E.C.E., 1949, p. 40.

6 Ibid., p. 41.

7 Communauté Européenne du Charbon et de l'Acier, Rapport Général sur l'Activité de la Communauté, 1952-1953, Luxembourg, 1954, p. 39.

ore requirement. Furthermore, the imports from outside the Community are very important. In 1952, 28% of the Community iron ore was imported from Sweden and North Africa. This situation could be modified with time, and following some improvement in the means of transportation, namely, the Moselle canal. The Moselle canal (Thionville-Coblentz), if completed, would cut down the cost of transportation of Lorraine ore to the Ruhr by 50%.[8]

If, then, the importance of French iron ore does not have the same bearing[9] on the industry of the Community as the German coke, it still remains that, at the present time, Belgium and Luxembourg, and to a much lesser extent the Netherlands and Germany, rely on French imports. It is probable that, with the opening of the single market, and especially if the Moselle canal is built, the production of French iron ore will be increased.

At this point we would like to make a note regarding the French iron mine. France is and will very probably remain the main iron ore producer of the Community. The Lorraine reserve is probably of the order of six billion tons; this means that, at the present rate of exploitation, it will last from 120 to 150 years.[10] While this reserve is much smaller than the coal reserve, the

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8 Economist, July 10, 1954, p. 126.

9 The import of coke from non-member countries is practically nil (0.1 millions of tons in 1951 and 0.00 in 1952) compared to the imports of iron ore from non-member countries (5.8 millions of tons in 1951 and 6.7 in 1952). See United Nations, Economic Survey of Europe Since the War, Geneva, E.C.E., 1953, p. 316.

10 M. Gardent estimation quoted by A. Philip in "Communauté Européenne du Charbon et de l'Acier", Conseil Economique, Paris, Presses Universitaires de France, n.d., p. 42.

Lorraine mines are still an important asset to the Community. For the time being, Germany relies to a great extent on the Swedish iron ore, which has a high metal content (60%), and on the North African iron ore (50-55%), but these ores represent a limited supply[11] and the demand for them is high. It can therefore be expected that, in the future, Germany will increase its purchase of Lorraine ore, especially if the means of transportation are improved. The major drawback of the Lorraine ore is its low metal content (30%). Before the first world war, when Lorraine was a part of Germany, it supplied the Ruhr industry with much more iron ore than it did after the war when it was again a French province. Whatever changes occur in the present situation, the Community will still have to import iron ore from non-member countries to meet its increasing demand for steel.

Scrap

Scrap plays a very important role in steel manufacturing. The market for scrap is very sensitive to price fluctuations, and it is therefore difficult to foresee any trend in it. After the second world war, the demand for scrap increased due to the shortage of iron ore and coke. But, according to the ECE Steel Division for Europe, Europe will have enough scrap in the future to meet all its requirements, if the present plans for pig iron production are carried through.[12]

This brief survey of how the steel industry of the Community

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[11] The Swedish government is controlling extraction, to avoid a depletion of the reserves.

[12] United Nations, European Steel Trends in the Setting of the World Market, Geneva, E.C.E., 1949, p. 42.

is supplied with raw materials clearly indicates that no country is self-sufficient but has to rely on imports to fill the gap between its production and its demand. This situation has a great influence on the policies carried out by the different governments as well as by the industries themselves. However, it should be remembered that, if the Community as a whole is not self-sufficient in all the raw material[13] required by the steel industry, it can nevertheless supply most of it. The ECE Steel Commission came to the conclusion that Europe is well equipped to build an efficient steel industry, and that there is no reason why it could not compete efficiently with steel producers in other parts of the world. Cooperation and adequate investment planning should make of Europe one of the main steel suppliers of the world.

II. Location of Production

Let us now consider where the main centers of steel production are located throughout the Community. Table I shows that these form a triangle whose apex is roughly the Saar territory, and whose base is the coast of Belgium and the Netherlands. This distribution is not surprising if we consider that this area contains the most important coal and iron ore mines of western Europe. The following map[14] illustrates the interdependence of the different areas producing steel. The steel factories were built either on

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[13] In 1953, the Community imported 14.8 millions of tons of iron ore; its apparent consumption was 76.0 millions of tons.

[14] J. Chardonnet, Communauté de l'Europe Occidentale, Lyon, Editions de Lyon, n.d., Map 20.

Table I

EUROPE'S MAIN PIG-IRON AND CRUDE-STEEL PRODUCING CENTERS[15]
(Maximum annual output based on best month in 1948-1949)

	Pig-iron in 000 metric tons	Crude steel in 000 metric tons
Belgium:		
Charleroi area	2,350	2,500
Liège Area	1,700	1,800
Luxembourg province	450	500
France:		
St. Nazaire	-----	70
Caen	140	140
Nord	1,300	2,000
Ardennes	-----	50
Lorraine	6,750	6,200
Nancy	600	400
Creusot	-----	550
Monluçon	-----	50
St. Etienne	60	50
Alpes	70	100
Ariège	50	70
Germany:		
Herrenwyk	200	-----
Osnabrück	125	150
Ruhr	6,250	9,000
Sieg, Lahn, Dill	360	310
Peine area	650	670
Hennigsdorf	-----	90
Thale	-----	90
Riesa-Groditz area	-----	150
Interwellenborn	200	130
Amberg area	410	420
Italy:		
Aosta valley	160	100
Milan-Bergamo-Brescia area	110	850
Turin	40	250
Savona-Novi-Genoa area	100	350
Piombino	-----	150
Terni	-----	150
Naples area	160	250
Luxembourg:	3,000	2,900
Netherland:		
Ymuiden	500	425
Utrecht	-----	30
Saar:	1,700	1,900

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[15] United Nations, European Steel Trends in the Setting of the World Market, Geneva, E.C.E., 1949, p. 117.

Table II

CRUDE STEEL PRODUCTION BY THE COMMUNITY MEMBERS[16]

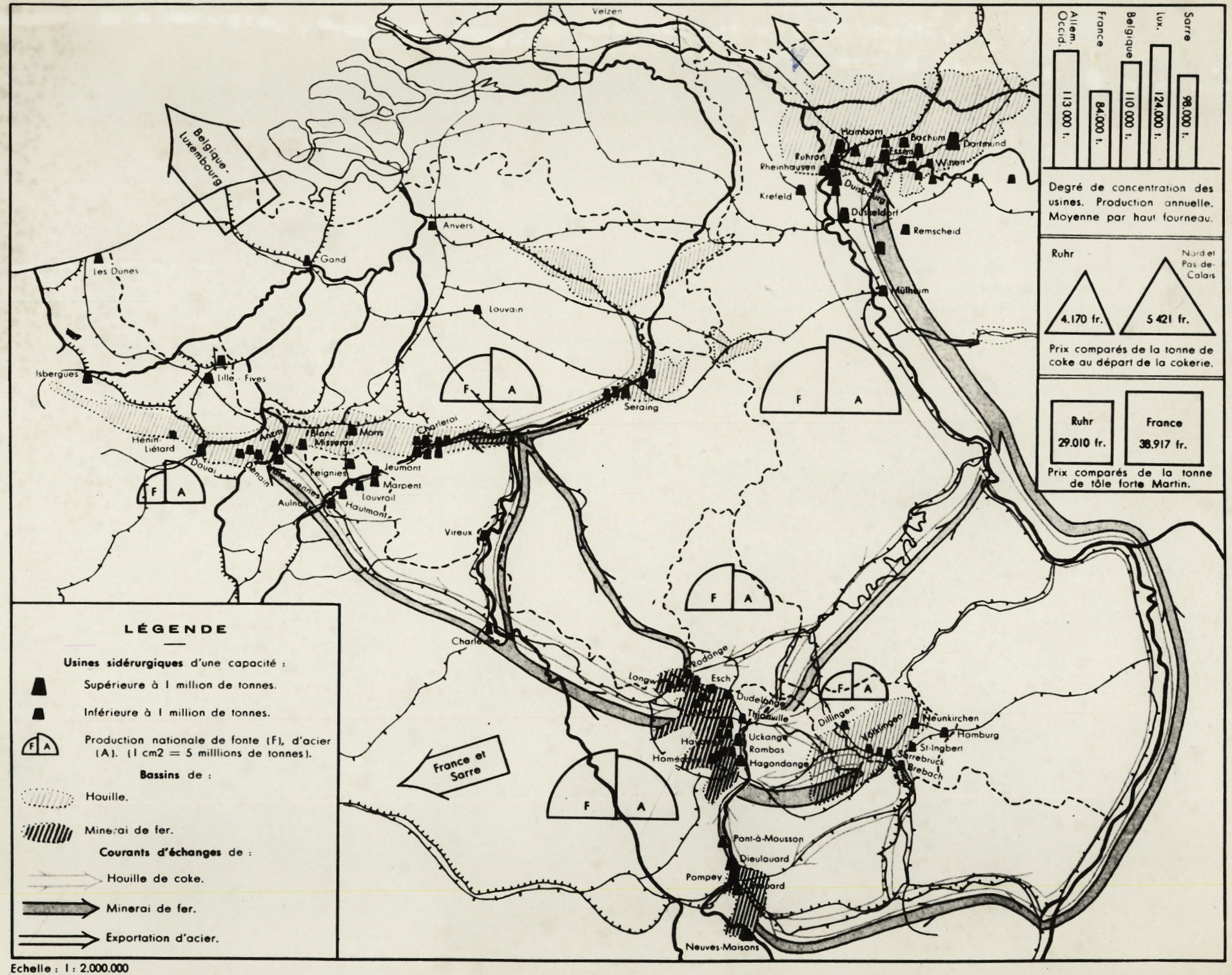
(In million tons)

	1938	1947	1951
Belgium	2.30	2.90	5.09
Luxembourg	1.44	1.71	3.08
France	6.22	5.73	9.83
Saar	2.56	0.71	2.60
Western Germany	17.90	3.06	13.51
Italy	2.32	1.69	3.06
Netherland	0.05	0.20	0.55
	32.79	16.00	37.72

[16] André Philip, L'Europe Unie, Paris, Presses Universitaires de France, 1953, p. 188.

LE POOL CHARBON-FER-ACIER EN EUROPE OCCIDENTALE

(Map 20)



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20. - LE POOL CHARBON-FER-ACIER EN EUROPE OCCIDENTALE

a coal field or an iron ore deposit, but in no place can iron ore and coal be found in the same area. Each steel-producing area is therefore dependent for one of its raw materials on another area. The map indicates also that these complementary areas are separated by political boundaries. This illustrates how essential it is that the different producers of the Community cooperate. Tables I and II give production data for the Community's countries.

III. Technology of Production

The three main characteristics of the steel industry are: operation in large units of production; large overhead costs; and a high break-even point. We may add that the recent improvements of the steel industry have increased these characteristics.

To be profitable, steel has to be produced in units of a minimum size. "In order to achieve optimum cost level in rolling mills, the most expensive part of a steel plant, it is generally admitted that the following annual capacities (in crude steel) are a minimum:

	Tons
For a plant producing flat products with a continuous strip-mill:	1,300,000
For a plant producing light sections:	500,000
For a plant producing heavy sections:	600,000

These figures do not apply to the production of special quality

steel or to non-standard rolled products."[17] The steel industry does not only have to be produced in large units of production, but also in "integrated firms". In other words, "modern steel firms comprise coke oven and blast furnace as well as steel furnace and rolling mill. Some have even their own coal and iron ore mines. Such integration permits saving in fuel and transportation, a better utilization of the by-products, and more uniformity in the quality of the products". This explains why modern steel industry has high overhead cost. New techniques as well as integration have increased the amount of fixed capital which has to be invested before any steel can be produced. According to the latest estimates, the production of one ton of ingot steel necessitates an investment of $250 to $300.[18] We have just mentioned that new techniques have increased the overhead cost in the steel industry; we would like here to stress this point by indicating the importance of one of these innovations, viz. the continuous strip-mill. The first one was laid down in the United States in 1924, but it is only after the second world war that they have been used on a large scale in Europe. This innovation has increased the overhead cost of the steel industry, but it has at the same time lowered the price of steel and improved its quality.

> "The continuous strip mill constitutes such a revolutionary improvement in the steel finishing that it offers a unique

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17 United Nations, European Steel Trends in the Setting of the World Market, Geneva, E.C.E., 1949, p. 61.

18 J. Ferry et R. Chatel, op. cit., p. 60.

> demonstration of the effects of technological change not only on the industry involved but also on the economy at large.
>
> "Although the continuous strip mill is one of the costliest investments in all industry, a single mill may cost as much as $60 million, it reduces cost of operation and makes possible lower prices. A company making steel sheets by the hand mill method had been getting $100 a ton for its product; ten years later it was receiving $46 a ton for similar products made by a continuous strip mill. Between 1923 and 1937 automobile fender steel was reduced over $50 a ton; from $155 a ton to $68, and quality was improved, the unit price of an electric refrigerator from $390 in 1926 to $173 in 1937 partly at least because of the lower price of the sheet steel (about 190 pounds) which goes into the making of refrigerators."[19]

Now that we have pointed out that, if the steel industry is to produce economically, heavy investments have to be made in large units of production, we would like to consider the difficult problem of the rate of utilization of the existing capacity. In other words, what is the percentage of the capacity of these large units of production which have to be used if steel is to be produced profitably. No real study has been made of the rate of utilization of the existing capacity for the European industries, but studies made in the United States may be used as a valuable reference. The American study uses the break-even point concept. The writer is well aware that the break-even point concept is frowned upon by economists; nevertheless, in the present case, it may help us to illustrate how the recent modifications brought about by the new techniques used in the steel industry have influenced the rate of utilization of the existing capacity. "Although it is difficult to

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[19] E.W. Zimmermann, World Resources and Industries, Revised edition, New York, Harper and Brothers, 1951, p. 653.

establish a break-even point for an entire industry, since it would vary according to the efficiency of the various producing units, it is estimated that the break-even point has, in the United States, risen from 48% of capacity pre-war to a level of about 70% in the post war years."[20] It is difficult to make any similar estimation for the European steel industry. The European steel industry has not yet completed its reorganization; some of the plans actually carried on will be completed only in 1956. However, as the European steel industry is following to a certain extent the American pattern, the previous figures might be taken as an indication for the future problems which will confront this particular industry. It then appears that the modernization of the steel industry has increased its difficulty of adjusting capacity to a fluctuating demand. This raising of the break-even point will require the enforcement of a policy which will keep the demand as large and as stable as possible.

