

THE SCHUMAN PLAN: AN ECONOMIC ANALYSIS

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Université de Clermont

France

1949

Bachelor of Art

King College

Bristol, Tennessee

1950

Submitted to the Faculty of the Graduate School of
the Oklahoma Agricultural and Mechanical College
in Partial Fulfillment of the Requirements
for the Degree of
MASTER OF SCIENCE
July, 1952

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PREFACE

In the Spring, 1950, when the Schuman Plan proposal was issued, I was studying in this country under an exchange scholarship and I thought that to follow the development of the institution of the European Coal and Steel Community would be an interesting study in the field of international economics. My previous studies combined with my linguistic background facilitated the examination and analysis of a polyglot documentation. The timeliness of the subject, its importance for the future of European economics as well as the controversial nature of the problems involved presented a challenge which I found particularly attractive.

This work is not an exhaustive study of the problems involved in so broad a subject; each part requires further research and study, mainly concerning their theoretical aspects.

I wish to express my appreciation to this institution for the opportunity given to me to prepare this thesis. To the teaching of the staffs of the Departments of Economics and Business Administration, I am indebted for a knowledge of American Economics and I am specially indebted to Dr. R. Trenton, whose assistance, criticisms and experience with European Economics made this work possible.

I want also to acknowledge the help of many persons who have generously provided me with original documents and information on the subject. Among them I should mention: Mr. R. Fontaine, Chef de Cabinet de La Presidence du Conseil; Mr. A. R. Metral, President du Syndicat des Industries Mecaniques and expert on the French Commission for the Schuman

Plan; Mr. Andre Philip, former Ministre de l'Economie Nationale and Head of the French Delegation for the Schuman Plan studies; Mr. P. Uri, President for the Plan of Modernization and Equipment in France; finally, the Commercial Attaches of the Belgian, British and French Embassies have been more helpful and encouraging.

PART ONE

CHAPTER I

THE ORIGIN OF THE SCHUMAN PLAN

The Schuman Plan, which seems to be the first realistic approach to a European Federation is not, however, the first proposal of its kind. If one goes back as far as the beginning of the 14th Century, he will find that in 1305 a lawyer from Normandy, Pierre Dubois, wanted to save the Christian world from the danger of Islam. He therefore proposed the creation of a Federation of Nations "which should be sovereign, independent, and equal in rights". A century later George Podiebrad, King of Bohemia, on the advice of Antoine Marini of Dauphine, asked for a European federation. Sully, minister of Henry IV, dreamed of a "Grand Design", which would reorganize Europe into fifteen equal states to establish a balance of power. It may be noted that one of these states embraced the actual area of Benelux.

Later the English Quaker, William Penn, invited Europe to federate. Jean Jacques Rousseau had the idea of a confederation of nations, followed by the English Utilitarian, Bentham, and in 1795 by Kant.¹ Napoleon, inspired by Saint-Simon, planned to join England and France and later to include Germany. Victor Hugo enthusiastically extolled such a union: "We will have a United States of Europe which will crown the Old World as the United States of America crowns the New."²

¹Paul Reynaud. S'Unir ou Perir, Flammarion. (Paris: 1951), p. 243.

²Ibid.

In 1923 Count Coudenhove-Kalergi started the "Pan-Europa Movement"; and in his manifesto he prophetically excluded both Russia and Great Britain from his United States of Europe, for the former was busy in revolution and the latter was absorbed in her Commonwealth.

On September 4, 1929, Aristide Briand, Minister of Foreign Affairs and Prime Minister of France, brought forth the idea of an economic union which was to include his country as well as England and Germany. His premise was as follows: "Among people who are geographically as close as the people of Europe, there should be some kind of federal link".³ Briand was then assigned by the League of Nations to prepare a project which would develop this famous declaration which he first stated in Geneva. But in 1930 many European governments, England in particular, opposed his memorandum for the creation of a Council of Europe. Briand found much opposition from the German nationalists and from the British Prime Minister, Ramsay MacDonald. MacDonald is quoted as having said, "It is ten years too soon for the formation of a United States of Europe".⁴

In the 30's the world scene changed. Germany went under a dictatorship, and in Italy Count Carlo Sforza, a man greatly in favor of Briand's idea, was sent into exile. Also an economic crisis was destroying the work of organizations conceived for the purpose of bringing about a greater degree of cooperation among the various European nations, such as the Federal Committee of European Cooperation and the

³ Ibid., 245

⁴ Ibid., 247

European Customs Union, which was under the able direction of Yves Le Trocquer. The imminence of the second world war strengthened morally such organizations but delayed any possibility for a practical achievement.

Without a doubt, the aforementioned projects came at a time unfavorable to their growth, but the thoughts behind them had been formulated and could not die. Winston Churchill has remarked that conflicts may destroy man's material efforts, but they cannot stop the flow of ideas. In his speech at the University of Zurich on September 19, 1946,⁵ he deplored the fragile situation of Europe and the failure of the League of Nations. He stressed the value of avoiding a new disaster by using the creation of a "European family" as a means. He went on to say that it is possible for regional organizations such as the United States to operate within the structure of a world organization without endangering the purpose of that organization. He then asked for "an act of faith in which millions of families speaking many languages must consciously take part."⁶ Churchill continued by stating, "I am now going to say something which will astonish you; the first step in the recreation of the European family must be a partnership between France and Germany."⁷ Thus eighteen months after the defeat of Germany, Winston Churchill, one of the greatest architects of the victory, was inviting France not to join Great Britain as he had done in 1940, but to join Germany. Apparently, it was the first time that England had not feared a continental union,

⁵Vital Speeches. Volume XII, No. 24. (October 1, 1946)

⁶Ibid.

⁷Ibid.

and it was even more astonishing that the proposal was made by a member of the Conservative Party. But Germany had not yet recovered from her defeat, was occupied, and did not legally exist without a peace treaty. Only the decisions of the Big Three in 1949, which set up a German Federal Government, made a positive realization possible. As Churchill had predicted, the Council of Europe was created one year and a half before the Franco-German association; and it came into being because a few men, believers in Europe, forced their governments to give it birth.

Every sort of association had been set up to formulate the aspirations of European leaders, from the European Union of Federalists led by Dr. Henry Brugmans, former Dutch statesman, holding congresses in Amsterdam (1947), Montreux (1947) and in Rome (1948), to the United Europe Movement, founded by Churchill in 1947. In December, 1947, all these organizations were brought together with the exception of the European Parliamentary Union headed by George Bohg and Coudenhove Kalergi.⁸ These associations formed an International Committee of Movements for European Unity. This committee, with the intention of proposing concrete solutions, held its first Congress in The Hague, suffered from the timidity shown on the key question of Unity.⁹ The influence of this congress on public opinion made possible the establishment four months later of the European Movement, which held its Congress in Brussels in February, 1949, and

⁸ Paul Reynaud. S'Unir ou Perir, Flammarion. (Paris: 1951), p. 248.

⁹ Ibid.

its economic conference in Westminster in April, 1949. One finds in the resolutions of the Westminster Conference the greater part of the ideas which formed the basis for the Schuman Plan. A French delegate to this conference, held on April 25, 1949, summed up the aims of the European Movement when he said, "In the kind of Europe we hope to create, we hope there will be more doors and windows and fewer walls".¹⁰

Lord Clayton, a British delegate, vigorously opposed the suggestion that the European Economic Union be destroyed in the clash between the adherents of the laissez-faire school. He declared, "It is not a question of choosing between liberty and authority, nor between a free and collective economy, but of creating a synthesis of the two which, far from being in opposition to one another, can be combined for constructive purposes".¹¹

The objective of an Economic Union was thus defined: "Europe should be an area in which men, goods and capital circulate as easily as, in general, they could within the boundaries of one country". This implied not only a complete customs union, but also a complete economic union in which all customs barriers and all monetary restrictions are gradually abolished; and the existing preferential systems and economic ties between the European countries and their associated overseas territories should be extended to all members of the European Economic Union.