IV. Recent Changes in the European Steel Industry

The most important innovation in the steel industry of the Community was the introduction of the continuous wide strip mill. This innovation has considerably modified the outlook of the steel industry. The fact that flat products can now be produced in greater quantity and at a lower price will have a marked effect on the demand for steel. Capital as well as consumer goods, which previously had only a small market because of their high cost, can now find a wider outlet.

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[20] United Nations, European Steel Trends in the Setting of the World Market, Geneva, E.C.E., 1949, p. 62.

But the fact that the wide strip mill has been introduced on a large scale in the Community raises some new problems for the steel industry. First, the problem of scrapping the old plants will have to be solved. It has been estimated that between 1951 and 1956 three million tons of capacity will have to be scrapped.[21] Secondly, the wide strip mill requires slabs of the right steel quality, that is one which is low in sulphur and phosphorus. This production of the right kind of steel will have to be increased. Moreover, if the wide strip mill is to be used with profit, the slabbing mill will have to be erected in its vicinity in order to save the cost of re-heating cold ingots and of transport charges of the ingots and the return scrap. These problems should not be underestimated. We have seen previously that the break-even point is high in the steel industry, so that if the scrapping of obsolete plants is not carried out and an adequate quantity of the right quality of steel is not produced, the mills will be used at under-capacity and the profit of the new investments will be lost or at least very much reduced.

As an illustration, we would like to quote from the E.C.E. Steel commission report, the following paragraphs which briefly review development of the continuous wide-strip mills in the Community and the problems that this development has created.

Belgium[22]

"The Esperance-Longdoz plant has a crude steel capacity of

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[21] United Nations, The European Steel Industry and the Wide-Strip Mill, Geneva, E.C.E., 1953, p. 20.

[22] Ibid., p. 19.

some 300,000 tons a year. It relies heavily for its supply of ingots and slabs on another plant, which is augmenting its output of slabs through the installation of a new blooming mill. Nevertheless, there will remain a considerable discrepancy between steel supplies available and steel supplies required. Present output is also limited by the low capacity of the soaking pit, but this should be relieved by current construction plans. There appears to be no plans for increasing steel output at the Ougree-Marihaye plant. Crude steel supplies are being obtained by diversion from other rolling-mills operated at the same plant.

France

The rate of production of Sollac at the beginning of 1953 was between 35,000 and 40,000 tons of hot-rolled coils a month, which should rise to 60,000 tons later in the year, and eventually to 100,000 tons. Seventy-five per cent of the ingot steel supplies required will eventually be produced by Sollac, and the remainder from other units owned by the company. The production of USINOR amounts to 33,000 tons of hot-rolled coils a month, steel supplies being the limiting factor. Three new open-hearth furnaces are being put down, one of which is now in operation; the other two should have come into operation in 1953. By then, a monthly output of 50,000 tons of hot-roll coils should be possible. Two other open-hearth furnaces and another blast-furnace are in the planning stage. Steel is, however, likely to remain in short supply.

Western Germany

Steel production at the August-Thyssen Hutte is being expanded, and an annual output of 900,000 tons of hot-rolled coils is

envisaged. Thirty per cent of the steel will be from open-hearth furnaces and 70 per cent from Thomas converters. It is not known at present whether steel supplies will be further increased. If not, the continuous wide-strip mill is likely to remain short of steel.

Italy

Five open-hearth furnaces are being set up in Cornigliano. Three are already completed and two were expected to be ready by the middle of 1953. The installation of a sixth at a later date is planned, and enough steel should then be available to allow for an annual output of 600,000 tons of hot-rolled coils. Space is available on the site for further additions to crude steel capacity but no plans have apparently been made.

The Netherlands

Crude steel capacity at Imuiden is to be increased by more than 70% and steel is also being diverted from another mill which will be closed down. Nevertheless, the quantity of steel available is very much less than the capacity of the strip mill."

The above quotation illustrates the problems resulting from the introduction of the wide-strip mill. If the new mills are to be used with profit, specific investments will have to be made in order to supply them with the right kind of steel. At the same time, obsolete plants will have to be scrapped so that the production of cheap steel will not be hampered due to an over-capacity. The E.C.E. Steel Commission, well aware of this state of affairs, strongly advocates, as we have seen previously in Chapter I, that some coordination be enforced regarding the investments made in the steel

industry. The steel Commission feared that an anarchic policy of investments would result in a bottleneck as well as an over-capacity.

V. The Economics of the Steel Industry

We have seen previously that, in order to be profitable, the steel industry must work in large units of production, that it has large fixed costs and a high break-even point. This particular industry is therefore an oligopolistic one. It can hardly be expected that in the future this situation will change. On the contrary, we may expect that the steel industry will become more and more concentrated into the hands of a few entrepreneurs. As an example, we may consider the case of the French steel industry. After the second world war, the Monnet plan, as a means of increasing steel production, advocated concentration to rationalize production. At the time the plan went into effect, France had 177 steel producing factories. The plan set up as its goal a reduction to 24 firms. In 1952, 8.606 million[23] tons of French steel was produced by nine concerns:

Steel Production in 9 French Firms, 1952

	Number of Workers	Steel Production (in 000 Tons)	Turnover in Billion Fr.[24]
Lorrain-Escaut	25,000	1,400	70.0
de Wendel	22,000	1,483	47.5
S.I.D.E.L.O.R.	18,260	1,414	46.8
U.S.I.N.O.R.	12,600	1,469	55.2
Chatillon-Commentry	11,500	473	25.0
Knutange	6,690	622	13.8
Chiers	5,800	490	23.0
Providence	6,800	544	
U.C.P.M.I.	8,000	711	

[23] Total French production in 1952: 10.6 million tons.

[24] "Chiffre d'Affaire."

The first four produced 60% of the total French steel, and employed 45% of the steel labor force.[25]

Since the steel industry is becoming more and more concentrated, we cannot expect that its total capacity will be affected by the fluctuations of the market. In other words, we cannot expect that the steel industry will have marginal firms which will close down when the demand falls or that new firms could be rapidly erected if the demand were suddenly to increase. The adjustment between supply and demand will have to be made by the large concerns through an increase or a decrease of their output. But we have seen that rationalization has been achieved through specialization and division of labour, so that we can hardly expect that, except in a very few cases, the concerns will be able to shut down part of their factories when the demand falls. In such a case, the firm as a whole will have to reduce its output and work with unused capacity.

We mentioned above that, in the steel industry, the break-even point is high. On the basis of what we know of the United States steel industry, we may assume that, should the steel industry of the Community have to work below, let us say, 60% of capacity, it would incur losses. It follows, then, that, to be profitable, the steel industry must work for a relatively stable market, and that its ability to withstand wide fluctuations of the demand is relatively poor. This is, of course, a great handicap for this particular industry, and we can hardly overstress the necessity of a careful

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[25] Notes et études économiques, N. 101-102, November 19, 1953, p. 13.

planning of investments to avoid over-capacity as well as of a policy that will keep the demand for steel as stable as possible.

This leads us to consider the demand for steel. In the long run, the demand for steel is expected to rise. As an example, the demand for steel in France, according to estimates, will rise from 6.5 million tons in 1950 to 10.5 million tons in 1970.[26] Investments should therefore be planned so that this increasing demand be supplied. In the short run, the problem of the demand is much more complicated. The demand for steel is very sensitive to general business conditions. Investments, which are great steel consumers, are sharply reduced as soon as a recession shows up. Even in the case of a mild recession, people will postpone not only investments but also the purchase of capital goods. This, of course, will result in a sharp fall in the demand for steel, and, due to its high break-even point, the steel industry may incur losses.

VI. The Inter-war Period

To illustrate the problems raised by the economics of the steel industry we would now like to indicate briefly what happened to this particular industry during the inter-war period. The very fact that entrepreneurs themselves had to regulate their activities in forming a cartel is a strong indication of the necessity to adopt some kind of planning in steel production. This seems even more relevant today if we consider that the present remodeling of the

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26 Jean Bernard, Vues sur l'Economie et la Population de la France jusqu'en 1970, Paris, Presses Universitaires de France, 1953, p. 156.

European steel industry has increased concentration.

The first world war greatly modified the steel production in western Europe. The reason for this lies not only in an increase of steel production due to the enormous requirements of the military machine but also in the political transformations which resulted from the Treaty of Versailles. The German industry, which developed so much during the 40 years preceding the first world war, was based on both the Lorraine iron ore and the Ruhr coal. The reason for this is to be found in the invention in 1880 of the Thomas process which made the use of phosphoric iron ore economical.

Output in 000 metric tons

		1880	1890	1900	1910
Germany	Pig-iron	2,729	4,658	8,521	14,794
	Steel	1,548	3,164	7,372	13,149
U.K.	Pig-iron	7,873	8,031	9,103	10,172
	Steel	3,730	5,301	5,981	7,613
France	Pig-iron	1,725	1,962	2,714	4,038
	Steel	1,354	1,407	1,936	2,850
Belgium	Pig-iron	608	788	1,019	1,852
	Steel	596	716	927	1,857 [27]

The possibility of making use of cheap coal and cheap iron ore gave a great advantage to the German industry compared to that of other countries. But, when the Lorraine province was returned to France, the situation changed. France got the iron mines and a steel industry but was still short of coal. Germany kept the coal and decided to

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[27] J.H. Chapham, The Economic Development of France and Germany, 1815-1914, Cambridge, Cambridge University Press, 1948, p. 285.

rebuild a new steel industry to restore her pre-war independence. The German owners of the Lorraine steel plants received an indemnity from their government, under the provision that the money received be used in the remodeling of old plants or the building and equipping of new ones on German soil. This was an attempt to have Germany regain her pre-war steel production capacity.

Production of Iron and Steel in Germany[28]
(in 1000 metric tons)

Years	Iron	Steel
1913*	16,800	17,147
1913**	10,730	11,768
1920	6,388	6,300
1929	15,344	18,273
1932	5,281	7,115
1938	18,655	22,991

* Old boundaries.
** New boundaries.

This table clearly indicates how well the Germans succeeded in restoring and increasing their steel production. But, during the same period of time, other European nations increased their capacity and production, and this over-expansion resulted in a disorganization of the European market.

"When, after the first post-war years, the reconstruction of the Belgium and French steel industry was accomplished, and Germany had reorganized and further increased the productive capacity of her

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[28] E.L. Bogart, Economic History of Europe, New York, Longmans Green and Co., 1942, p. 549.

Rhineland and Westphalian works, the problem of finding additional outlets for the potential output became more and more acute. Productive capacity for steel in the original member countries of the first international steel cartel formed in 1926 was estimated at that time at about 35 million metric tons; production in that year amounted to 26 million tons only."[29]

This state of affairs resulted in the creation of the International Steel Cartel. In other words, the steel producers, decided to take the initiative and introduce some organization into the production of steel. An agreement was signed in September 1926 by the main producers of four countries, namely: on the German side, the "Deutsche Rohstahlgemeinschaft", which comprises the Thyssen and Krupp concerns; on the French side, "Le Comité des Forges", which comprises the Wendel and Schneider concerns; the steel industry of Belgium, and the Luxembourg trust Arbed, whose director Emile Maynish became the first president of the cartel. The purpose of this agreement was only to regulate production; no attempt was made to regulate selling or prices. Production was fixed first at 25¼ million tons, then increased to 29¼ million tons. Each nation got a quota of production:

Germany	43.18%
France	31.18%
Belgium	11.56%
Luxembourg	8.30%
Saar	5.78%[30]

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[29] United Nations, International Cartels, New York, 1947, p. 6.

[30] André Philip, L'Europe Unie, Paris, Presses Universitaires de France, 1953, p. 189.

Penalties or compensations were allotted for exceeding or falling behind quotas. Czechoslovakia, Austria, and Hungary joined the Cartel in 1929. But, since the Germans were producing above their quota, despite the fine, when the general crisis broke out, this German oversupply resulted in a sharp decline in prices. The inability of restricting production efficiently brought the cartel to an end on April 30, 1931.

But, since the prices were falling at an increasing rate, a new cartel was set up on June 1, 1933. Its main purpose was to keep the prices from falling, so export quotas were fixed with a minimum price. Selling got organized; it was centralized through national associations, whose role it was to fix prices and take care of every selling problem. The second cartel lasted until the second world war. It answered its purpose, namely to keep prices from falling at least on the home market.

Table III

Price Indexes of Steel

Years	Exp. Price f.o.b. Antwerp	Domestic Price Germany	France
1929	100	100	100
1930	84	91	86
1931	60	90	67
1932	43	78	70
1933	49	78	74
1934	55	78	75
1935	55	78	75
1936	56	78	81
1937	92	78	123
1938	88	78	145 [31]

[31] United Nations, International Cartels, New York, 1947, Table 2.

It can be seen that the cartel kept prices much higher on the home market than on the export market, with the exception of Germany in 1937 and 1938.

The fact that entrepreneurs decided by mutual agreement to restrict production in order to keep prices from falling did not solve the problem of over-capacity. Instead of scrapping the most inefficient firms to reduce over-capacity and decreasing the cost of production by a reorganization of the industry so that steel could have been produced at a lower price with profit, most of the producers were allowed to remain in the field and charge high prices. Through agreement and tariffs the market became divided in sheltered areas where the producer had not to fear competition. This Malthusian policy resulted in a general stagnation of the steel industry and the entrepreneurs had very little incentive to modernize their equipment. To illustrate this state of affairs, we may point out the inability or the unwillingness of the entrepreneurs to introduce the continuous strip mill which was already widely used in the United States. The only country which was able to use its steel industry close to full capacity was Germany. But this resulted mainly from its rearmament policy. The consequences of this policy are too well known to be given any consideration here.

To understand fully the cartel policy, we should be aware of the fact that a fall in prices would have been borne in the end by those who owned the capital invested in the steel industry. If prices had been allowed to fall, what would have happened is not what had been claimed would have in those days, i.e., mass unemployment in the industry, but the bankruptcy of the less efficient firms. Some

investors would have lost their investments, but the industry would have resumed its activity, producing at a lower cost because a part of the old high-cost firms would have been wiped out, so that over-capacity would have been reduced, and some of the bankrupt firms would have resumed their activities with reduced fixed costs. The cartel enforced a completely different policy, prices were maintained at a high level and capital was saved but the unemployed workers as well as the consumers had to pay for it.

As a conclusion, we would like to stress the necessity of enforcing a policy whereby the results of the interwar anarchic behaviour will be prevented. If over-capacity is to be avoided, investments will have to be controlled so that industry will be able to adjust its capacity to the demand. A rationalization of production as well as a division of labor will result in a lower cost and a wider market for the products. As we have said previously, the demand for steel in Europe is increasing; it can therefore be expected that, provided the steel industry can bring its price down and plan its investments carefully, in the long run, this particular industry will not be faced with a problem of over-capacity. In the short run, however, the situation is different. Temporary fluctuations in the demand for steel are to be expected. If this is the reflection of minor cycles, the problem is to avoid speculation. In other words, if the steel buyers are under the impression that the prices of steel are going to fall, they will postpone their purchases. This, of course, will result in losses for the steel industry and will probably not benefit the consumer but only the speculator. This should be avoided, and the price of steel should accordingly be fixed so that

speculation will be reduced to a minimum. In the case of a more serious economic crisis, the problem becomes much more complicated. Some protection should be given to the steel industry to enable it to reorganize its production; but this should be a temporary protection only. If the crisis is a serious one, it cannot be expected that the steel industry alone could do much about it; what should be recommended is a general economic policy that would bring back full employment and, in so doing, raise the demand for steel. This type of policy can be enforced only by national governments.

In the next chapter, we will see that the Schuman plan, bearing in mind the shortcomings of the pre-war policy, has proposed a new policy. It attempts to increase production by regulating competition, and to avoid over-capacity through the planning of investments; it also hopes to bring some stability in the demand by stopping speculation on the side of the buyer, and to work out, in close collaboration with the different members of the Community, a policy in which the demand for steel will be maintained and even increased.

Chapter III

THE SCHUMAN PLAN AN ANSWER TO CARTEL

We have seen that the steel industry was confronted with specific problems which could not be solved through the free market system. This resulted in the creation of a Cartel which tried to find another solution to these problems. This attempt was not considered successful, especially not by consumers and labour. The different governments of the Community members then decided to approach the problems differently, and they subscribed to the Schuman plan. In this chapter, we are going to introduce the reader to this new approach. We will center our discussion around two main ideas, which seem to us to represent the backbone of the plan. First, how the plan intends to increase the productivity of industry through the creation of the single market. Secondly, how the plan intends to bring some stability in this particular industry.

In Chapter II, we pointed out the interdependence of the different steel and coal industries of the Community, and how political boundaries separate steel industries from their source of raw material and the coal mines from their potential market. This situation resulted in a competition among them which was not based on a technical efficiency but on price discrimination and tariffs. This policy was detrimental to an harmonious development of the industry. The creation of the single market is an attempt to put an end to this state of affairs.

We pointed out also that, due to technical reasons, the steel industry has difficulty in adjusting its capacity to a fluctuating demand, and that new investments will have a strong

repercussion on the market. The Schuman plan provides the High Authority with powers to regulate production and investments. This should bring some stability to the steel industry and help its development.

We will also consider in this chapter how the Schuman plan will be put into effect.

A. Policy of the Plan Toward Productivity

1. The single market

In the first article of the Treaty upon which is based the European Coal and Steel Community, we read:

"By the present treaty the high contracting parties institute among themselves a European Coal and Steel Community based on a single market..."

This indicates clearly the important role that the single market is to play in the newly created Community. We shall attempt to define what is this market, which goods are to be exchanged in it, and who will be bound by its regulations; we will then point out why and how it was created, then, we will briefly indicate what will be its relation to the outside world.

The treaty does not give any precise definition of what the single market is but goes into great details as to how it will be set up and how it will work. The single market consists essentially of a body of juridicial regulations and complex measures.[1]

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[1] "Le marché commun consiste essentiellement en un ensemble de règles juridiques et de mesures très complexes." P. Reuter, La Communauté Européenne du Charbon et de l'Acier, Paris, Librairie Générale de Droit et de Jurisprudence, 1953, p. 170.

This definition explains why we previously spoke of the creation of a single market and not of its opening. The single market will be the result of certain regulations which are thought advisable, and not an end in itself for which regulations are set up. It was not in the mind of the proponents of the Community to require, or more exactly to create, a market where perfect competition would work. The aim of the treaty in creating a single market was the abrogation of certain practices and regulations, and the setting up of new ones, which would facilitate exchanges and increase the efficiency of the industry. It is noteworthy that this represents a dynamic approach. The single market is not a goal which, once attained, need only be protected, but it represents a means of attaining a certain goal, and should be adapted and transformed when deemed necessary.

Now that we have defined the single market, we will see what are the goods to be produced and exchanged in it. The treaty sets up a long and specific list of raw materials and goods to that effect. Production and exchange of any of these items, lumped generally under the name of coal and steel, will have to follow the regulations of the single market, and will be under the jurisdiction of the High Authority. This list can be modified if necessary by unanimous decision of the Council.

The next point to be considered pertains to those who will work in the single market and to the areas in which it will be put into effect. Every institution or person engaged in producing, exchanging, or moving any of the items listed by the treaty will be considered as exerting an effect on the single market and will

therefore be bound by its regulations and be under the jurisdiction of the High Authority.

Governments are considered to be engaged in coal and steel production. Because they have the power to regulate these industries by taxing or protecting them, they are able to control them to a great extent. This is why, in subscribing to the treaty, the governments of each of the six countries forming the Community have had to transfer some of their controlling power over the steel and coal industries to a supra-national authority. In other words, governments will be deprived of the right to act in any way detrimental to the single market. What is considered as such is to be found in the treaty regulations. From now on, the new institution will have the power to replace national governments in their past functions; old regulations can be abolished and new ones enforced. We should point out that this applies only to territories within Europe. Territories outside of Europe ruled by any of the signatory powers do not come under the jurisdiction of the High Authority, and this holds for Algeria as well which is considered a part of France.

Firms involved in the production of any one of the items listed in the treaty will have to comply with the regulations of the single market, and will come under the jurisdiction of the High Authority. This holds for firms owned by private citizens as well as for those which have been nationalized. Their structure will not be modified in principle, but their policy will be under control of the High Authority. In other words, the High Authority will have the right to forbid any action which is contrary to the treaty or make recommendations which will have to be enforced in accordance

with the treaty.

Any dealer or organization trading one of the items listed in the treaty will have to follow the rules of the single market and will be supervised by the High Authority.

Transports will not be under the jurisdiction of the High Authority, but governments will have to stop certain practices as directed by the High Authority. Transportation will not be under the jurisdiction of the High Authority, but governments will have to stop any practices which may hamper competition such as preferential rates for nationals etc. This problem is considered one of the most difficult to solve because of the importance that transportation costs assume for the industries of the Community (distances between the source of raw material and the industry are often quite large). A commission of experts has been set up to study this particular question. In 1953, thirty-two cases of discrimination were submitted to the High Authority. The High Authority obtained from the different governments the abrogation of these thirty-two discriminations.[2]

These points indicate clearly that the treaty intends to give enough power to the High Authority so that the single market may function according to the regulations which have been set up.

We have said in defining the single market that it was a means to reach a goal; we should then define clearly what this goal represents.

Article 2 clearly indicates what the Community intends

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[2] Deuxième Rapport Général sur l'Activité de la Communauté, 13 Avril 1953 - 11 Avril 1954, Luxembourg, 1954, p.III,3,3.

to achieve with the help of the single market.

"The mission of the European Coal and Steel Community is to contribute to economic expansion, the development of employment and the improvement of the standard of living in the participating countries through the institution, in harmony with the general economy of the member States, of a single market.

The Community must progressively establish conditions which will in themselves assure the most rational distribution of production at the highest possible level of productivity, while safeguarding the continuity of employment and avoiding the creation of fundamental and persistent disturbances in the economy of the member States."

From the above, we may conclude that all the regulations which will result in the single market will aim at increasing productivity, so that the coal and steel industries will be in a position to supply an increasing quantity of cheaper and better coal and steel. But, at the same time, these changes will have to be carried out progressively so as to avoid arousing any fundamental disturbances.

Now that we have indicated what the single market is, let us see by what means it will endeavour to reach its goal.

In principle, any restriction and practices which could hamper production are no longer permitted. The treaty in Article 4 listed these:

1) "Import and export duties, or charges with an equivalent effect, and quantitative restrictions on the movement of coal and steel."

This applied particularly to the protection that national

industries received from their own government. The result of this former policy was not only to protect the national market but also to exploit the others. We remember, from our previous chapter, that all six countries forming the Community are dependent upon each other; for example, should at one time one country become short of a given product, by restricting the export of this product a higher price could be asked for it, which, in turn, would allow for a lower one on the home market. This is particularly important in the case of raw material. If the importing country imports, for instance, coal at a higher price, the goods which require the use of coal will have to be sold also at a higher price. This gives the exporting country an advantage which is not based on the efficiency of its production. We will go into more details later on.

2) "Measures or practices discriminating among producers, among buyers, or among consumers, specifically as concerns prices, delivery terms and transportation rates, as well as measures or practices which hamper the buyer in the free choice of his supplier."

This applied especially to the producers, who, by giving preferences to certain buyers, hampered the competitive power of the others. The result of these practices was the formation of rent, and the quantity produced was then artificially restricted which resulted in a rise in prices. The question of transportation is of extreme importance. It was one of the most practiced means of discrimination. The rate of transportation was changed according to the one who was ordering the good. Rates of transportation are based on distance to be covered; the rates decrease as the number of miles increases, but, as soon as the train crossed the border, the rates

became fixed as though the train had been loaded at the border, so that the customer was losing all the benefits of the previous distance covered. This was called the "rupture of charge." It was done to protect the national producer. Furthermore, the national buyer was getting a reduction in his rate of transportation so that, by getting his supply at a cheaper price, he had an advantage over his foreign competitor.

3) "Subsidies or state assitance, or special charges imposed by the state, in any form whatsoever."

Government will no longer be allowed to maintain artificially industries which cannot compete with those of the other members of the Community. But, on the other hand, government cannot hamper the competitive ability of an industry by imposing special charges on it.

For instance, before the creation of the Community, the steel price in France was fixed by the government at a level which would not permit the industry to replace its investments adequately; this special charge was abolished with the creation of the single market, and the price of French steel was allowed to rise.

4) "Restrictive practices tending towards the division of the markets or the exploitation of the consumer." In other words, any artificial practices which would result in a rent detrimental to the consumer are henceforth abolished. This was especially directed against agreements between producers which resulted in protecting some part of the market, and, in so doing, in creating a kind of monopoly which would extract a higher price from the consumer.

Now that we have indicated how the single market intended

to increase the productivity of the steel industry, we would like to contrast this new approach with the inter-war practices. In showing how the inter-war policy hampered the economic development in reducing exchange and misallocating resources, we may have a clearer picture of the effect of the single market.

We have shown previously that the resources of the Community are complementary. It follows that, should one of the countries try to exploit its own privileges, the one exploited would retaliate. For instance, if the French, by one means or another, were to ask a higher price for their iron ore export, the Germans are bound to do the same with their coal export; the result of this is that, while the amount of raw material measured in currency might be the same, the amount of raw material measured in quantity will be smaller. Industry will then be able to sell only in a restricted market. This, of course, is detrimental to economic development. When the key industry cannot supply adequately a potential demand, the economic expansion slows down or even stops. And, if the economic expansion of one country cannot keep pace with the economic expansion of the others, the exchanges between them go on diminishing and the standard of living decreases.

Another result of the old policy should be considered. When a country is dependent for some important import on another country that can exploit it, the importing country will try as much as possible to become self-sufficient. To do so, it will develop resources which are less economical than the ones of the exporting country, but it will feel safer this way. This, in the long run, has very bad results. In developing high cost coal mines, for instance,

as was the case in France and, to a greater extent, in Belgium, the government was in fact giving a rent to the low cost mines. What is the result of such a policy? First, the importing nation has to pay a higher price for its coal. This, in turn, means that less coal is consumed so that the whole industry is less productive; or, then, the government has subsidized the coal mines, and in so doing, it curtails production in another sector of the economy. In both cases, the result is similar, namely a reduction in the standard of living. Secondly, the exporting country suffers in the long run from this short-sighted policy. It will keep some of its resources unexploited and reduce the amount of its exchanges; this will obviously reduce its rate of economic expansion.

The creation of the single market changes this situation. It will no longer be necessary to use uneconomical resources. As every buyer can get what he wants where he wants, he will allow the most efficient producer to use its full capacity to supply the market. This, of course, will bring changes in the structure of the industries, and we would like to point out here that the treaty has made special provisions to deal with this problem.

In giving up some of their sovereignty, national governments asked for guarantees against fundamental disturbances. These guarantees are rather vague because, for one, the word "disburbance" is not defined. Just the same, when a government feels that the interference or non-interference of the High Authority brings harm to its economy, it can bring the case to the attention of the High Authority, which, after consultation with the Council, will recognize the existence of such a situation, if any, and decide on the measures

to be taken within the framework of the present treaty.

Governments were eager to protect themselves against economic changes because of possible social repercussions. The fact that their authority had become limited, and that they had to accept the verdict of the High Authority, made it necessary that they be entitled to appeal to the High Authority for action whenever they felt the need for it. In Article 2 of the treaty, it is clearly stated that modifications of the economic structure should be made gradually so that no fundamental disturbances would ensue. This protection against disturbances has also another implication. It could also happen that, in special cases, the general idea of the treaty, if narrowly applied, could do more harm than good. In this case, the High Authority is allowed to make exceptions if it feels that the Community as a whole would benefit by them.

Relation of the single market and the outside world.

Now that we have seen what the single market is, what is its purpose and by what means it endeavours to achieve it, we must consider its relation with the outside world.

The problem is rather complex because of the dualism of the Schuman plan, which attempts to combine economic integration with independent governments. In principle, the different governments are retaining their freedom of action in international relations. The treaty does not restrict their right to make agreements with foreign countries. But to this liberal policy is attached an important restriction. Governments may act as they wish "unless otherwise stipulated in the present treaty". That means, in fact, that governments cannot indulge in a commercial policy which would

endanger the Community.

The treaty provides some indication as to the general policy of the High Authority towards the outside world. Subscribing to the present treaty does not abrogate other treaties previously signed by the different members of the Community. But, if conflicts between them arise, it is understood that the different governments will try to iron out their difficulties to the best interest of the Community. Any new treaty or agreement related to coal or steel or equipment and raw material related to coal or steel production has to be submitted to the High Authority, which has the right to make recommendations.

The next question to be taken up concerns the principles which guide the High Authority in making its recommendations. The treaty recommends that previous international agreements, such as GATT and OEEC, be used as a basis for any new treaty or agreement set up by one of the member countries. In all likelihood, then, the High Authority will follow the same policy as the international agencies which have been set up after the war to restore and develop international trade.