¹⁰ "Economic Unity of Europe". The Economist. (April 30, 1949).

¹¹ Ibid.

The most interesting resolution adopted by the conference was that which proposed that for each of the four basic industries-- coal, iron and steel, electricity, and transportation--there should be created three different kinds of organizations.

1. A European governmental body to define the general policies of the industries concerned, particularly those regarding or dealing with investments, volume of production, and prices.

2. A consultative body composed of employers, labor, and representatives of public interests which would advise the governmental body on matters of general concern to the industry.

3. One or more organizations of employers (public or private) to carry out the general directions and guidances given by the governmental body.

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The aim of all these organizations would be to develop production to meet requirements, to increase productivity by such means as standardization, and to lower prices. It was pointed out that if this system was set up it would make the Ruhr Authority superfluous and deprive the West Germans of every excuse for not throwing themselves into the task of rebuilding the economy of Western Europe. These propositions include the main ideas which are now in the Schuman Plan, and it is quite easy to recognize in each of the proposed institutions the three organizations: High authority, consultative committee, and professional organizations. These important resolutions of the Westminster Conference, proposing a

¹² Journal Officiel de la Republique Francaise. Avis et rapports du Conseil Economique. La Communauté Européenne du charbon et de l'acier. (November 30, 1951), p. 240.

common market not only for coal and steel but also for electricity and transportation, included a broader conception of European Economic Cooperation than the Schuman Plan does.

One comes close to the Schuman Plan in the reading of the resolution of the Council of Europe's Study Commission for Industry, Agriculture and Food Supplies, published December 13, 1949. The study Commission recommended:

1. The creation of an authority for steel composed of delegates from governments interested and from steel consumers. This authority would define the general policies for investments, a volume of production and prices.

2. The creation of a consultative body of steel producers (employers and labor) and representatives of public interest and steel consumers who would advise on matters of general concern to the industry.¹³

In December 1949, the Economic Commission for the Consultative Assembly of the Council of Europe adopted the recommendation of the Study Commission regarding the European organization of steel industries. The same Commission proposed the creation of a governmental body including experts from producer and consumer countries and a consultative body composed of producers (employers and labor) and representatives of public interests.

This last proposition was the renewal of the ideas expressed at the Westminster conference, but did not consider them equally important. For instance, the Commission on Economic Studies of the

¹³Ibid.

Council of Europe intended to give to the governmental body of its creation a strictly limited power and its role was mainly "to study and advise" on the general policies regarding the steel industries, on investments, volume of production and price. No mention was made of the means of enforcement available to this governmental body to impose its policies to the enterprises or groups of enterprises, and the principle of delegation of powers to a Supra-European Authority was not yet discussed.

The Economic Commission of the Council of Europe proposed a similar movement for vital industries (coal, oil, electricity and transportation) as it was suggested at the Westminster Conference, but the solution of the study commission of December 13, 1949, was the one to prevail for the nations intending to form the coal and steel community.

This brief summary points out the forces which for centuries guided Europe to the edge of unity. One can see that the dreams of philosophers, the theories of economists, the hopes of statesmen have at last formulated concrete projects. In 1948 and 1949 these ideas were still in the oratorical stage, but the Western European nations had been taught a terrible lesson whose repetition could not be prevented by sterile discussion. One could feel at this time that the moment for concrete action had arrived.

CHAPTER II

THE SCHUMAN PROPOSAL AND ITS DEVELOPMENT

On May 9, 1950, speaking on behalf of the French government as Minister of Foreign Affairs, Robert Schuman, whose role in the movement for European unity was widely known, made an important declaration. This announcement was qualified by many newspapers as "The Schuman Bomb",¹ to give an idea of the suddenness and scope of the move. It is significant to note that the declaration was issued on the day after Mr. Schuman met Secretary of State Dean Acheson and a week before he conferred with both the Secretary of State of the United States and the British Foreign Secretary, Bevin, in an important Three-Powers talk.²

The substance of the declaration is most striking and important, not only as a statement from an influential personality, but also because Schuman did not publicize his intentions in the way so many other politicians had before him. He expressed clearly, however, his opinion of the way in which he felt his plans should be carried out to achieve the most practical results.

After the adoption by the French Cabinet of a proposal to coordinate, under a single authority, the coal and steel production of France and Germany, the French Foreign Minister at a press conference held at the Quai D'Orsay, issued the following statement:

¹Bernard Lavergne. Le Plan Schuman, *Annee Politique et Economique*. (Paris: 1951), p. 10.

²Paul Reynaud. S'Unir ou Perir, Flammarion. (Paris: 1951), p. 206.

It is no longer a question of vain words but of an act, a bold act, a constructive act. France has acted, and the consequences of her action may be immense. We hope that they will be. Europe will not be built at one stroke or by means of one over-all structure. It will be built, first by means of concrete steps that create real solidarity. The unification of the European nations demands that the age-old enmity of France and Germany be eliminated; the action undertaken must apply primarily to France and Germany. To this end, the French Government proposed immediately to take action on a limited but decisive point; it proposes to place all French and German steel and coal production under a common high authority in an organization open to the other European countries. The fusion of interests, indispensable to the establishment of a broader and deeper community between countries that have long been kept apart by bloody conflicts, will thus be realized simply and rapidly. By pooling their basic industries and establishing a new high authority whose decisions will be binding for France, Germany and other participating countries; this proposal will lay the first concrete foundations of a European federation that is essential for the safeguarding of peace.³

On the economic plane, the objective is "the modernization of production and the improvement of its quality; to supply coal and steel on the same terms to the French and German markets as well as to the market of the member countries.....to develop combined exports, improvements and equalization of the living conditions of the industrial worker in the participating countries".⁴

In the discussion following his statement, Robert Schuman pointed out that "all the countries of Europe are invited to join this organization",⁵ and he stressed that the institution of the High Authority in no way prejudices the system of ownership of undertakings.⁶

³Ambassade de France, Document no. 12. (May 10, 1950).

⁴Ibid. (Ambassade de France: French Embassy in the United States.)

⁵Ambassade de France, Document no. 13. (May 10, 1950).

⁶"The Schuman Plan". World Trade, vol. 16, no. 8. (October 1950).
p. 1.

The explosion of the "Schuman Bomb" created many and varied reactions among the potential members as well as among other nations of the world. On May 10, 1950, the British newspapers gave a large space to the proposal. The Liberal News Chronicle splashed the proposal under the banner headline: "France makes historic offer to Europe"; but the British government was reserved and showed an overtone of annoyance that the proposal had been sprung on it without previous warning.⁷

Secretary of State Acheson in London urged Britain and Europe to welcome West Germany into the family of western nations and expressed his "sympathy for and approval of" the French declaration.⁸ The Russian press called it a plan for "a powerful organ of armament rings under American-Bank dictation".⁹ The plan was hailed by Foreign Minister Sforza from Italy, and Chancellor Adenauer of Germany praised the idea. By May 12, French and German officials indicated that preliminary discussions on the Plan had progressed to the point where both governments were ready to name technical experts to work out the details of the proposal.

On May 15, the French government released a note entitled, "Franco-German coal and steel pool does not mean Franco-German Cartel".¹⁰ This supplementary explanation was to appease the German socialists who were firmly opposed to the project.¹¹ The most persistent resistance, however,

⁷ New York Times. (May 10, 1950). p. 3.

⁸ New York Times. (May 11, 1950). p. 1-3.

⁹ Ibid.

¹⁰ Ambassade de France. Document 14.

¹¹ New York Times. (May 12, 1950). p. 6-3.

came from Great Britain. Even Winston Churchill, who approved the idea, warned his country to be cautious.¹² Many notes were exchanged between the British and French governments, but finally negotiations came to a dead-end. The last British note approved the talks on the proposal but rejected the French terms. At this time, it was necessary to give up trying to incorporate England into the scheme.