While it is not the purpose of the High Authority to create a new protected market, it will, nevertheless, in certain cases protect the single market against non-members. The treaty states that, if imports are carried out in "relatively increased quantities and under such conditions that these imports inflict or threaten to inflict serious damage on production within the single market", the High Authority should take measures to protect the Community.

In the case of exports, the High Authority has the right

to make inquiries and recommendations, if the export policy "interferes with the application of the present treaty" (Article 75).

In other words, the Community will behave as a single unit, which will try to conform as much as possible to the directives of the international agencies, but whose main object is to ensure the functioning of the single market. The role of the High Authority is to supervise the new agreements, and prevent exchanges to be distorted by tariff policies or currency regulations; anything which could hamper the functioning of the single market will have to be avoided.

2. The treaty and the producers

Now that we have briefly studied why and how the treaty endeavoured to create a single market, let us consider its policy towards the producers of coal and steel.

The producers will be divided into two groups: 1) the labour group, composed mainly of the wage earners, and 2) the entrepreneur group, made up of those who privately own the means of production and of the State when its industry has been nationalized.

The treaty has a definite policy towards the labour force. The workers are not to be considered as a means of production, but as participants in the production of steel and coal. They will be active members of the Community. This policy is of great importance, because, since labour cost represents a part of the total cost, just as does coal, iron ore, etc.[3] it could have been assumed that competition would regulate wages. It was fully recognized, however, that each country had a different wage policy, social security benefits, etc. and, while some degree of harmonization was highly advisable, it

[3] In coal production, 2/3 of the total cost, in steel production, much less.

had to be done very carefully, respecting as much as possible the customs and habits of the workers. Nevertheless, bearing in mind the sensitiveness of labour to any drastic changes, the proponents of the treaty went ahead in drafting provisions to unify and improve the lot of the labour force.

Workers in the coal and steel industry may seek employment in these particular industries anywhere in the Community without any discrimination of wages and social benefits. But restrictions were added to this liberal agreement. Those workers should be qualified, and their transfer be effected in such a way that public order and health be protected. The restrictions are rather vague, and may be interpreted in many ways according to the interest of the moment. What was mostly feared was an influx of cheap labour from Italy, where unemployment was still an acute problem. Nevertheless, the treaty recommended the creation of an international Employment Bureau, which would help in the distribution of labour. This might be useful in the future, but, for the time being, it seems that its role is mostly confined to inquiries and publication of reports. As things stand now, it looks highly improbable that any important labour transfer will be considered either by employers or employees.

In regard to wages and social security, the treaty is a little more explicit. National governments retain the responsibility of fixing wages and social benefits. But, when it is felt that competition might be hampered by a wage policy, the High Authority has the right to interfere. Wage dumping is forbidden as well as competition based on wages. If a firm can maintain itself only by keeping wages abnormally low, it will have to close. The term

"abnormally low" is not defined by the treaty; it is not to be determined by comparing the different standards of living, but by the impact of wages on price. If a general lowering wage policy is introduced by a government, the High Authority has no power to interfere. It can act only if a particular firm lowers its wages as a means of competition or as a permanent economic adjustment. The High Authority has the right to make inquiries into the standard of living of the different labour forces, and to publish its findings. This is of great interest, because, at the present time, no definite study has been made on the subject, and we do not know for sure how much these standards differ, and even whether they really do.

From the above, it is clear that the proponents of the treaty were primarily interested in avoiding competition based on wages and, to some extent, in increasing the mobility of labour. If the ultimate goal of the plan is to harmonize the different wages in the Community, the treaty does not give specific powers to the High Authority to attain it. It follows that it is difficult to forecast what will be the future relations between the unions and the High Authority. Up to now, if the majority of the labour force has shown little interest for the Schuman plan, the leaders of the unions as a whole have looked favourably upon this attempt to avoid the restoration of the cartel policy. The High Authority has repeatedly indicated its desire to work closely with the unions. The wish to win the support of the unions is easily understood. In its fight against cartels and monopoly, the backing of the unions would be of a very great help to the High Authority. But, at the moment, no real support can be much expected. The unions have no definite

long range policy on the matter, and they are divided among themselves. The German union (D.G.B.) is so much more powerful than the others, that any of its proposals is met with some distrust by the other unions. It can be hoped that, in the future, this attitude will change, but it will certainly take time. As a conclusion, it seems to us fair to say that, at least for some time, the workers will be much more interested in small but direct ameliorations, such as an increase in wages, better working conditions, and employment, than in long range policies, which will affect their lot only indirectly. The High Authority, conscious of this state of mind, will very probably try to satisfy the workers' wishes, especially in the case of employment where changes might be required due to the rationalization of production. So far, the High Authority has spent part of its own fund to give indemnities to those workers who had to be transfered from uneconomical mines to more efficient ones.

Towards the entrepreneur group, the treaty was much more specific. This is readily understood if we consider that the entrepreneur group is the one which really dominates the production process. Its behaviour, then, will have to be closely supervised by the High Authority.

First of all, let us see what is its status in the Community. The treaty does not define the word "entreprise"; any kind of organization producing or dealing with one or more of the items under the name of coal or steel is considered as affecting the single market and comes under the jurisdiction of the High Authority. This is an interesting point, because it shows that it will not be in the interest of the High Authority to influence government

legislation toward changing the status of the enterprise; whether it be privately owned or not, the powers of the High Authority towards it are the same. The status of the producers or dealers is then not modified by the treaty. This does not mean, however, that they are allowed to act as they please.

Since this type of industry is composed of a relatively small number of firms, we would expect these to reach some kind of agreement among themselves, or to associate to a certain extent. The treaty (Article 48) states that the right of the enterpriser to form associations is not affected by the treaty. But these associations will be recognized by the High Authority as representatives of a group of interests only if they meet certain requirements. Members should join the associations freely, and these should not indulge in practices such as price fixing, discrimination, etc.... The High Authority is, in fact, even eager to collaborate with the associations. They could become a medium through which the High Authority would get valuable information and also spread its recommendations; they could even be used to enforce regulations, collect fines, control prices, and pool technical research. In fact, it is very probable that they will eventually play the role of intermediate agents between the High Authority and the producers.

The question of agreements between producers or dealers has been studied in great detail in the treaty. As was the case for associations, agreements between producers or dealers are not forbidden by the treaty. But the High Authority will have the right to supervise them and to put an end to certain practices. If agreements are set up to increase production and lower prices, they

will be welcome and encouraged. But the treaty is very explicit as to the kind of agreement that the High Authority will accept. The agreement must:

a) deal only with definite products

b) contribute to an improvement in the production and distribution of the product

c) be necessary to the improvement of the product

d) not give to the enterprise entering the agreement the power to control prices and restrict production of an important sector of the Community

e) not hamper competition from other sectors of production.

However, the High Authority has the power to authorize for a limited period of time agreements which do not follow these regulations, if it is thought advisable. This may occur in a time of crisis or readjustment. All agreements should be made public.

The treaty seems to us to have a very realistic approach. It recognizes clearly the fact that, in modern and oligopolistic industries, agreements are bound to occur; if properly handled, these can even be used for the benefit of producer and consumer alike. This shows how important a role the High Authority is called upon to play. The way it will supervise the agreements will no doubt have a great impact on the evolution of the Community.

The problem of concentration of enterprises has been taken care of by the treaty. Existing concentration is maintained if it does not hamper competition and production. New concentration will have to get the approval of the High Authority; this approval will be given provided the planned concentration does not hamper competition

and production. The proponents of the treaty were very much aware of the fact that, in industries requiring large capital investment, the increasing division of labour requires concentration of enterprises. This type of concentration, which is, in fact, a technical necessity, will be welcomed by the High Authority; at the same time, however, the fact that key industries are becoming concentrated in a very few hands results in a small group of men not controlled by any institution wielding great power over industry as a whole. The treaty has therefore entrusted the High Authority with supervising the activity of the concentrated industries, so that they will not indulge in detrimental practices, such as maintaining high prices, and restricting production, etc.

3. The treaty and technical research

The treaty is assigning the High Authority another function which might, in the long run, have great implications. The High Authority is to pool general as well as technical information. Due to its special power of inquiry, the High Authority will be able to draw a general picture of the coal and steel situation in the Community. Its knowledge of the market together with that of industries will help government as well as private enterprises to draft their policies. We must always bear in mind that the High Authority is the first step towards a greater European economic integration, and that its outlook is therefore a European one. This will influence its recommendations, and set an example as to how to think economic problems on a larger scale.

By pooling technical research, the High Authority will also

be performing an important function. Modern research requires not only team work but also great investments. In rationalizing these, both capital and time will be saved, and more effective work performed. It should be remembered that, in the past, discoveries were generally made by individuals, but, in our time, cooperation among many independent teams brings much better results.

B. Policy of the Plan Toward the Stability of the Industries

Now that we have considered the policy of the Schuman plan towards productivity in the steel and coal industries, let us deal with the problem of how the plan intends to bring some stability in these particular industries. We divided this section into two main headings: the treaty and the long run stability, and the treaty and the short run stability. Under the first heading, we will consider the role of the High Authority in planning the development of the coal and steel industries, so that the growth of these particular industries will not be hampered by temporary over-investments or, in some cases, by a lack of capital. Under the second heading, we will consider the possible actions of the High Authority toward cycles, that is to say what measures the High Authority will take to help these industries to adjust their capacity to the fluctuating demand of their products.

1. In the long run

The long run stability in the coal and steel industry will be achieved through a rational policy of investments. The High Authority, acting as a center of information, will be particularly

well suited to advise policies which will benefit the development of the industries as a whole. To this effect, the High Authority was granted specific powers so that it will be able to a certain extent to orientate investments in these particular industries.

In the field of investment, the High Authority may act directly as well as indirectly.

Directly

The High Authority can levy a tax on every producer who is a member of the Community. It uses it to pay its own expenses, to guarantee loans or to make investments. This makes the High Authority somewhat independent of the different pressure groups and, to a certain extent, allows it to carry out its policy, nevertheless, the amount it can raise this way is relatively limited. So far, this money has been used for technical research, reallocation of labour, and to guarantee the United States loan.

Indirectly

Its indirect power is probably of greater importance. While firms or governments keep the right to plan and enforce their own program of investments without prior authorization by the High Authority, the latter is entitled to be informed about these investments and to pass judgment on them. If the judgment is unfavourable, those intending to make the investment have the right to defend their point of view, and the High Authority can publish its judgment only at their request. This shows how the High Authority is able to influence future investments. It seems fair to assume that, in case a firm attempts to raise money to carry out some new project, those who intend to grant the loan will be eager to get the High Authority

evaluation on the project. If the High Authority advises against it, it is highly doubtful that the money will be loaned. The High Authority being the body where all the plans dealing with the development of coal and steel industry are centralized it will doubtless be considered a very reliable source of information. We should add that, since the High Authority can guarantee loans, it will exert an influence on the capital market. As matters stand now, the capital market for steel and coal investments is rather restricted. Since part is guaranteed by the High Authority, the remnant stands little chance of being invested in a project that this organization would not recommend and for which, of course, it would give no guarantee.

This holds for the capital market and for government loans as well. In elected governments, the opposition is always eager to fight government expenditures. It will then be politically dangerous for a government to invest in a sector which is not approved by the High Authority, Furthermore, when the budget is drafted, the demand for funds is always greater than the supply. Those who are asking money for an investment not approved by the High Authority will certainly weaken very much their case. To that, we should add that governments are working in close contact with the High Authority, and it seems probable that they will try to follow, at least to a certain extent, the advice of an institution which is supposed to be fully informed on the coal and steel industries. We can see that, although it has but limited powers, the High Authority will be able to direct a good deal of the future investments of the coal and steel industries.

This is of great importance. The need for planned investments is becoming more and more evident in large oligopolistic industries. Two main factors account for this. First, any large scale investment in such industries will affect the market of their products as a whole. We have pointed out previously that, to be efficient, modern technique has to be used on a large scale production. It follows that any new investment of some importance will result in a sharp increase of production, which will immediately affect prices. The reaction of the other firms will then be to limit their production, so that prices will not drastically fall; but we have also seen that modern units of production cannot easily reduce their production due to their high break-even point. Any error in investment of some magnitude will, therefore, of necessity bring about great disturbances especially to the steel industry. The second main factor is that the capital market does not play the same role as formerly. (See Table I). It has lost most of its regulating effects. Self-financing and government loans are becoming increasingly important in these large industries. It is therefore important that the High Authority be in a position to influence what remains of the capital market as well as government loan policies through its advice and recommendations. In Chapter II, we have seen, for instance, that these investments are necessary to increase steel production so that the wide strip mill might function economically; the High Authority will have to direct as much as possible any new investment in those sectors, and not towards the erection of new concerns which, by increasing the flat steel production, will bring a fall in price which will not be the result of an increase in efficiency but of an over-supply.

Table I

As an example, let us consider how the French steel industry financed its reconstruction and modernization. The figures below have been computed by the "Vie Française". In 1949, the capital required was coming from:

6.6% indemnité de dommages de guerre,

32% de la marge "d'amortissements techniques" des entreprises, incorporées dans le prix de vente,

40% des prêts du fond de modernisation et d'équipement,

21.4% des ressources et des crédits propres aux entreprises.[4]

From another estimation[5] based on the investments made during 1947-1953, one reaches a similar conclusion:

37% l'Etat,

36% amortissements techniques et dommages de guerre,

23% emprunts et crédit bancaire (garantis par l'Etat),

4% marché financier.

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[4] Notes et Etudes Economiques, No. 101-102, November 19, 1953, p. 10.

[5] M. Ferry estimation, ibid.

2. In the short run

The demand for steel is very sensitive to economic fluctuations. Even in time of mild recession the demand for capital goods falls drastically. When demand is slackening, new investments are postponed, so that the demand for steel falls. This also holds true for coal. As production decreases, the need for thermic energy decreases too, which results in a smaller demand for coal.

In time of fast expanding economy, the demand for coal and steel may rise very sharply. New investments are made, and, since factories are working toward full capacity and may even increase in number, the demand for energy goes up. If this demand were suddenly increased, which would be the case if governments were to decide on a policy of rapid rearmament, there might be a shortage of coal and steel, and, to fill this gap, time would be required. To meet the situation, the High Authority was given certain powers so that it could enforce a policy which will limit as much as possible the fluctuation in prices, and see that the burden of these fluctuations be shared as equally as possible between capital, labour and consumers.

To gain a better insight into the problem, let us consider separately the short run economic fluctuations of the coal and steel industry under normal conditions, and in time of crisis. The High Authority has special powers to act for each particular situation.

In normal time

The High Authority can set up maximum and minimum prices in certain cases which are very loosely defined by the treaty. In fact, when the High Authority feels that the market is relatively short of steel and coal, or that the consumer is in a position to be exploited, it has the right to fix a maximum price. But this price

should be the outcome of a common study between the High Authority and the entrepreneurs and responsible associations, and the Consultative Committee should be consulted. In other words, the High Authority must give those who will be affected by the measure a chance to defend their case. If prices fall to an extent that the High Authority considers harmful for the Community, the same procedure will be followed. What the High Authority will try to avoid in this particular case is that a temporary fall in demand would result in a curtailment of production, which, in turn, would be followed by a sudden rise in price when the demand picks up. It will also try to avoid speculation and purchase postponement resulting from the expectation of a greater fall in prices.

This price fixing aims at curing minor fluctuations only as may occur in normal time. Its purpose is restricted to facilitating the equilibrium between supply and demand in the short run. The High Authority does not expect in this way to solve any serious economic upheaval. The drafters of the treaty, however, were aware that, as price agreements were forbidden between enterprises, the High Authority had to be in a position to replace these in some way without hampering competition.

In time of crisis

In time of crisis, the High Authority is expected to act very forcibly so that the industry can resume its normal production level. To that effect, the treaty gives special powers to the High Authority which are different according to the type of crisis considered, namely overproduction and shortage.

a) Overproduction

The High Authority, in case of overproduction, receives specific powers which must be used in close collaboration with the

Consultative Committee and the Council. First of all, the crisis should not be a local one, nor should it be one due to an accidental occurrence such as a general strike. Overproduction should be the result of a general and persistent fall in demand or from an over-capacity of supply. It is only then that the High Authority is entitled to use its specific powers, which consist in the enforcement of a quota system set up to reduce production. The treaty does not specify on what basis these quotas are to be determined, but it is highly probable that the same financial methods once in use within the framework of cartels will be applied here. It could be argued here that, in this particular instance i.e. overproduction, the Schuman plan is adopting the same methods as the Cartel did.

To answer this criticism, we would like to point out a few differences between the Schuman and Cartel policies. First of all, and this is a very important point, the quota system will be drafted and enforced by a responsible, and official institution. The cartel was only a kind of "gentlemen's agreement" among producers, and its policy was aimed at satisfying producers' interests. The opinion that producers' interests always coincide with those of the people, is to put it mildly, highly debatable. In the case of the High Authority, the situation is entirely different. The High Authority is not a "gentlemen's agreement" but a public institution representing entrepreneurs and workers as well as consumers; its decisions are made public, and secret agreements between interested parties are no longer possible. The second point is that the quota policy of the High Authority represents only one of its many functions, and certainly not the most important. We should remember that the aim

of the Cartel is to restrict production in order to stop prices from falling; the Schuman plan, on the contrary, strives to increase production and bring a decrease in prices. If the High Authority receives powers comparable to those of the cartel, it is only so that it can remedy temporary fluctuations of the market. The treaty drafters were perfectly aware that the steel and coal markets were very sensitive, and that, at a certain time, the demand might become smaller than the supply; but, in their mind, this represented only a temporary event; in this case, the role of the High Authority was not to maintain artificial prices by restricting production but to recommend a policy of increasing demand and to rationalize production so that the temporary disequilibrium would rapidly disappear. In other words, the quota system is only enforced to prevent detrimental fluctuations when a positive policy of enlarging the demand and rationalizing the production is put into effect. This is very far from the cartel policy.

b) In time of shortage

As long as shortage is not considered dangerous, the High Authority uses its normal and indirect powers to relieve the situation, namely, fixing maximum prices, consulting with different producers, planning production, etc.

But, should the High Authority feel that the situation is in danger of becoming serious, it can proclaim a state of "serious shortage" and, working in close collaboration with the Council, assume its special powers in order to cope with the situation. The procedure itself is rather complex. The High Authority works out a plan for the allocation of existing resources. If this plan is

ratified by all the members of the Council, and following consultation with the enterprises concerned, the High Authority will devise a series of measures which the enterprises will be required to follow. If the Council fails to reach a unanimous decision, the High Authority will proceed, and allocate resources from the Community to member-states on the basis of consumption and exports, but independently from the location of production. The allocation of resources will be carried out within each of the member-states under the governmental responsibility of the particular state.

If a member fails to export the amount which has been allocated to him for this purpose, the High Authority will have the right to redistribute the remainder of the amount. There is no doubt that the establishment of these allocations represents a difficult enterprise. Many problems are involved in such a planning; previous trade agreements, balance of trade and the like must be considered. The guiding principle followed by the High Authority is to avoid that any temporary advantage be made use of to exploit one member of the Community. The single market should continue to function in case of shortages even if it means more interference on the part of the High Authority. It is particularly in the case of crises that price discrimination can be effectively practiced. When the demand is greater than the supply, the country producing the demanded good is in a very good position to exploit its customer. We have seen previously how this leads independent nations to subsidize uneconomical production to free themselves from the pressure of their usual supplier. It is, therefore, of extreme importance that, in time of crisis, the High Authority succeed in allocating the

resources so that no country feels it necessary to protect itself. The High Authority will also bear in mind that the shortages should be temporary. It will attempt, as much as possible, when deciding upon its allocations, to avoid distorting the major trade currents.

C. How the Treaty Will Be Put into Effect

We have seen what were the aims of the treaty and what methods were proposed to attain them. Our next and last step will be to find out how the proponents of the treaty intended to start putting the treaty into effect. It was fully realized that the Coal and Steel industry after working under protection for so long would have to transform themselves gradually if major economic disturbances were to be avoided. It was therefore decided that two periods would precede the full application of the treaty during which the High Authority would be endowed with special powers.

The first one, called the preparatory period is already over. It started in July 1952, when the treaty went into effect, and ended on February 10, 1953, with the opening of the single market (that is for coal, iron ore, and scrap; the single market for steel opened on May 1, 1953). During this period, the new institutions were established, and their relationship with producers, consumers, workers, and government established. The High Authority started consultation with non-members; diplomatic relations were established. In other words, it was a period during which the institutions were preparing themselves for the opening of the single market.

The second period, the transitory period, started with the opening of the single market, and is not due to last more than five

years. During this time, the High Authority will hold certain powers, which are to be used to smooth out the necessary readjustments resulting from the opening of the single market. Furthermore, countries with special problems are granted certain privileges to allow their economy to have the time to adjust to the new economic order.

The principles that guide the High Authority in its decisions are: to put the treaty into effect, but, at the same time, to give temporary protection to special cases, and to eradicate step by step all hidden price discriminations. We will see later on that the latter problem is more complicated than anticipated.

The first act of the High Authority was to put an end to all custom barriers and quantitative restrictions as well as to the most obvious discriminatory practices in prices and in the field of transportation. This being done, goods could start moving freely across political boundaries. But that was only one step in the creation of the single market. All the other practices used by industry to protect itself had to be first studied, then removed. As an example, let us consider the perequation system in "Les Charbonnages de France". The French government has worked out an elaborate system whereby the low cost mines are taxed in order to help the high cost ones. In other words, the price of coal is based on the average cost of coal production in France. Obviously, this helps to maintain high cost mines, and is contrary to the spirit of the treaty. On the other hand, since coal is still in great demand, without this perequation system the price of coal would be based on the high cost mines and the consumer would have to pay for the rent

the low cost mines would be able to get. Consequently, the High Authority, after a thorough study of the matter, gave the "Charbonnages de France" a temporary permit to carry out their system of perequation, but it was understood that the high cost mines would have to be modernized so that their cost be lowered to a point where they could stand competition.

The Belgian mines had to be subsidized because of their high cost. A system of perequation was authorized. However, since some mines would have to be closed anyway because they could not be improved upon, it was agreed that this closing of mines would not diminish the Belgian production by more than 3% a year. When a perequation system is allowed, the investments to be made out of the perequation fund should be based on their greatest probable efficiency, and not to maintain high cost mines.

The question of subsidies had to be studied. If they helped to keep prices down without hampering competition, they were authorized on a temporary basis and under the close supervision of the High Authority. This applied especially to products coming from outside the Community. But, on the other hand, subsidies to the consumer, which, for example, were important in Germany, had to be revised. Some consumers were allowed to get coal at a lower price (household users, maritime fisheries, non-federal railways). This was considered contrary to the treaty, because those subsidies had to be supported by the coal mines and, thus, were weakening the competitive ability of these mines.

The problems of social security and taxation revealed themselves as very complex; they are still under study although an

effort has already been made to harmonize their structure. This, of course, will require a long time and a lot of good will. So far, however, it does not seem that these problems have hampered the functioning of the market to any great extent.

To conclude, during the transition period, the High Authority will tend to move slowly but definitely towards the harmonization of the coal and steel economies of the six member-countries. The method used so far is as follows: when a problem comes up, and strong divergences of opinion towards its solution are expressed, a body of experts is summoned to study the question and make recommendations. This body is generally under the direction of a recognized authority, who, if possible, belongs to a country not too greatly involved in the particular problem. An attempt is then made to find a compromise acceptable to all parties. So far, this system has been successful; experts seem less inclined to bring up emotional arguments than laymen. Of course, it could be argued that, if a really important problem should arise, pressure groups would have a much stronger influence than experts. This is possible, but it remains that the principles of the Schuman plan have been accepted by the six countries because they felt the need for it. These countries did realize at the time that the economic system would have to undergo changes and that some people would suffer from these.

It is those who will have to change their previous way to adapt to the new order that will fight the High Authority decisions. They may get some support from groups that are not directly touched by these measures, but it seems highly improbable that it will be great enough to weaken the Community. It seems pretty well recognized

that, should the Schuman plan fail, a new one would have to be drafted, which would be faced with the same problems.

In conclusion to this chapter, we would like to briefly review the differences between the Schuman plan and the Cartel.

First, the two institutions are diametrically opposed in their Constitution. The supra-national institution is an official body, elected by the members of the Community. The High Authority is under the supervision of the Assembly and the Council. In case of conflict, the issue can be taken to the Court. The Cartel was a kind of gentlemen's agreement among producers. It is true that governments were supervising it to a certain extent, but they usually favoured nationalistic interests. No cooperation existed between independent governments.

Second, the aims of the two organizations are completely different. The Cartel tried to keep prices high by limiting production. The Schuman plan was created so that production might be increased and prices lowered through a process of rationalization of production.

Third, they differ in their methods. This might have been expected. The Cartel, by restrictive practices, was trying to stop the development of those industries which were supposed to be over-expanded and to a certain extent protect the high cost one. To that effect, it resorted to protective measures and to maintaining a sheltered market. The Schuman plan, on the contrary, wants to promote production by encouraging competition. Its objective is not a free market, where adjustments are automatic, but a single market regulated

in such a way that the most productive units are allowed to produce while the less efficient ones are faced with the alternative of becoming up-to-date or disappearing. To help put this into effect, the High Authority acts as a central agent, pooling information and the results of technical research, to a certain extent planning the investments, and bringing some stability in prices.

Fourth, the philosophy behind the two plans is utterly different. The Cartel tried to maintain a system which was actually crumbling down. The world crisis which grew out of the economic practices of the time induced some people to maintain the old methods by any means instead of looking for new ones. As the demand fell, due to mass unemployment, they decided to reduce production instead of increasing the demand. The Schuman plan is the result of a reaction against this "Malthusian" policy. After World War II, western governments decided to follow a policy of full employment and increasing standard of living. The problem, then, was no longer how to restrict production, but how to increase it so as to satisfy the rising demand. Since it was realized that the coal and steel industries, because of their structure, would have great trouble in adjusting production to a changing demand, it was decided that the High Authority would receive certain powers that would facilitate this adjustment.

In the next chapter, we will try to indicate the main problems resulting from this new approach, i.e. how the new philosophy has affected the coal and steel industries.

Chapter IV

THE CONSEQUENCES OF THE SCHUMAN PLAN

Now that we have briefly surveyed what are the goals and the methods of the Schuman plan, we would like to evaluate the probable consequences of the new approach proposed by the Treaty. The switch from a policy based on a sheltered market and a restricted production to a policy of regulated competition and increased production will certainly have an effect on the coal and steel industries. We may expect a change in their structure as well as a change in the exchanges of their products and in employment.

The first problem we would like to study is the effect that competition will have on these industries which have worked for so long under numerous protectives devices.

Before going into any details, we would like to discuss a few points related to this problem. When we compare the industry of two nations, we usually base our estimations on the latest average figures available. This is obviously extremely artificial. First, average figures are of a very limited significance. For instance, when we say that the average cost of extracting coal in France is so much, we only mean that we are dividing the total cost of extracting coal in France by the amount extracted. But we do not take into consideration that, by closing possibly a few mines, we could lower this average cost. Neither do we consider that the other country may not be able to supply a greater amount of coal without increasing considerably its own cost. Therefore, when we say that the average cost of coal production in one country is lower than in another, we should not necessarily expect a mass invasion of coal

from one country into another. It follows that each time we use the expression "average cost" we should bear in mind how limited this concept is. Secondly, when we compare costs as a whole we do not take into consideration that these can be modified by a change in one of their determining factors. For instance, the introduction of a new technique in one country only, or a change in wages, can modify to a great extent the cost of production. In our inquiry, we will, therefore, have to be aware that average cost figures are only valuable at a given time and that they can be modified sometimes rather rapidly. Bearing this in mind, we would like to point out what kind of methods should be used to forecast the future of the Community.

We said previously that the philosophy which inspires the Schuman plan is one of full employment and increasing production, which means a rise in the standard of living. This being assumed, the problem for the Community is to find out how to supply an increasing demand. One no longer seeks a way for sharing a restricted market but, on the contrary, one attempts to develop natural resources and to increase the productivity of the coal and steel industry in the Community. In setting the problem this way, we will be less inclined to center our interest on present prices; rather, we will try to find out what those resources are and what will be the future demand.

This approach seemed more realistic because, for a good many years, an important part of the national income of each country will be devoted to investments in the nation itself. This will necessitate a great economic activity so that, in all probability, the

means of supplying an increasing demand will be the major problem.

I. Competition in the Coal Industry

Let us start with the coal problem and find out what the demand for coal is and how it can be satisfied.

The problem of the demand for coal is a complex one. While coal is still one of the basic sources of energy, it is no longer the only one. The XX century cannot be called, as was the XIX century, "the coal century". New sources of energy have been developed which replace coal, and which are, in some instances, better suited for the new demands for energy. Nevertheless, the demand for coal has increased, but only at a diminishing rate. The table below shows in % the different sources of energy in the world.