Altogether six countries, France, Italy, West Germany and the Benelux nations accepted the French proposition and published a communique to this effect on June 3, 1950. It was on June 4 of that same year that the French government submitted to the other five participating countries a working paper designed to facilitate the joint framing of a draft-treaty, and at the same time the negotiations were started. They lasted until August 20, 1950, and were resumed on August 31. Five committees were set up. These were the committees on (1) institutional questions, (2) commercial and tariff policy, (3) prices, production and investments, (4) wages and social questions, and (5) definitions of the terms "coal and steel".

The treaty in its final form was initialed by the heads of the delegations of the six governments concerned on March 19, 1951, and was signed formally by the Ministers of Foreign Affairs in Paris on April 18, 1951, but ratification had to be obtained from the different constitutional assemblies before a possible practical application could be undertaken.¹³

¹²New York Times. (May 20, 1950). p. 4-5.

¹³On June 19, 1952 the ratification of the Schuman Plan was completed by the Parliament of all six member-countries. The Italian ratification which was the last one on June 16, 1952 preceded a Foreign Minister's conference called in Paris on June 30, 1952.

Ten months may seem a long period of time for negotiations, but in reality they can be considered very short when the implications and the political, judicial, and technical difficulties involved are considered. It was nothing less than a fundamental transformation regarding the political relations between the Western European countries, and at the same time, the elaboration of technical solutions for the establishment of a common market for two vital products on which the modern industrial economy is based. Such negotiations had not only the object of eliminating broad political difficulties but also of solving the multiple problems coming up with the practical applications.

THE GUIDING PRINCIPLES AND MACHINERY OF THE COAL AND
STEEL COMMUNITY FOR EUROPE

The Treaty signed on April 18, 1951, creates the European Coal and Steel Community whose goal is to establish a unified market for coal and steel within the participating countries. These countries have realized that in this modern age optimum production and the best use of industrial and commercial techniques cannot be achieved with markets whose most important one does not quite represent fifty million customers. For this reason, it is in the evident interest of the divided nations of Europe to form, through a union, a market which will have more than 155 million potential customers.

The first factor for the establishment of a Community requires the six members to pool their resources; thus, the coal and steel production will cease to be German, Belgian, or French but will simply be European. Coal and steel customers, without distinction of nationality, will have liberty to go to the sources of production wherever they may be in the Community. The buyer will be able to choose the producer and to obtain the quality needed at the most advantageous prices. On the other hand, efficient producers will be rewarded for their efforts by new openings on the market for their products under the guarantee of lawful competition.

When they are pooled, the resources cannot be stock-piled by one nation and, in case of shortages, the products are to be distributed in proportion to the needs of the members. Under the idea of European Community, one finds a proposal for a realization which has never been

achieved yet, even in wartime between allies: the ability to distribute, on an equality level, the vital items necessary to the industrial activity of a nation.

The second important factor which characterizes a community is the fact that inside the common market the notion of frontiers will be suppressed for coal and steel. For these two reasons, import duties or any other restriction to the free flow of goods between the countries forming the Community will not exist any more, as they have never existed between two German provinces or two French "departements". The words "exports" and "imports" will have no longer any meaning with reference to the member states of the Community because there will be no difference in the sales conditions inside or outside each country. Every buyer will be able to obtain his products from any country he chooses and a harmonization of the transportation rates will help him in his choice between producers.

Some business practices which were developed extensively between the actual members of the present Community are an obstacle to the establishment of a common market. These practices consist of the producers' concluding agreements, often unknown to the buyers, and determining the allocation of the market at prices fixed by the agreement; at this point there is no longer an effective choice for the consumer because real competition does not exist and there is no incentive for the progressive producer when all initiative is in vain and the access to the raw material is under control.

Thus the third point of a community is the prohibition of any cartel agreement between producers of the member states, and the stopping of in-

dustrial concentration or the formation of monopolies which would dominate the market and put restrictions on free competition by discriminating in favor of some enterprises.

The creation of a Coal and Steel Community will offer advantages equally important for the producing enterprises, the workers, and the consumers. The common market will give to the producer the means to reach a larger market, to increase his production, to improve the quality of his equipment, to specialize for better efficiency, and to obtain a better productivity. Without interfering in the administration of his enterprise, the Community will provide him with information which will help him to make his decisions for the financing of his investments and will facilitate the development of technical research to enable him to meet an increasing demand.

For the consumer, and chiefly in the industries devoted to transformation processes, the establishment of free competition will put his supplies in a competitive situation from which he will be the beneficiary. Supply being more abundant and varied, he will have the possibility of choosing the quality necessary under the best economic conditions. Having complete freedom of action the success of the consumer's initiative will be most likely assured. Receiving supplies under better conditions, he will deliver his products at lower prices and have possibilities of increasing his production. More abundant and cheaper coal means less expense for basic needs such as gas, electricity, transportation, tools, equipment, clothing and most of the products necessary for human consumption. Prices will decrease to insure the distribution of the products manufactured in larger quantities for an increasing number

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of customers. The purchasing power of the consumer will be increased and the European population will be able to reach a standard of living which could not be attained otherwise and to afford what today is still considered a luxury. More simply, the common market means the well-being of the European consumer.

Without any doubt, a common market will improve the living conditions of the workers. A bigger production and a less expensive production will reduce the workers' effort and increase their purchasing power. The Schuman Plan prohibits abnormally low salaries or decreases in salary if they lead to a diminution in labor's purchasing power or are used as a means of permanent adjustment or as a weapon for competition. The creation of a readaption fund will enable idle workers either to wait for employment, learn a new trade, or move to another region, and will insure the workers against technological unemployment. For each worker producing steel, there are ten workers transforming the metal. The more steel produced, the more work offered to the workers of the Community and the more security resulting for each of them.

All the preceding experiences have shown that a society cannot exist without laws and an organization cannot be prosperous without rules. The European Coal and Steel Community could not exist without laws and rules constituting a democratic code accepted by the member states. The treaty ruling the Community is the setting of these rules which deal with production and competition in their different aspects. The first consideration is in regard to the supply of coal and steel within which will be taken care of according to the needs of the member states without, however, neglecting third parties. Under the rules of the Community, the

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improvement and the development of the potentials of production are to be brought to a maximum through the modernization of the installations. The financing of the investment necessary to the improvements will be facilitated. The development of the natural resources will be rationally undertaken to avoid waste which will lead to the premature exhaustion of these resources.

Competition is also the object of a number of rules which will provide the basis for future relations between the members. In the Community, competition will be free without restrictions of any kind either from the governments or private-interest groups. The Community guarantees this free competition and then receives the legal powers necessary for enforcement. To facilitate this competition, the trade barriers or charges with an equivalent effect are entirely abolished in the territory of the Community. Therefore, the buyer can, in any circumstances, choose his source of supply and the seller has the duty to offer the products without any qualitative or quantitative restriction.

To assure free competition, the practice of subsidies or help of any kind from the governments will be suspended and the transportation rates will be freed of any discriminatory practices. Relations will be established between the different means of transportation and the different countries. The criterion of nationality is to be banned from the Community and will not have any influence whatever on the price and delivery conditions. Determination of the prices as well as the selling conditions will be made public and will be kept as low as possible after consideration of the amortization and remuneration of capital, and the necessity of an improvement of the living conditions of the workers.

The practice of "dumping", or two-price selling is strictly prohibited and, at the same time, agreements between producers and distributors which would lead to the control or the sharing of the market or monopoly on sales are placed under the same prohibition. Industrial concentrations are allowed if they provide for the improvement of production or the diminution of costs but are subject to interdiction if they provide an escape from the rules of free competition by controlling the market.

Another important factor in the creation of the Community was the financial considerations. Some funds had to be provided for the general expense of the organization set up for the enforcement of the treaty and the treaty itself considers some financial interventions of the Community. The financial resources are to come from three different sources:

(1) An equalization fund provided through a levy of 1.5 per cent on each ton of coal and steel. The use of this fund will be considered below.

(2) A fund which is intended to cover the administrative expenses and the non-reimbursable assistance provided for in Article 56 concerning readaption. The fund will be also used for the general expenditures to encourage technical and economic research. The levies are assessed annually on the various products of the Community according to their average value and this tax may not exceed one per cent unless by a decision of the majority of the assembly representing the member states.

(3) Funds can be obtained by borrowing but may be used only to grant loans according to specification of the treaty.

It is assumed that the United States will help financially, but no step has been taken yet regarding the subject.

The Community exists not only according to a set of rules dictating the duties of the members but, like a nation, the Community is based on certain basic principles. The word, "Community", involves the concept of democracy and for this reason the "Community involves the basic democratic powers: (1) the governmental power of execution placed in the High Authority which is in charge of the application of the rules in the common interest of the member states; (2) the legislative power for control invested in The Common Assembly which is the delegation of the people constituting the Community, and this Assembly has controlling power over the High Authority; (3) the Court of Justice is the judiciary power which enforces the respect of the code and its preservation.

In line with the principles of constitutions, the separation of powers is complete and the liaison between the executive powers of the Community responsible for coal and steel and the executive powers of the member states responsible for their national economy as a whole is provided by a Special Council of Ministers in which each member has a delegate. Within this set-up, to be a true executive power the High Authority must receive, by irrevocable delegation, some of the rights and privileges granted to the governments of the member states. This Authority must be absolutely independent of the states and the enterprises of the Community, and each government must consider the decisions of this supra-national power as decisions taken by itself. A fusion of national sovereignties is the last step which creates a Community where a common law corresponds to a common application.

It is evident that the member states could not simply invest their sovereignty even in a limited field to an irresponsible organism with

unlimited powers. A compromise had to be reached in line with democratic principles, and the area of operations of the Community has been described with precision.

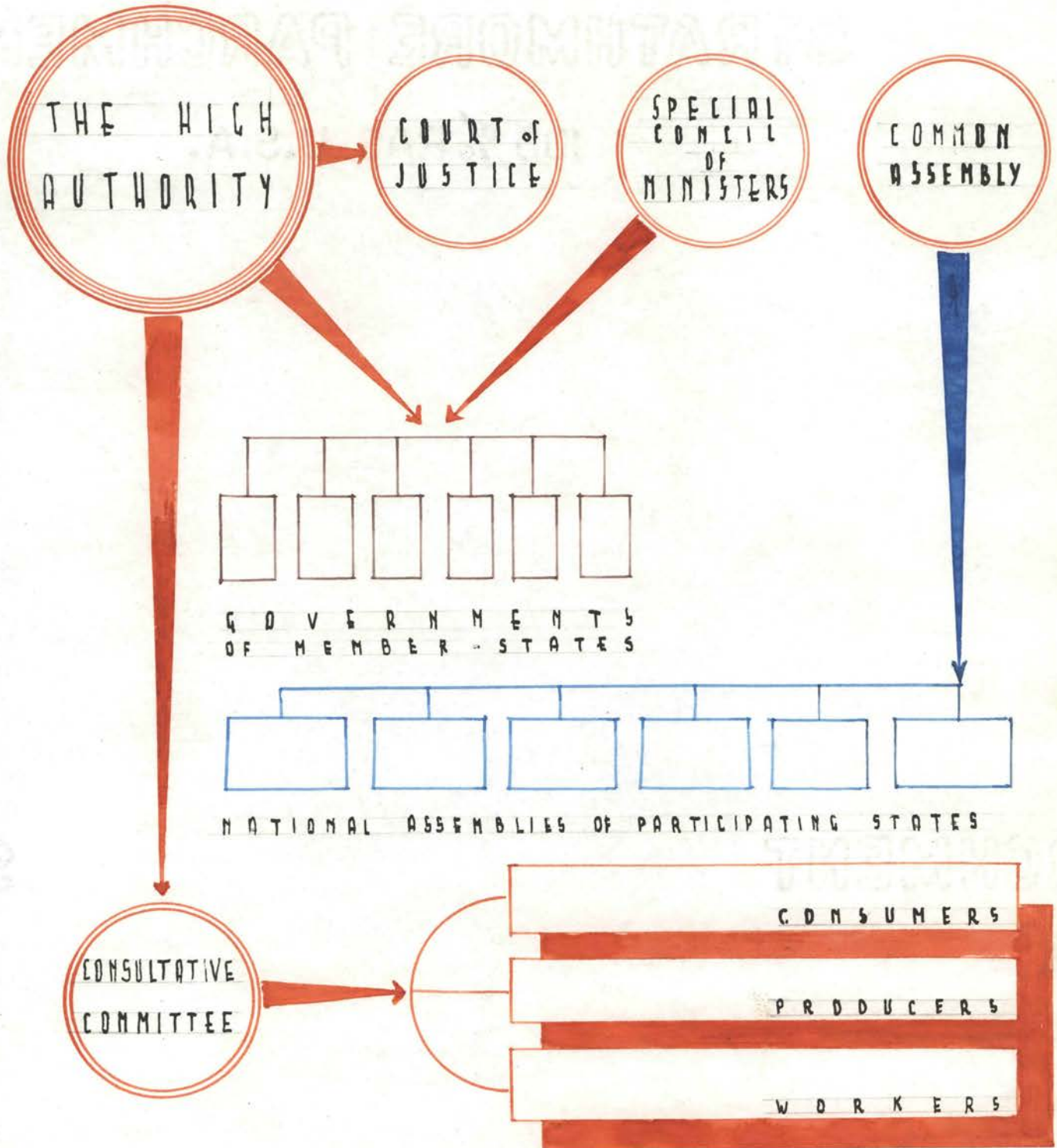
The Community guarantees full freedom to private firms regarding their administration. Their commercial management is limited only to the extent of the rules established by the Community. The Court of Justice will protect the governments and the enterprises against any excess in authority regarding the application of the rules.

Producers, workers and consumers have a permanent right to be heard and have the assurance of participating closely in the life of the Community. On the other side, the High Authority has the duty of spreading collective information to the groups mentioned above for the common use of the governments and the enterprises.

The High Authority

Since it is supra-national, independent of the governments and the enterprises, this executive power will have as its duty the application of the treaty for the common interest of the Community. The High Authority is composed of nine members elected for six years with a maximum of two members of each nationality. These members are chosen for their general ability and are not allowed to have any other professional activity or relations with enterprises dealing with coal and steel. Democratically, their decisions are by majority vote. Being a small organism, the High Authority proceeds by consultations and its range of action is limited to the terms of the treaty. Its duties are the modernization of the enterprises, the financing of research and the readaption of the workers through a contribution which cannot

THE ORGANIZATION OF THE EUROPEAN COAL AND STEEL COMMUNITY.



exceed one per cent of the value of the coal and steel production and by the means of loans. All the decisions are taken only for the application of the rules of the Community and to reach objectives determined by the treaty. Before all important decisions, the High Authority must consult with the Consultative Committee and the Council of Ministers. The decisions are public and can be enforced on the territory of the member states.

The Consultative Committee

The Consultative Committee will be composed of from thirty to fifty-one members selected from producers, workers, and consumers in equal numbers and their opinion must be taken into consideration by the High Authority before all important decisions.

The Consultative body of the Community is the Common Assembly composed of delegates elected by the parliaments of the member states by universal suffrage. Their number is as follows:

Germany	18
Belgium	10
France	18
Italy	18
Luxembourg	4
Netherlands	10

The Common Assembly meets annually and during this meeting will consider, in a public session, the report that will be submitted by the High Authority. This report will be approved or rejected. In this last case, by the rejection of the report, the Assembly invites the High Authority to a collective resignation. The Common Assembly

can meet for extraordinary purposes at the demand of the High Authority or the Council of Ministers, or at the request of the majority of its own members. In the name of the states it represents, the Common Assembly controls the actions of the High Authority.