Source of energy	1913	1929	1938	1947[1]
Coal	90.5%	74%	47.8%	39%
Gasoline, natural gas	7.2	21	41.1	48.5
Hydro-electric power	2.3	5	11.1	13

This table indicates only that the percentage of coal as a source of energy has diminished compared to the other sources. During the period 1913-1947, the effective comsumption of coal increased by 17%, and to that we should add that the productivity of coal increased by more than 15%.

It follows that, if the demand for coal does not follow the demand for energy, it still remains that the production of coal

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[1] Jean Romeuf, Le Charbon, Paris, Presses Universitaires de France, 1949, p. 7.

has to be increased in order to satisfy the economic development which is now taking place.

We mentioned in Chapter III that the treaty[2] enjoins the High Authority to make surveys of the future demand for coal and steel in the Community. Professor Tinbergen was put in charge of this work and reached the following conclusions for coal:

	Hypothèse faible		Hypothèse forte[3]	
	Méthode globale	Méthode par secteur	Méthode globale	Méthode par secteur
	(in M.T.)			
Années				
1951	225.2	255.2	255.2	255.2
1956	272	277	282	292
1961	284	291	304	313

According to these estimates, the needs of the Community between 1951 and 1961 will be increased by:

11 to 14% in the "hypothèse faible"

19 to 23% in the "hypothèse forte".

These estimates should not be accepted at their face value. Nevertheless, they give an order of magnitude which might be of help in the planning of future investments. This is the position taken by M. Monnet in his speech of January 14, 1954. He pointed out, among other things, that during this period of time other sources

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[2] Article 46.

[3] Journal Officiel, Année 1954, N. 13, 2 Avril 1954, p. 348.

of energy could be developed at a faster rate than had been done previously. He then recommended that, although investments were still very much needed to increase production, they should not aim only at increasing the amount of coal extracted but also at lowering the cost of extraction. This emphasis on productivity shows that the High Authority is conscious of the danger of over-production. The problem of the housing conditions of workers and the necessity of increasing coke production were also stressed.

Now that we have indicated what the demand is likely to be in a forseeable future, we will study to what extent the coal industry of the Community is ready to supply this demand.

The Supply. (coal)

Germany

During the years 1937-1943, Germany was producing normally around 127-130 million tons of coal. This was the highest production ever attained by this country and it was the outcome of the very important investments made during the years 1925-1935. These basic investments gave Germany a great advance over the other European nations. After the war, new investments were planned to raise the production which had drastically fallen on account of the war. It was hoped that, as a result, production in 1956 would reach:

150 millions tons of coal

45 millions tons of coke.

Belgium

The situation in Belgium is different. Part of its production is very efficient. Such is the case for the mines of

Campine. These mines were opened after the first world war, and thus benefited from up-to-date techniques. But the situation of the South mines is different. There, the mines are too numerous and need concentration, their equipment is antiquated, and they are in need of very important investments. This is of vital importance because two-thirds of Belgium's coal production comes from this area. Great transformations are under way at present which are helped, as we have seen previously, by special privileges granted by the treaty for a given period of time. If the plans are carried out, production will be increased by 25%, that is to say by seven million tons. Costs are expected to decrease by 15%. Production in 1956 will be around 37 million tons.[4]

The Netherlands

The coal contribution of the Netherlands to the Community is limited. At present, its mines produce 12.5 million tons. This industry has been very well organized and very efficient for a long time. Its major handicap is the limitation of its possibilities of expansion. Since the end of the war, investments have been made especially for the annex installations such as chemical industries, electrical powers, etc. Nevertheless, the Dutch mines are expected to produce around 15 million tons.

The Saar

The Saar territory is one of the areas which suffered most from the war. Its 1938 production of 14.4 million tons fell drastically. Since then, reconstruction has been carried out successfully,

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[4] Ibid., p. 346.

and production in 1949 reached its prewar level. Today, its production capacity is 17.5 million tons and, if the reconstruction plans are fully carried out, it is expected that the Saar territory will produce 21 million tons in 1956.

France

"Le plan d'équipment et de modernisation", also called the Monnet plan, laid great emphasis on the modernization of the coal mines. The first point to be solved was the production of as much coal as possible because of the world shortage at the time. The next point was to increase productivity so that the cost of production would go down and become competitive in the single market. The greatest effort is now being concentrated on the Nord-Pas-de-Calais coal field. The Lorraine coal field has a productivity 43% higher than the Ruhr bassin, and the Centre Midi coal fields are protected to a certain extent by their geographical location. In the Nord-Pas-de-Calais, two plans are now in operation. In 1946, this coal field had 110 pits; this number will be reduced to 75 during the first plan, and, at the end of the second plan, it will be as low as 50. This way, the average capacity of the pits should be twice that of the pre-war level. The output per man shift underground should be raised above 1600 Kg. in 1956. This should make this coal field competitive in the single market.

The Lorraine bassin was producing six million tons in 1938. This figure should be raised to 15 million at the end of the first plan, and to 17 million at the end of the second plan.

The Centre Midi, the first plan has made a great effort to concentrate and modernize the different mines. But little will

be done by the second plan. It is hoped that after the completion of the second plan no major investment will be required for many years. This means that most of the known resources of France will have been modernized so that no more significant improvements can be expected.

From these estimates, it appears reasonable to conclude that, when the plans now being enforced by the various members of the Community have been completed, the contribution of each member will be necessary in order to supply the Community with coal. In other words, we do not expect that any member will drive anyone of its competitors out of the market. We certainly will see the closing down of some mines and the layoff of a certain number of workers. But it does not seem that these disturbances will reach such proportions as to give cause to serious concern. No one seems to be at such an advantage that he would be in a position to supply at a much cheaper rate a great part of the Community. It nevertheless remains that the danger of over-supply should be carefully watched. If the plans for increasing production are carried out, the Community will produce in 1956, according to the O.E.E.C. report[5], 270 million tons; the "Journal Officiel"[5a] believes that this figure could be even higher, viz. around 285 million tons. If we compare these figures to the Tinbergen estimates, we see that, should we not reach the estimated demand of 282-292 million tons calculated in the "hypothèse forte", we may have difficulty consuming all that has been produced. The

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[5] Organisation for European Economic Cooperation, Coal and Economic Expansion, C.O.(51)11, Paris, 1951.

[5a] Journal Officiel, Année 1954, N.13, 2 Avril 1954.

High Authority is well aware of this fact, as we have seen when quoting the speech of M. Monnet. It seems then fair to say that, if the economy expands as foreseen, and if investments concentrate to a greater extent in bringing cost down instead of increasing production too much, we should not expect a crisis of any great magnitude in the coal industry. The danger of over-supply is a valuable argument in favour of the Schuman plan. It can be hoped, then, that the Community, under the guidance of the High Authority, will be able to supply its own demand in such a way that no fundamental and persistent trouble endanger the economy of the different members.

Now that we have seen that the different members of the Community have made large investments so that not only a rising demand could be supplied but also that the different producers could stand competition, we would like to discuss a problem which is closely connected with competition and investment that is to say the problem of wages. We have included this brief survey in our section on coal because wages represent two-thirds of the total cost of coal production so the competitiveness of a coal industry is very much influenced by the wages it has to pay. The wage problem is a very complex one because it involves two main variables which are constantly changing. They are the wage which is paid in money and services and the productivity of each unit of labour. It is obvious that we cannot consider only what the mine owner has to pay to each unit of labour but also what each unit of labour is bringing to him if we want to have any idea of how the different coal industries stand in relation to their labour costs.

In the wage system now used in western Europe two items have to be considered, namely, the money wages, and the services which accompany these, i.e. social services. While the money wages between the different countries can be relatively easily compared, the question of social benefits is much more complicated. Each country has a different scheme which is financed by a different method. The variation in the contribution which is requested from the entrepreneur has an important bearing on his labour cost. As an example, it has been calculated that in France the entrepreneur has to pay an amount representing 85% of the money wages for social services, while in Germany it is only 66%.[6] (This evaluation has not been accepted by all parties.) We can therefore expect that the question of wages and social benefits will have an important bearing on how effectively one nation will compete with another within the Community. It is difficult to predict anything with certainty here, because variation in wages may occur independently in the different countries and modify the whole relationship.

In its last report[7], the High Authority indicates that variations of a certain magnitude[8] in the labour costs of the different countries have been detected, and that an harmonization of wages and social service systems is highly desirable. A more complete study is in the making to find out by what means this could

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6 Journal Officiel, Année 1954, N. 13, 2 Avril 1954, p. 352.

7 Deuxième Rapport Général sur l'Activité de la Communauté, 13 Avril 1953 - 11 Avril 1954, Luxembourg, 1954.

8 During our visit to the High Authority (1954), we tried to obtain more precise information on these variations. All we could gather was that the problem was still under study by a commission of experts and that the greatest difficulty was to find some common rod by which to measure the different wages.

be done without bringing down the real wage in any part of the labour force. It is clearly understood that any adjustment will be made so that the minimum wages will be raised and not the highest lowered. As things stand now, it is difficult to make any prediction of what will be done. In France, the present government (1954) has indicated its intention to modify the social security system, but, to our knowledge, it has not yet clearly indicated what changes it intends to make; it did state that the beneficiaries of the present system would not suffer from them. In Germany, where the unions have been extremely quiet since the end of the war, it appears as though the labour force is considering now that the disparity betwen its wages and the return to capital is of such a magnitude as to warrant a raise without this hampering the investments necessitated by war destruction. The importance of the 1954 summer strikes seems to indicate that the wages of the workers will have to be substantially increased. This, of course, will modify the whole picture, the German wages being in most opinions abnormally low compared to the French and Belgian ones. It seems then fair to say that, in all probability, some harmonization will take place in the near future, and that the present differences will then be less striking.

The solution to the problem of the productivity of labour is difficult to foresee. Productivity has steadily changed since the end of the war, and in different proportions for the different countries. We have seen that in every country huge programs of modernization are under way, so that we can expect important changes in the productivity of the different sectors. Here again, any forecasting is very hazardous. The figures below give variations for

the different countries.

Germany: Small regression in productivity.

January 1953: 1502[9] in Kg.

January 1954: 1452 in Kg.

German industrialists explain this fall in productivity by the fluctuation of labour, the increasing difficulty in coal extraction, the lack of capital for investments, the deconcentration of the coal industry and of the selling organizations.[10]

The Netherlands: Small regression in productivity.

January 1953: 1602[11] in Kg.

January 1954: 1524 in Kg.

Belgium: In progression.

January 1953: 1064[12] in Kg.

January 1954: 1086 in Kg.

France: Steady increase, and, for the first time, has exceeded German productivity.

January 1953: 1382[13] in Kg.

January 1954: 1472 in Kg.

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9 Rendement par ouvrier du fond et par poste dans les mines de houille. Taken from High Authority, Communauté du Charbon et de l'Acier, Bulletin Statistique, 2ème année, N.4, Table 3.

10 Journal Officiel, Année 1954, N.13, 2 Avril 1954, p. 342.

11 Rendement par ouvrier du fond et par poste dans les mines de houille. Taken from High Authority, Communauté du Charbon et de l'Acier, Bulletin Statistique, 2ème année, N.4, Table 3.

12 Ibid.

13 Ibid.

Saar: Steady increase.

January 1953: 1675[14] in Kg.

January 1954: 1762 in Kg.

We may see from the above that it is very difficult to foresee trends in productivity before the major investments have been completed. It is also difficult to know exactly what difficulties the mining industries might have to face since the mines will have to operate at a deeper level.

As a conclusion, we may say that the creation of the single market will not radically modify the present structure of the coal industry in the Community. Competition will result in the closing of pits and some marginal mines but also in investments in the most efficient mines to increase production and lower cost. The need of coal will increase during the coming years, and an effort will be made by the Community to reduce its imports, which are mainly coming from the dollar areas. No great changes in exports are foreseen.[15] The two main European coal suppliers which could compete with the Community, viz. the United Kingdom and Poland, do not seem to be able to greatly increase their exports. In 1952, the United Kingdom had a production of 223.5 million tons for a consumption of 221 million tons.[16] Some estimates have been made to the effect that, in 1956, the United Kingdom may reach 234 million tons. But,

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[14] Ibid.

[15] Coal exports are relatively of minor importance; in 1953, the Community exported 5.7 million tons of coal and 4.2 million tons of coke.

[16] Organisation for European Economic Cooperation, Coal and European Expansion, Co(51)11, Paris, 1951.

nevertheless, Great Britain seems to have difficulties in recruiting man power, and, since its mines are becoming deeper and deeper, the cost of production is increasing. Furthermore, the full employment policy of its post-war governments has increased the domestic demand for coal leaving only a relatively small quantity for export. The case of Poland is different; it is very difficult to make any prognostic regarding the economic future of this country. What we do know is that Poland is going through a stage of intense and rapid industrialization, which means that its consumption of coal will increase to a great extent. Furthermore, it seems that in the future most of its exchanges will be with the East, and the demand for coal in these regions is also increasing due to a rapid industrialization. Even if Poland were willing to supply western countries with coal, she would be an unreliable supplier, because of political as well as economic reasons; this source of supply cannot be controlled, and price discriminations could be easily practiced. It follows from the above that we are justified in assuming that no great change will be taking place in the Community's export.

II. Competition in the Steel Industry

To evaluate the future demand for steel produced in the Community is a difficult problem. As we have said previously, the demand for steel is very sensitive to economic fluctuations. In the long run, it seems that the demand for steel will increase with general economic development. Before the second world war in countries like France and The Netherlands the steel consumption per capita was 139 Kg, and it is estimated that in a highly industrialized country

the steel consumption per capita is between 200 and 300 Kg. In the short run the problem is a little more complicated. The Community does not consume all the steel it produces. In 1953 for a total production of 29.7 million tons, 5.4 million tons were exported. So that even if the demand in the Community increases slightly or remains stable the steel industry may have trouble to export the necessary amount of steel which would make the industry profitable. We should then bear in mind that the steel industry of the Community depends not only on the domestic market but also on the foreign market and that a fall of demand in either one will very probably result in a stiff competition between the different steel producers, and then the danger of the creation of a new cartel will increase. The High Authority will have to be ready to use its powers to maintain some competition between the producers.