The Council of Ministers

This council is composed of six members, one for each participating country, and will be the link between the federal power and the national authorities. It is interesting to note that such an organization was not considered in the original French proposal and that later it was necessary to establish a relation between the decisions taken by the Community within the limits of its authority and the governmental decisions on a national level. Thus a permanent consultation is possible between the two powers. The High Authority will consult the Council regarding all important decisions and the Council will advise the High Authority on all moves which can have important consequences on the economy of the nations interested.

The Court of Justice

Composed of seven judges elected for a period of six years, the Court will insure the respect of the rules both in the interpretation and the application of the treaty. If the Court rules that a decision of the High Authority has an illegal character according to the clause of the treaty and that it constitutes an abuse of power, it has the authority to annul the decision and to allot damages.

The function of the Court might be compared to the function of the Supreme Court of the United States for the interpretation of the constitutionality of the decisions taken through the authority of the

executive powers, and this Court has the same function as an International Court.

A creation such as the Community, with so many implications and changes, could only be put into effect gradually before reaching full operation. To this effect, a Convention containing the transitional provisions as provided in Article 85 of the treaty was drawn up and set forth the measures for the creation of the single market and the progressive adaptation of production to the new conditions in which it will take place. The treaty will be placed in effect during two periods: the preparatory and the transitional periods.¹⁴

During the preparatory period, the institution of the Community will be established, the High Authority will study, consult, and negotiate with the countries concerned, and obtain an overall view of the situation in the coal and steel industries.

The transition period will begin on the date on which the common market is created and will end at the expiration of a period of five years following the creation of the common market for coal.¹⁵ During the five-year transitional period, the High Authority can permit the practice of zone-prices, and the maintenance of national compensatory funds. The High Authority will establish a perequation¹⁶ levy per ton

¹⁴ Convention Containing the Transitional Provisions. Purposes. Section 1.

¹⁵ Ibid.

¹⁶ Perequation, concept used in the official translation of the treaty meaning equation or compensation.

of coal which will represent a percentage of producers' receipts on the coal production of those countries where average costs are less than the average of the Community.¹⁷ The ceiling of this equalization levy will be 1.5 per cent of such receipts during the first year of operation of the single market and will be reduced by 20 per cent of the initial ceiling each year.¹⁸

After study, even the use of a perequation fund was not found in some cases to be a sufficient solution. The Belgian mines in particular should be replaced by coal from other states to have the Belgian consumer benefit from a price reduction.¹⁹ The decrease in French production that may be brought by the establishment of common market may not exceed an annual ceiling of one million tons during the transition period. Italy, whose steel industry is undergoing complete reorganization, will be authorized by the High Authority to apply, during this period, annually decreasing customs duties on the products coming from other states and to eliminate such duties by the end of the transition period.

These are the main rules and arrangements which create the European Coal and Steel Community. This treaty has been the realization of long negotiations, studies of production, and argumentation on economic and political principles. All these factors can be called the facts behind

¹⁷ Convention Containing the Transition Provisions. Purposes. Section 1.

¹⁸ Convention Containing the Transition Provisions. Special provisions for coal. Chapter II, Section 24.

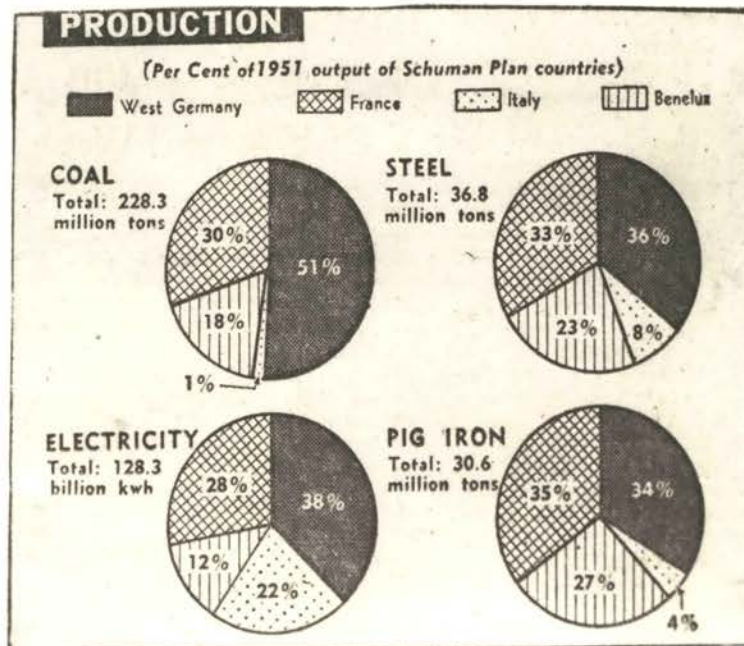
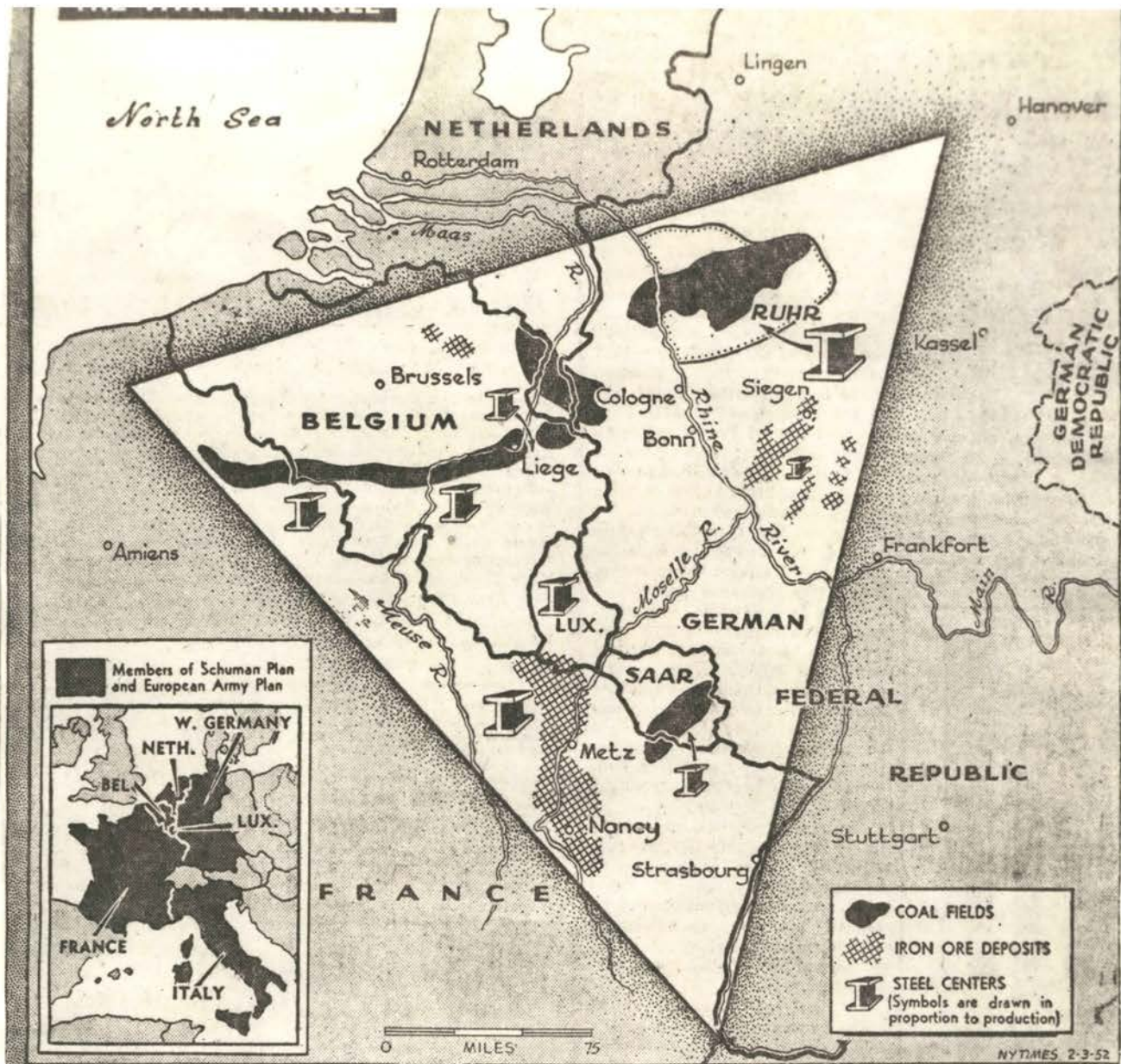
¹⁹ Ibid.

the Community and it will be the aim of the following chapters of this study to consider these facts and their economic and political implications.

PART TWO

THE FACTS BEHIND THE SCHUMAN PLAN

This second part will review the economic problems in the past and present relationships between the coal and steel industries of the six countries forming the Community as reflected in their patterns of production, consumption and trade. It will deal in particular with the cost and price differentials of these two industries. The problem is complicated by the difficulty of rendering the data for these countries comparable; some are of an approximate nature but are deemed to be sufficiently reliable to allow some significant conclusions regarding the countries concerned. Furthermore, an attempt will be made to point out what differences in costs and prices can be maintained through the artificial separation of the markets, whether governments impose them or whether governments merely permit them to be imposed by industries themselves. From these data, we shall attempt to outline the possibility and efficiency of a unified market for the coal and steel industries of Western Europe and gain a clearer idea of the problems to be encountered.



CHAPTER III

THE COAL INDUSTRIES

The treaty for the European Coal and Steel Community unites six countries with the following characteristics:

NATIONS	POPULATION IN MILLIONS	SQUARE MILES	OVERSEAS DEPENDENCIES POPULATION IN MILLIONS	SQUARE MILES
Western Germany	48	96,000	-	-
Belgium	9	11,752	19.2	953,561
France	42	212,681	-	-
Italy	46	116,553	-	-
Luxembourg	0.3	998	-	-
Netherlands	10	13,200	35.1	802,524

Source: Compiled by Chauncey D. Harris, University of Chicago, 1948.

Nature has assembled the main sources of European industrial wealth in a triangle the longer side of which is not even 270 miles in length. (Chart II) Within this area, Western Europe has its coal mines. Lorraine is located next to the Saar, and thus coal is touching iron ore. Natural means of communication like the Moselle River, the Rhine and the Meuse permit cheap transportation for such products and other means of communication are also numerous in this relatively small area. In this triangle, the coal producing areas stretch from the Ruhr, westward across the Netherlands and, from Belgium to Northern France, reaching in the south the rich iron ore deposit of Lorraine and the adjacent coal mines of Lorraine and the Saar.

This area reflects two different patterns of development, the one where iron and steel industries are based on the local production of iron ore combined with imported coal and coke, and the other where they are based on the local coal production combined with imported iron ore. The first pattern is typified by the Lorraine iron and steel center and Luxembourg, the second pattern by the Ruhr with its high quality coking coal, by Belgium, Northern France, the Netherlands and the Saar. Nowhere in the world exists in so small a perimeter such an accumulation of industrial power.

TABLE NO. I_a
 PRODUCTION, CONSUMPTION AND TRADE IN
 THE COAL INDUSTRIES; 1937 & 1949
 (millions of tons)

Countries	Production		Consumption		Total Export		Total Import	
	'37	'49	'37	'49	'37	'49	'37	'49
Belgium	29.9	27.9				1.5		0.9
Luxembourg			31.8	27.6	4.3		6.2	0.3
France	44.3	51.2	67.4	65.9	1.7	1.0	24.7	15.7
Saar	13.4	14.3	7.0	8.2	6.7	7.0	0.3	0.9
Western Germany	137.6	103.2	101.5	94.8	45.4	12.8	9.4	4.4
Netherlands	14.3	11.7	15.5	16.0	7.1		8.3	4.3
Italy	1.5	1.1	13.9	10.1			12.5	9.0
TOTAL	240.9	219.4	237.1	222.6	65.3	22.3	61.4	35.5

Source: The Economic Bulletin for Europe, Second Quarter, 1950.

THE SITUATION OF THE COAL INDUSTRY

A study of the above table covering the coal production in the years 1937 and 1949, reveals some interesting trends prevailing in the coal market. Production figures indicate:

(1) A fall of 10 per cent in the total production between 1937 and 1949.

(2) A considerable fall in the German production whose share in the Community has been reduced. This last factor is due to facts such as war destruction, over-exploitation of the best mines under the Nazi regime, uncertainty of the Ruhr's status and the installation work executed by German miners, thus reducing their actual productivity.

(3) French production has sharply increased, thanks to the tremendous effort of the coal industry right after the war and due to the fact that the French coal mines did not suffer as much destruction during the war as those of some other countries', the Netherlands, for example.

The coal consumption presents also some interesting characteristics. In 1937, the total consumption for the Community was 237 million tons, about 8 per cent above the actual level of consumption in 1949. This decrease of coal consumption must be compared with a decline of only 3 per cent for the level of industrial production in general.¹

A comparison between the coal consumption of 1937 and 1949 does not reveal the important fluctuations which happened from one year to another. These fluctuations have been as much as 44 per cent below the average level of consumption for the 12 years considered, and as high as 25 per cent above the same average level.

¹ Journal Officiel de la République Française. Avis et rapports du Conseil économique. (November 30, 1951) p. 224.

For the group, France-Germany-Saar representing, before 1940, 169 million tons or about 75 per cent of the consumption of the Community there are some shifts to 78 per cent and 114 per cent of a normal consumption in the years of depression and prosperity. The difference between these two extremes amounts to 60 million tons or more than 35 per cent of the total consumption of the Community during a normal year.²

In France, the amount of the apparent consumption has fallen from 87.6 million tons in 1929, to 67.4 in 1937, and 65.9 in 1949. We may also notice that the tendency for the consumption to decline is general for the countries forming the Community.³ This drop in the coal consumption is caused partly by the competition of other sources of energy (waterpower and oil) and a more efficient use of coal. Over long periods, the total industrial production increased appreciably more than the consumption of coal. The shift to oil is accelerated by the labor-saving possibilities and we can say that when a country must import fuel and has a choice between coal and oil, the latter is preferred.

Coal supply lacks adaptability to changing market conditions to a greater extent than fuel oil. The coal shortage was one of the major bottlenecks of the economy of Western Europe right after the collapse of Germany. The labor supply was inadequate, the labor productivity declining, the equipment scarce and in bad condition,

²Ibid.

³Ibid.

and some auxiliary material like pit-timber was missing. The differences between the countries forming the Community were only differences of degree. The problem was aggravated by the inability to import coal to make up for the shortages arising from reduced output at this time. Germany and England, the traditional coal exporters, were able to meet these shortages only on a very reduced scale when they had to contend themselves with a serious lack of production. Exports declined to a greater extent than production because of national measures giving domestic consumers priority rights to the existing production in each country. Foreign trade in coal between Belgium, Germany and Netherlands in pre-war days was based on differences in types and qualities. At the end of hostilities, the governments of Western Europe realized that coal supplies were the key to economic recovery and they accorded great priorities to measures that aimed at increasing coal supplies.

Considering the enormous difficulties with which the countries of the Community had to contend in more than one field, the rate of recovery of their coal production between 1945 and 1949 may certainly be termed impressive. In the meantime, these countries turned to the United States for their coal imports.⁴ Such imports, owing to the high transport costs, proved to be very expensive and their progressive elimination was a symptom of return to greater normalcy. Two factors made this possible: the higher exports from European countries, particularly from Germany and England, and the increasing

⁴Rotterdamsche Bank Quarterly. No. 4, (1950). p. 4-45.

production of the coal-importing countries. The process of reducing imports from the United States was accelerated by the 1948 strikes in that country. The biggest improvement in the comparative relation of home production to domestic consumption was achieved in France where output now exceeds pre-war level.