Competition in the steel industry will be felt differently than in the coal industry. In the coal industry, the resources are given and nothing can change them. Investments and methods of extraction may to a certain extent be adjusted to the different types of coal mines, but, on the whole, little can be done if the coal is of poor quality or difficult to extract. The case of the steel industry is quite different. Plants are erected in the same way and similar methods can be used practically everywhere in the Community. The major problem for the steel industry is to get its raw materials. Raw materials account for 70 to 80% of the total cost of pig-iron. Consequently, any change in the price of raw materials will have a repercussion on the price of steel. With the creation of the single market it can be expected that the different steel industries will

be supplied with raw material at similar prices. It is true that the cost of transportation will influence this price, but, on the whole, it does not seem that this should affect the competitive ability of the different producers. (This will hold especially true if the Moselle canal is completed.) Therefore our problem is to find out how the different industries of the Community are organized and if they have reached a comparative degree of efficiency.

The Netherlands

The Netherlands have a small steel industry, but very modern and well located. Ymuiden is situated between the Zuiderzee and the sea and had plenty of space for expanding. This explains the rise in steel production, which, in fact, has doubled since 1949, passing from 428,000 tons to 873,000. It is highly probable that, in the near future, the Netherlands will be able to take care of their own needs to a great extent. In 1951, the Netherlands were importing one million tons, in 1952, only 371,000 tons.[17] The Netherlands was the country that met the ratification of the Schuman plan with the least opposition. It was eager to get its supply of raw material without the danger of price discrimination, and, due to the efficiency of its small but modern industry, it did not fear competition.

Belgium and Luxembourg

In these countries the steel industry will need some reorganization to adjust itself to the opening of the single market, but it does not seem that great changes are to be expected. These

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[17] Journal Officiel, Année 1954, N.13, p. 364.

industries have always worked to a large extent for the export market. The main problem for them now is to work without government subsidies, and these were important especially as regards coke supply. Faced with this situation, the proponents of the treaty decided to grant temporary privileges to those industries, and these are still entitled to buy coke at a cheaper rate than the market. The problem of iron ore does not raise much difficulty; the industries own their own mines, so they can get the iron ore at cost price. Their production has risen since 1949 as shown by the following figures:

Belgium: 1949: 3,849,000 -- 1952: 4,503,000 tons[18]

Luxembourg: 1949: 2,272,000 -- 1952: 2,658,000 tons.

Italy

The case of Italy is a special one. Its steel industry is very artificial in that the country produces very little raw material. Under the fascist regime, which followed an autarchic policy, steel industries were created at Bagnoli near Napoli, at Piambino near the Island of Elba, and at Cornegliano near Genova; those three centers had to import all their raw material, and their cost of production was consequently very high. Unfortunately, the present government has completed, against the advice of the O.E.E.C., a new blast furnace at Cornegliano. This will certainly not modify the situation, and we can expect that, with the opening of the single market, these industries will face serious difficulties. These industries are not very important, but, with the present unemployment situation, the Italian government will have trouble in closing them. But,

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[18] Ibid.

fortunately for Italy, she has two other centers of steel production which are of real economic value. One is situated at Aost, and has a capacity of 300,000 tons of crude steel, half of which is electric steel. The cost of a KWh is less than one French franc, while in France and Germany it is five French francs. The other factory is in the Po valley, and uses methane gas as fuel. The price of this type of fuel is fixed according to the domestic price of coal, but the cost of it is in fact only one-ninth of its actual price. It seems, then, that the first three factories mentioned will have great trouble when the protection given them will progressively disappear; the two latter ones, however, seem in a very good position to bear the competition resulting from the single market.

Germany

Germany is the biggest producer of the Community, and its wide reserve of coal of coking quality gave it a great advantage over its competitors. We know that Germany is short of iron ore, but a good system of water roads makes possible the import of iron ore at a normal price. After the second world war, Germany had to rebuild its industry to a great extent; destruction and dismantling had greatly reduced its pre-war capacity. But, since then, a great amount of work has been achieved, and the present production is a little below 15 million tons.[19] The problem for Germany is to invest in the right productive units. The financial as well as political

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[19] Western Germany production of crude steel in million tons:

1938	1947	1948	1949	1950	1951
17.9	3.06	5.56	9.16	12.12	13.51

power of the owners of steel factories is still very great, and we may fear that the wish to regain their former power might induce them to invest too much in the heavy industries from which they were deriving that power. A project for a new mill for thin flat products is being studied, but it seems doubtful that, for the time being, the single market can absorb the production of this new mill. This type of mill has been built in Luxembourg (1), Belgium (1), and France (2), and it is feared that a new one might result in an over-supply of the market. We remember from Chapter II that these modern means of production, to be used economically, have to produce great quantities, and that their break-even point is high; the erection of a factory of this kind could obviously bring perturbations to the market of thin flat products.[20] The High Authority will have to bring its powers to bear in this case and orient investments so that they will not bring about a situation similar to that which followed the unplanned investments of the inter-war period.

France

The case of France is unique in the Community. France, which is supposed to be an industrial country, has never reached the stage of industrial development of countries like Germany or Great Britain. Her steel industry reflects this situation. France had a fairly well developed steel industry, but it never attained the importance of the German one. But, even with this less developed industry, she was able not only to meet most of her own requirements but to export steel as well. After the second world war, it was

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[20] Journal Officiel, Année 1954, N. 13, 2 Avril, 1954, p. 364.

decided that the Franch steel industry should be remodeled so as to increase its capacity and productivity. This was badly needed, because war destruction as well as the pre-war "Malthusian" policy had left France very poorly prepared to compete with her neighbours. Furthermore, an efficient steel industry was necessary to meet the requirements of an expanding economy and an increasing population. The Monnet plan, which sought to put this expansion of the French economy on a sound basis, laid great emphasis on the basic industries. We have previously seen the great effort made in the coal industry. This effort was paralleled in the steel industry. It was decided that this industry should be equipped anew and with the latest technical improvements, that it should be able not only to supply an increasing domestic demand but to maintain and even increase its export. These investments, thus, have modified to a large extent the situation of this particular industry.

One of the major problems in running a modern steel industry of increased capacity is to get an adequate supply of coke. We have seen previously that successful experiments had been carried out in the Lorraine coal fields, where coke is now produced from a kind of coal which, so far, had been inadequate for that purpose.[21] But if this has alleviated the coke shortage with which the French steel industry is faced, it has not solved the problem. France will have to import a large quantity of coke because, as things stand now, it

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[21] Lorraine cokeries are producing now four million tons. If plans are completed in 1956 this production is expected to reach 7.5 million tons. The apparent coke consumption in France in 1952 was 16.8 million tons.

cannot be expected that its coke production will meet its own demand for it. The only supplier which can meet this demand is Germany. Before the Schuman plan, the fact that the French industry was dependent on German coke could well explain to some extent its difficulty in developing. It also explained why France was eager to get special privileges in the Ruhr coal field. With the single market, the situation has greatly changed. The French industry, which has always been well supplied with iron ore, will be able to get coke at the market price. If the German steel industry has the advantage of having an abundant supply of coke which does not need to be transported, France has its own supply of iron ore, which is a compensation. Moreover, the treaty stipulated that the French and German governments should work out an agreement to build the Moselle canal, which will link Thionville to Coblentz; this will make it possible to transport the coke coming from the Ruhr by boat rather than by train, which will be much less expensive. The German industry will also be able to get its iron ore at a much lower transport cost. It is true that the dependence of the Ruhr industry on French iron ore is less important than the dependence of the French industry on coke. This explains why a part of the German opinion showed little enthusiasm in the construction of the canal. It can be hoped, however, that, with time, obstacles will be removed, and that the cost of transportation will be reduced thanks to this new way of transportation.

At the opening of the single market, the French steel industry was well prepared to compete in the market. The figures shown in Table I illustrate the present situation. It stands to

Table I[22]

Le tableau suivant donne quelques éléments de comparaison entre les prix des barêmes allemands et français (en $) tels qu'ils se sont établis à l'ouverture du marché commun.

	Prix Allemands			Prix Français		
Produits	Oberhaussen	Siegan	Essen	Thionville	Maubeuge	Montmédy
Acier Thomas						
Acier						
Marchand	96.00			90.30		92.50
Profiles	93.55			88.85		91.15
Tôles fortes		107.85			104.55	106.15
Tôles moyennes		107.85			104.55	106.15
Tôles fines			124.75		133.70	125.80
Acier Martin						
Acier						
Marchand	100.25			98.85		101.15
Profiles	97.85			97.45		99.70
Tôles fortes		113.80			117.70	119.30
Tôles moyennes		113.80			117.70	119.30
Tôles fines			130.70		134.85	136.85

The Belgium prices are very similar to the French.

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[22] R. Damien, (Président, directeur général de l'Usinor), "L'Acier Français", Synthèse, 8ème Année, Décembre 1953, N. 91, p. 140.

reason that future modifications in the steel industry of even one country would bring about changes. But, if we remember what we have just said, we can expect that, in the future, French industry will be able to maintain its position in the single market.

As a conclusion, we might say that the steel industry in the Community as a whole will stand the single market competition without great changes being necessary. With the exception of some Italian firms, it does not seem that, basically, any steel industry will be unable to adapt itself to the new situation created by the single market provided an adequate policy of investments be followed.

In ending the last two sections, we would like to stress the fact that the conclusions we reached in evaluating the consequences of competition for the coal and steel industries are valid only as long as our basic assumption remains true, i.e. that the different members of the Community will enforce a policy of economic development. Should we be heading for a deep and prolonged economic crisis, we would be unable to make any prediction. The repercussions of such a crisis would be so extensive and so deep that the success or failure of the Schuman plan would be lost in the general upheaval. In these two sections we have limited ourselves to forecasting how the coal and steel industries of the Community will stand the test of competition in a developing economy. Our conclusion is that some readjustment will have to be made, but that on the whole, no fundamental disturbances should be expected.

III. Changes in Exchanges with the Opening of the Single Market

To illustrate the first achievement of the single market,

we would like to give some figures showing the increase in the exchanges that have taken place between the members of the Community. These figures should not be considered as definite, but used as an indication of the future development of exchanges in the Community.

In January-February 1954, the volume of coal exchanges was 23.3% above the monthly average of the past three years. In 1953, the first year of the single market, exchanges were increased by 3.5 million tons i.e. by 22% compared to the previous year. This occurred despite a reduction of 5% in consumption resulting from a general slowing down in economic activity. The % exchanges with respect to production increased from 6.6% to 8.1% from one year to the other.

The total increase in coal exchanges between 1952-53 reads:[23]

Exporting countries		Importing countries	
West Germany...	1,226,000 tons	West Germany...	476,000 tons
Belgium.....	1,277,000 tons	Belgium.....	489,000 tons
France-Saar....	690,000 tons	France-Saar....	689,000 tons
The Netherlands	248,000 tons	The Netherlands	1,000,000 tons
		Luxembourg.....	36,000 tons
Total	3,441,000	Total.....	3,441,000

For a better understanding of what has taken place, let us see how each country contributed to this increase, and who were the main buyers of each exporter.

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[23] The figures of this section have been taken from: Le Deuxième Rapport Général sur l'Activité de la Communauté, 13 Avril 1953 - 11 Avril 1954, Luxembourg, 1954, Chap. III.

Germany: exported to:

Italy	394,000 tons,	increase 13.2%
Belgium-Luxembourg	366,000 tons,	increase 87.2%
Netherlands	326,000 tons,	increase 16.8%
France-Saar	140,000 tons,	increase 3.8%

This means that Germany increased its exports by 13.5%.

At the same time, Germany increased its imports by 12%.

Exports in 1952:	9,059,000 tons
Exports in 1953:	10,285,000 tons
Imports in 1952:	3,959,000 tons
Imports in 1953:	4,435,000 tons

Belgium: exported to:

The Netherlands	571,000 tons,	increase 119.4%
France	486,000 tons,	increase 44.6%
Italy	168,000 tons,	increase 25.2%
Germany	88,000 tons,	increase 463 %

This means that Belgium increased its exports by 55.4%.

At the same time, its imports rose by 100%.

Exports in 1952:	2,305,000 tons
Exports in 1953:	3,583,000 tons
Imports in 1952:	490,000 tons
Imports in 1953:	979,000 tons

The new Belgium imports came mostly from Germany and the Netherlands.

France-Saar: exported to:

Germany	377,000 tons, increase 9.5%
Italy	256,000 tons, increase 120.2%
Netherlands	103,000 tons, against 4,000 tons in 1952.

This means that France-Saar increased its exports by 15.4%.
At the same time, its imports increased by 14.4%.

Exports in 1952:	4,481,000 tons
Exports in 1953:	5,171,000 tons
Imports in 1952:	4,797,000 tons
Imports in 1953:	5,486,000 tons

The new imports were supplied mainly by Belgium and Germany.

The Netherlands: increased their exports mainly to Belgium. The total export increased by 252,000 tons; the exports to Belgium rose from 4,000 tons in 1952 to 172,000 tons in 1953. At the same time, the imports from Belgium increased by 119.4% and from Germany by 16.8%.

Italy: increased its imports by 21.2%.

Imports in 1952:	3,874,000
Imports in 1953:	4,697,000

Luxembourg, which does not produce any coal, reduced its imports from the Community.

It should be noted that this increase in exchanges happened

at a time when the demand for coal was decreasing. Those exchanges replaced to a certain extent the coal imported from the United States (imports from the United States decreased by 60%), but at the same time the importation from the United Kingdom increased by 40%.

Steel

The single market for steel was opened on May 1, 1953, but, in fact, exchanges did not really start before September. We will therefore base our comparisons on monthly and not on yearly averages.

The increase of exchanges between the first semester and the last quarter amounted to 23.7%.

Exports of Steel to Community Members by Community Members

(monthly average in tons)

	Jan.-June	July-Sept.	Oct.-Dec.
Germany	29,300	46,250	60,670
Belgium-Luxembourg	68,600	56,990	82,370
France-Saar	88,330	56,830	83,740
Italy	170	240	500
Netherlands	7,870	9,790	13,230
Total	194,270	170,100	240,510

Imports by Community Members from Community Members

(monthly average in tons)

	Jan.-June	July-Sept.	Oct.-Dec.
Germany	81,850	44,930	73,160
Belgium-Luxembourg	27,410	28,670	22,630
France-Saar	1,130	10,490	16,680
Italy	28,520	27,650	49,150
Netherlands	55,360	58,360	78,890
Total	194,270	170,100	240,510

To gain a better understanding of the situation, let us consider in turn each of the members of the Community.

Germany doubled its monthly exports: 60,700 tons were exported during the last quarter compared to 29,300 during the first semester. The Netherlands, Italy, and France were the principal buyers. Imports from Community members diminished slightly: 72,200 tons vs. 81,850 tons.

Belgium and Luxembourg increased their exports by 20%: 82,400 tons during the last quarter vs. 82,400 tons during the first semester. There was a small decrease in the imports: 22,600 tons vs. 27,400. This is probably due to the general fall in demand for steel which was noted at this time.