There has been a certain contraction in European's coal trade cycle already in the course of 1948; signs of slackening demand were first perceptible in Belgium.⁵ This reduction happened because the principal coal-consuming industries, the steel-and metal-processing industries, are very sensitive to business-cycle movements and also because coal-production costs, as shall be seen later, are higher in Belgium than in the other members of the Community. Moreover, the hardness of the Belgian currency was an additional obstacle to the export of coal to other countries.

The increasing significance of prices in the coal situation should be noted and this is particularly true for the export markets where important changes occurred. Early in 1949, Polish coal lost considerable ground. The position of the German coal industries became stronger and price cuts contributed to this result. The German export prices were cut from \$16.00 to \$12.50 per ton. The price system adopted in Germany and England was a system of double pricing--higher for exportation than for domestic uses. The Belgian coal industry followed for some time a dumping policy. It sold coal below cost prices in foreign markets so that these transactions caused very important losses. The Belgian coal

⁵Ibid.

companies' decision to adopt this policy was taken in connection with the efforts made to cut their coal supplies which had become excessive. During the last months of 1949, the coal situation was also influenced by the devaluation of a number of currencies and price rises. On the other hand, prices of coal did not rise in the currencies of countries such as Poland and the United States that did not resort to devaluation.

During the first six months of 1950, the coal industry of Western Europe developed along rather unfavorable lines. There were exportable surpluses more particularly in France and the Saar Basin, and to a lesser extent, also in Western Germany and in England. By the end of March, 1950, the Economic Commission for Europe announced that in the second quarter of 1950, there would be an exportable surplus of three million tons of coal in Europe which would find no buyer.⁶ The term "surplus" should be interpreted however, with some reserve...When France and Belgium had surplus stocks, other countries like Italy had a deficiency that they were unable to cover from European sources either because the qualities they needed were not available or because of difficulties regarding payments. Moreover, excess did not occur in every category of coal; some types such as house coal and anthracite still remained scarce.

The announcement of the extensive rearmament and stock-piling program in the United States produced an important and sudden stimulus to the economic activities and disposed of the anxiety felt regarding over-production and unusable export surplus. For these reasons, the winter of 1950-51 was characterized by new shortages of coal; England reduced

⁶Ibid.

its exports and in October 1950, Western Germany's Minister of Economic Affairs went so far as to declare that the coal output had become a source of anxiety for his country and that, even with a reduction of exports, Western Germany would experience a shortage of some three million tons.⁷ Increased output offers the solution but the question of man power was a big difficulty in Western Germany as well as in England. Further symptoms of the great change that has taken place in the market for the Community was the Belgian decision to resume her imports and that the imports of coal from the United States were to be resumed on a large scale.

As we see it, the basic problem of the coal market is the adaptation of an inelastic supply to a swiftly changing demand. The consumption shows important variations according to the economic situation of the countries considered. The production, on the contrary, can be adapted only with difficulty to the variations in demand. Traditionally, the exports from England helped to regulate the coal market on the continent but its disappearance modified the whole structure of the market.⁸

The producing countries of the Community show very large differences both in labor productivity and in labor cost per manshift of eight hours. Cost comparisons are difficult because different methods are used for social charges and taxation, capitalization and financing. For instance, the different methods used in amortization of capital can cause the costs to vary as much as 10 per cent.

⁷ Journal Officiel de la Republique Francaise. Avis et rapports du Conseil Economique. (November 30, 1951) p. 224.

⁸ Ibid.

TABLE NO. I_b

PRODUCTIVITY COSTS AND PRICES IN COAL MINING, FIRST HALF OF 1950

Quantities and dollars at current exchange rates

COUNTRY	Total output (millions of tons) (annual rate)	Output per man-shift (over-all) (tons)	Labour costs per man-shift (over-all) (dollars)	Labour costs per ton (dollars)	Total operating expenses per ton raised (dollars)	Average pithead price per ton (dollars)
Belgium	28.3	0.69	5.84	8.53	13.07	13.70
France	51.8	0.75	5.13	6.87	8.74	10.00
Saar	15.1	0.94	4.62	4.90	7.91	9.64
Western Germany	107.6	1.06	4.39	4.14	7.33	7.92
Netherlands	12.1	1.42	3.51	2.46
United Kingdom	223.2	1.21	4.99	4.13	5.90	6.61

Source: Economic Bulletin for Europe, Second Quarter, 1950.

From the figures in Table No. 1_b it can be seen that the differences in labor costs work in a direction which has a tendency to exaggerate rather than to offset the differences in productivity. Costs are determined largely by the widely differing nature of the coal mines, a handicap which technology cannot eliminate fully.

For the two extreme cases, Belgium has not only the lowest output but the highest labor cost per manshift while the Netherlands has the biggest output together with the lowest labor cost. The average labor costs per ton of coal produced are thus about three and a half times as high in Belgium as in the Netherlands. Labor costs are relatively low in the two countries with the largest reserves of high quality coal in Western Germany and England. The fact that the production in the low-cost countries remains insufficient and their exports which are low explain the maintenance of the pressure on other countries with high production costs.⁹

The main element in coal production is labor, but operating expenses seem to be high in Western Germany and still higher in Belgium.

We now turn to the role of costs of coal production in the Western European countries. Table No. II gives us some relevant information.

The pithead prices reflect the differences in operating expenses. In Belgium, for instance, there is a government subsidy (which has been gradually diminishing since October, 1949) but prices are still twice as high as in England and about two-thirds higher than in Western Germany. It can be seen that the difference of cost prices between the countries of Western Europe are greater now than they were in the past.

⁹Economic Bulletin for Europe, Second Quarter, 1950, p. 28.

TABLE NO. II
 AVERAGE PITHEAD PRICES OF COAL, 1886 TO 1949
 Dollar price per ton

C O U N T R Y	1886	1913	1924	1929	1936	1949
Belgium	1.60	3.63	5.25	4.44	3.62	13.36
France	2.21	3.29	4.34	4.35	5.18	9.98
Germany (Ruhr)	1.10	2.87	4.44	3.58	4.20	7.92
Netherlands	-	-	-	3.58	3.40	-
United Kingdom	1.16	2.46	4.16	3.32	3.58	6.61
United States	1.09	1.30	2.43	1.96	1.94	5.50

Source: Economic Bulletin for Europe, Second Quarter, 1950.

TABLE NO. III
 PRODUCTIVITY IN COAL MINING, 1881 TO 1949
 Output per man-shift or per man-day in tons

C O U N T R Y	1881- 1890	1909- 1913	1924	1929	1936	1949
Belgium	-	0.54	0.45	0.58	0.80	0.64
France	0.69	0.68	0.58	0.69	0.86	0.70
Saar	-	0.84	0.71	0.84	0.95	0.85
Germany (Ruhr)	-	0.94	0.86	1.27	1.71	1.05
Netherlands	-	0.82	0.84	1.25	1.78	1.41
United Kingdom	-	1.03	0.89	1.10	1.20	1.18
United States	2.32	3.23	4.14	4.40	4.19	5.68

Source: Economic Bulletin for Europe, Second Quarter, 1950.

Table No. III shows that in 1949, the productivity in coal mining for the countries of the Community other than the Netherlands had recovered to the approximate level reached in 1929. This low productivity can be attributed to many factors such as the quality of the labor force, the old equipment, and the exhaustion of some fields of mining.

In terms of productivity, the lead of the United States is very significant. It is certainly due to the use of very modern equipment which the European countries, even with Marshall Plan help, could not afford. On the other hand, the coal fields in the United States are, on the average, much easier to work than the European mines. The chart shows that in the United States the Second World War brought a very definite increase in productivity.

Prices are difficult to compare because the price differences between the countries are in many cases considerably greater than can be accounted for by transport costs. In Germany, for instance, rail freight charges favor domestic traffic and penalize movements across international borders. Then, costs and price differences are created for the most part through controls and regulations added to the practice of double pricing mentioned above. These export differentials are often completely or partially offset by subsidies from coal importing countries. In France, for example, the "Caisse de Compensation" pays a subsidy on imports of German coal but the result is to increase the amount paid by France for her imported coal.¹⁰

¹⁰La Communauté Européenne du charbon et de l'Acier, Conseil Economique. Commission des affaires économiques et du Plan. 1.139/Af. Ec./74. Paris. (November 22, 1951).