France-Saar exported more in the first semester viz. 88,300 tons, than in the third quarter viz. 56,800; during the fourth quarter, however, exports rose again reaching 83,700. This rise was mostly due to an increase of exports to Italy. Imports showed a different picture; they rose from 1,130 during the first semester to 16,700

during the last quarter.

Italy exports practically no steel. Its imports, however, rose by 72%: 28,200 tons during the first semester vs. 28,500 tons during the last quarter.

The Netherlands increased their exports by 70%: 7,800 tons during the first semester vs. 13,200 during the last quarter. The imports increased by 40%: 55,400 during the first semester vs. 78,900 during the last quarter.

These figures clearly indicate that, with the opening of the single market, exchanges between Community members have definitely increased. We should remember that these figures indicate only a trend. When the single market was opened, a fall in the demand for steel was felt in the Community. It can therefore be expected that, in time of great demand, these figures will be modified. Nevertheless, it is encouraging for the future of the Schuman plan to see that, even in a time of slackening demand, exchanges between the different members have risen to such an extent.

IV. Problem of Technical Unemployment

The Schuman plan, inasmuch as it professes a philosophy of increasing productivity, raises an important problem and that is the reallocation of labour.

Tariffs, in limiting exchanges and the division of labour, have restricted the productivity of the European coal and steel industry. It does not follow therefrom that it has restricted employment. If, due to the low productivity, the standard of living was not raised as it could have been, it is by no means certain that

the number of employed was not increased by this lower productivity. Productivity and optimum population are two different concepts. Low productivity may bring hidden unemployment, but it is not certain that higher productivity will bring full employment. How will the Schuman plan affect this situation? By bringing back competition it will speed up the process of rationalization and concentration which had been slowed down by the cartel policy. What will happen then? There are two possibilities.

The first one will assume that, by means of mechanization and rationalization, less labour will be required to produce greater quantities. Marginal firms will be closed down, and workers will be laid off; the most efficient concerns will develop their production while even reducing the number of their workers. In this case, not only new jobs will have to be found for the unemployed coal and steel workers, but one has also to consider the potential worker arising from a new and increasing generation.

In theory, we may hope that, in the long run, new needs will be created resulting in the development of new industries, which will bring new outlets for employment. But, in the short run, which, in fact is what will affect an individual in the course of his life-time, unemployment will spread, which means that a certain number of workers will have to be trained again for new jobs and these will have to be made available to them within a very short time. It is even very probable that a certain number of those unemployed will have to be moved to other areas. This, of course, is a big problem, which will have to be carefully studied.

The second possibility is that an increase of production

will lower its cost, bring prices down and increase the demand, so that the labour force used in the process will not be modified to any great extent.

It seems that this point of view is a little optimistic. In the case of France, for instance, it is recognized that, in the Centre-Midi mines, production will have to be reduced and some of the workers will have to find employment in other mines, mainly in the Lorraine ones. In the Nord-Pas-de-Calais mines, little reduction in the present working force is expected, but the employment of new workers will be restricted. The case of Germany seems somewhat brighter; it is expected that the demand for coal will increase the number of employed, and unemployment is to be little feared.

What conclusion can we draw for the Community as a whole? It seems that the Schuman plan will not result in great changes in the present employment status. The number of people working in coal and iron ore mines and in the steel industry for the whole Community amounts to one million and a half persons; the total working population is little over 75 million people. The number of people engaged in the coal and steel industries thus amounts to 2% of the total working population. Therefore, if we assume that the Schuman plan will bring about a decrease of 10% in the labour force, it means that only 0.2% of the working population will be affected by the transformations resulting from the plan. It can be assumed that, in a dynamic society, this small per cent of unemployed will easily find work in other areas of production. Much more important to the problem of unemployment are the steel-using industries.[24] It is

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[24] A. Sauvy, "La Population de l'Europe Occidentale et le Plan Schuman", Population, Juillet-Sept., Paris, 1951, p. 381.

estimated that these are employing six times the number of workers used in the steel industry. The development of this industry is then of primary importance in providing new jobs for a rising population.

As a conclusion to this paragraph, we would like to stress the danger of either being overly concerned that technical transformations might breed unemployment, or of being over-confident in the benefits to be derived from those transformations. Fearing the danger will lead nowhere; it is irrational to hope to stop technical progress. Refusing to recognize the necessity of it will only result in making the problems more difficult to solve, and the adjustments, which of necessity will have to be made at some time, more painful. But to be over-confident is nearly as dangerous as to be afraid. If, in the past, technical progress has been followed by new sources of employment due to the creation of new needs, it still remains that, for some part of the population at least, these transformations have been extremely painful. Moreover, we have no guarantee that the technical transformations of the future will be automatically followed by the creation of new sources of employment which will provide the number of jobs required. While we need not fear an unemployment crisis as a result of the Schuman plan, we should nevertheless point out that the proponents of the plan were aware of the problem; they accordingly made special provisions in the treaty so that the workers would not be left to face alone a situation in which they would be deprived of the means of making a living.

To conclude we may say that the changes which are the direct result of the provisions made in the Schuman plan will be

felt progressively and without causing any great disturbances. The removal of tariffs will result in an increase of exchanges, but not to so great an extent as to endanger the stability of national economies. The suppression of price discrimination will greatly benefit the steel industry. It seems fair to assume that this industry will be able to supply a demand which is expected to be steadily on the increase. Because the creation of the single market has made it an impossibility to extend any artificial protection to national industries, a policy of investment and rationalization of production will prevail, which will benefit the consumer. The question of reallocating the labour unemployed as a result of technological changes does not seem to be of such a magnitude, that a quick and adequate solution could not be worked out. It can therefore be concluded that the Schuman plan, under the cautious guidance of the High Authority, will achieve its aim of increasing the supply of cheap coal and steel without arousing great disturbances in the present economy.

CONCLUSION

As a conclusion to this essay, we would like to point out that such a bold experiment as the Schuman plan can be carried out successfully only if a new approach is used to deal with political and economical problems. Even if the plan is economically sound, as we have tried to show it was, it has little chance of success if those who will have to conform to its new policy do not change some of their views. We should never forget that new institutions or plans are only good as long as people make them good. Hexner brings this point into sharp focus in his book on the Steel cartel:

> "Those who in the past proposed that large international marketing controls be put under the direction of supra-national agencies, should today recognize that their recommendation, though it sounds attractive, failed to indicate the substance of international economic and social policies which those supra-national agencies were to pursue. For nowhere were economic or political principles of a substantial nature indicated by which those supra-national agencies should be guided in determining international price and pricing policies in the case of a clash of national economic interests, nor was much consideration given to the fact that such supra-national economic controls imply intimate political cooperation within the international community."[1]

We fully share the opinion of Hexner when he states that an international body must have economic as well as social principles which are accepted by the people if it is to perform successfully its role of mediator between conflicting parties.

Let us then try to find out whether such a change in the mentality of the people has accompanied the attempt to enforce the

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[1] E. Hexner, The International Steel Cartel, Chapel Hill, The University of South Carolina Press, 1953, p. 273.

new policy.

We would like first to review very briefly the principles that directed the inter-war policy. It seems to us safe to say that, after the first world war, political problems took precedence over economic ones. The philosophy which presided over the peace treaty was based on the principle of nationality; it was widely believed that, if independence were given to ethnical as well as cultural groups, the problem of international relations would be nearly solved. Since, however, some disagreements might arise, the League of Nations was created to solve these peacefully. In fact, little consideration was given to the economic interdependence of the different nations. The belief in a liberal economy was then so strong that few were those who realized that some kind of planned international economic cooperation was necessary. It was thought that if people were left free, they would act to the best of their interest, and, as a result, the world would thrive. Reality was quite different. After a period of prosperity, which was mainly due to the necessity of rebuilding what had been destroyed by the war and to satisfy the postponed consumption due to war shortage, the crisis broke out, and each nation as well as each business tried to defend itself without much regard to its neighbour.

Since the standards of living were decreasing, nationalistic feelings were fanned successfully by extremists and, in such a climate, cooperation between nations was practically impossible. This kind of atmosphere prevailed until the war broke out.

The second world war was also fought on nationalistic principles, but not to the same degree as had been the first world

war. To sustain the terrific effort that was asked from everyone, governments had to convince the people that they were really fighting for themselves and that the victory would bring not only an era of national greatness but also an era of higher standards of living. We should remember that freedom from want was considered then one of the basic freedoms of mankind. This new approach resulted in a new policy. As we have seen in Chapter I, the proponents of a united Europe started to draft an operational program to enable the different governments to harmonize their national policies. Moreover, Europe was in such an economical chaos that economical problems received priority over political ones. Governments were held responsible for improving production and distribution. The free market was believed to be no longer adequate to perform these functions. Consequently, each government elaborated plans with the idea of increasing production and guaranteeing a minimum standard of living to all citizens. This prepared the ground for an agreement between governments. As they had to regulate most of the exchanges, they had to work together to some extent. But it was soon realized that, if cooperation were to be really profitable, it had to be carried out in such a way that plans could be enforced. The Schuman plan was an attempt to enforce such a policy. The field chosen for such an attempt appeared to us as very suitable. Coal and steel represent a very important sector of production, and, at the same time, the industries in the different countries could on the whole stand competition. This is of extreme importance, for no nation could accept to see an important part of its industry wiped out by a foreign competitor. Moreover, we have shown that these industries were interdependent, so

that each nation could hope to benefit from the new plan. We have also seen that the labour force engaged in these industries is relatively small, so that one would not expect any marked unemployment as a result of the plan.

It was felt that if such a new experiment was to succeed, new institutions would have to be created. In other words, it was realized that new economic policies require new institutions. So a supra-national body was set up with a strong executive, the High Authority, to enforce the new policies. The High Authority is expected to have a dynamic approach and to carry out a long run policy. Its aim will not be, as had been the case for the pre-war cartel, to keep prices from falling, but to develop the coal and steel production in harmony with the economic development of the Community. Governments were at that time ready to accept the new experiment. But governments may undergo sudden changes and, consequently, the long run policy if not accepted by the majority of the nation might become drastically altered.

Our next point, then, will be to evaluate how the people directly concerned with the plan have reacted and how the nations as a whole have supported this bold innovation. Let us first consider the case of the firms. If the coal and steel industries are to work according to a plan, this will be done in a very liberal way. As we have seen, no rigid plan was drawn but only a set of regulations. This will make cooperation among entrepreneurs and the High Authority necessary. We know by experience that private business frown on any state intervention, except when this intervention takes the form of grants or special protection. It can then be assumed that the

entrepreneurs will at first be rather reluctant to recognize this new regulating power. But we should also consider that the coal and steel industries are made up of large concerns that are very dependent on the state for the capital that the capital market is unable to supply; they have then lost many of the characteristics of the private enterprise, and are consciously or not taking up the mentality of a permanent institution which must first of all survive. We are rather far from the old mentality when a firm was trying to maximize its profits by any means. The principle of taking a risk to get more has been more or less replaced by the idea of how to remain in the market. It seems then fair to assume that, on the whole, the entrepreneurs will accept the directives of an authority who may stop them from making a windfall profit but, in a way, will guarantee them some security and stability. It is too soon to draw conclusions from what has been taking place since the creation of the single market, but it seems that, so far, the entrepreneurs have shown no strong opposition to the directives[2] given by the High Authority. But at the same time we should not overlook the problem which will face the High Authority if the demand for coal and steel falls. If prices start to fall, it should be expected that the producers will try by any means to protect the capital invested in their industries, and thus will be very much inclined to indulge in a new cartel policy. If the different industries get the support of their respective governments, the position of the High Authority will

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[2] Some difficulties have been encountered when the High Authority put a ceiling on prices, but, on the whole, the abolition of tariff and of the most obvious price discriminations have been easily accepted. See: Le Monde, May 20, 1954, Paris, 1954.

become very difficult. As we have tried to show, in time of prosperity the single market will not bring fundamental changes in the structure of these particular industries but in time of depression the situation will be very different. The ability of the High Authority to stand this test will depend to a large extent on how it will succeed in promoting close cooperation between the different governments.

To predict the reaction of nations as a whole is a more difficult matter. After the war, it was strongly felt that cooperation between independent nations was necessary both economically and politically. Of course, this feeling could easily change. Distrust is still very strong between people, and vested interests are always ready to arouse emotional reactions. But, if it does not seem that the time for political integration has yet arrived, it appears that, in limited sectors at least, international cooperation could work without too much difficulty. We should remember that the time of isolation is past, and that, more and more, the masses realize that they will not escape the fate of their neighbour. If the old hatreds are still very much alive, their tragic results have not been forgotten either. It seems then fair to hope that, little by little, the different nations will learn that they have more to gain in working together than in fighting against one another.

We would like to end by pointing out the few lessons to be learned from the Schuman plan that might be of help in furthering the integration of the European economy.

First of all, the sectors integrated should be at a similar stage of development in every country, and, if possible, complementary.

We should never forget that competition is not an end in itself, and that it could result in the destruction of one of the partners. A good example of this is the unification of northern and southern Italy.[3] In this particular case, the competition between the areas which had been in existence since 1850 resulted in the development of the north of Italy and the impoverishment of the south.

Secondly, it is much easier to plan the development of a new expanding industry than of an old one in which are rooted strong vested interests. It is probable that the Schuman plan would not have been possible if the French industry had not been going through a process of wide modernization, and if the German industry had not been badly damaged by the war and decartellized by the Ruhr Authority. When the Schuman plan was put into effect, both industries were going through a process of reorganization, which made it relatively easier to coordinate the different plans enforced.

Thirdly, new economic policies require new institutions. When new experiments are tried, the administration in existence is not enough to carry them through. A new separate power is necessary to prevent vested interests from exerting too great an influence on that administration. For instance, if the supra-national body had not been created to enforce the Schuman plan, it is very probable that the different governments would have had great difficulty in reaching an agreement. The Coal and Steel interests would very probably have found enough support in their respective countries to

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[3] United Nations, Economic Survey of Europe in 1953, Geneva, 1954, Southern Italy, p. 123-137.

stop their governments from carrying out a policy which displeased them. Consequently, the various governments would have been unable to make the necessary concessions that led to an agreement between them. This is, of course, much more difficult to achieve with an independent body such as the High Authority.

We may therefore conclude that the first attempt at integrating the European economy has a fair chance of success, because it limited itself to a field where the industries could stand competition and at the same time were complementary, where no fundamental changes were to be expected as a result of the experiment, and because an independent body was created to enforce the new policy.

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