If the prospects for the six countries forming the Community are considered, it must be said that in such a complicated interdependence of variable factors, predictions can be made only with the greatest caution. As far as consumption of coal is concerned, it is influenced not only by the short-term cyclical fluctuations and a long-term trend, but also over some period by political factors. The long-term trend implies a relative decline in consumption. It also is difficult to work out estimates about future coal sales, so numerous are the factors affecting the course of events.

The coal shortages and surpluses periodically seem to be very serious problems and the producing countries have tried very hard to keep coal prices low in the domestic market in order to fight inflation and help a fast recovery. It seems reasonable to assume that in periods of shortages, the abolition of controls and subsidies would provoke a rise in prices in the low-cost countries rather than to lower them in a high-cost area, but as will be demonstrated later, in the long run, great benefits would be derived from the abolition of the export differentials, subsidies, discriminatory transportation rates and other controls and regulations creating the present price structures.

CHAPTER IV
THE STEEL INDUSTRIES

Through the diversity of its uses and by its character of universality, steel production is still the best way to estimate the strength of a nation in peace time as well as during a war. For this reason alone, every country has attempted to develop within its territory some steel industries which will give it independence. This fact and the lack of investment due to the depression explain the drastic fall of international trade in steel. In 1928, the tonnage of steel exported was one-sixth of the world production, while today it is one-tenth of it. Not only have all countries developed their steel industry, but some small nations have created one. Turkey, for instance, which did not produce any steel in 1939, estimates a future production of 220,000 tons in 1953.¹

When we consider the general trend of consumption over a long period, we see that the needs for steel are very sensitive to fluctuations of the business cycle, and as a rule, are closely tied with investment and armament programs. In 1949, the countries forming the Community used approximately sixteen and a half million tons. In 1938, the consumption peak reached nineteen million tons, but in this tonnage the needs for war preparation have a share estimated at more than three million tons.²

¹"Le Fer et l'Acier dans le Monde", (from *Realites*, October, 1950), *Problemes Economiques*, No. 151, November, 1950. La Documentation Francaise, Paris.

²"Avis et Rapports du Conseil Economique", *Journal Officiel de la Republique Francaise*, November, 1951, p. 228.

The average consumption before the Second World War was approximately sixteen million tons. Table No. 1 shows the apparent consumption of finished steel during different phases of the business cycle for the members of the community.*

The total production of the Community which was, in 1920, about 24 million tons reached in 1949 only about 20 million tons. This difference is accounted for mostly by the low German production, which fell from 9,540 thousand tons in 1929 to 6,339 in 1949 because of the dismantling of some steel mills, and the limitation of the Ruhr production by the International Authority. However, this situation is not likely to remain, as the restrictions on the German production are disappearing gradually and Germany will certainly regain its pre-war level of production. See Table No. II.

The French siderurgic industry does not utilize its productive capacity completely. Since 1945, a great effort to improve equipment has been made but the production is slowed down by the lack of suitable coke. Actually we can say that the French steel industry reaches only 85 per cent of its rated capacity. A study of steel production and consumption indicates that it is not possible to speak broadly of the market for steel in general or about production costs in the abstract. The cost of steel is the result of complex industrial processes which involve raw materials, whose position in the market must be considered independently. As we shall see later, it is more feasible to deal with the total costs of pig iron used rather than to concentrate on the costs of finished steel since national estimates use different bases in each country. The Schuman Plan does not only limit

*For convenient reading, the tables have been placed at the end of the chapter.

itself to finished steel problems but concentrates on the raw materials which lead to steel production.

The Community does not fill its entire needs in iron ore with a production of 45 million tons and 14 per cent of the consumed tonnage must be imported from other countries (generally Swedish ores of better quality). France is the main producer of the Community (70 per cent of the total) and exports 22 per cent of her production or about 7.2 million tons. Since 1929, production and exports of French iron ore have been reduced; on the other hand the iron ore from Lorraine with its phosphorous content needs a special treatment for which only France, The Saar and Belgium are equipped. German production is around nine million tons which does not cover a large part of the domestic needs and this ore is in general quite poor.

As a whole, the decline of iron-ore production in Western Europe from 1937 to 1949 has been almost 20 per cent. In France and the adjoining Luxembourg fields, production in 1949 was approximately 3.2 million tons less in terms of iron content than in 1937. In Western Germany, production has been maintained while imports have fallen. In 1937, German ores provided one-fifth of its total domestic consumption and in 1949, the proportion had risen to more than one-half. See Table No. III.

According to the experts of the Community, needs of the six countries reach annually 52 million tons and have been estimated for each country as follows:

Germany	13.6 million tons	France, Saar	24.5 million tons
Belgium	6.7 million tons	Italy	0.6 million tons
Luxembourg	6.1 million tons	Netherlands	0.6 million tons
TOTAL		52.1 million tons	

Source: The Committee of Experts. Journal Officiel de la Republique Francaise. p. 235.

In France the drop in output was matched by a reduction of exports especially to Belgium and Western Germany. The fall in the consumption of iron ore is not fully reflected in the figures of steel production which was only slightly reduced. This has been possible because of a greatly increased consumption of iron and steel scrap in the production of pig iron and steel. The total amount of scrap consumed in Western Europe including the United Kingdom in 1949 was about 5 million tons greater than before the war. See Table No. V. Due to the tendencies toward national self-sufficiency most of the countries saved considerable quantities of iron ore by using more scrap. See Table No. VI. The scrap supply is very elastic because its recovery can be more or less active depending on the demand. Most of the scrap is provided by domestic scrap collection. The Community can cover its needs of scrap quite safely. The production was in 1949, 17.6 million tons and the consumption was only 14.9 million tons. France and Germany, after the war destruction, are very favored and have an important stock.⁴ France covers her needs and Germany has become an exporter to Europe and the

⁴"The Coal and Steel Industries for Western Europe". Economic Bulletin for Europe. Second quarter, 1950. p. 36.

United States. However, France, which is developing its production of Martin steel, will need more and more scrap. We must realize the fact that the use of scrap in the Thomas process permits a considerable saving in coke per ton of pig iron. Using iron ore, 1,000 kilograms of coke are needed; using scrap, only 500 kilograms are needed. Scrap cannot solve the problem of raw materials necessary for pig iron production but the productive capacity can be temporarily increased through an intensive drive for scrap recovery in periods of large demand.

Germany is well provided with scrap but needs iron ore from other countries. She prefers Swedish ore which is a better quality. At the present time, many high furnaces are located near seaports or rivers which facilitates this type of imports, yet the ore from Sweden is sometimes difficult to obtain. The Schuman Plan is likely to re-establish the traditional trade of the years preceding 1941 and leading to large imports of iron ore from Lorraine, easily transported to the Ruhr industry.

Scrap while utilized extensively in steel production, accounts also for a large part of the cost of pig iron. Its importance has increased since the war and in the countries of the Community the amount consumed per ton of pig iron went from about 70 kilograms in 1937, to 162 in 1949. See Table No. VI. However, we may assume that this quantity will be reduced as the abnormally large supplies of scrap diminish.

The price of scrap in England, \$7.60 per ton, is extremely low but reaches \$18 in Belgium and Luxembourg.⁵

⁵ "Avis et Rapports du Conseil Economique". Journal Officiel de la Republique Francaise. (November, 1951) p. 236.

In order to understand the possible economies that might be realized through the unification of the market, the following pages analyze the present structure of price for iron ore, scrap and coke leading to the production of pig iron and then steel.

If labor is the main cost element in coal mining, raw materials account for 70 to 80 per cent of the total cost of pig iron. The relationship between the prices paid by the iron and steel industries is different from that for coal, as the prices of coking fines are different from the average pithead price of coal.⁶ These differences reflect changes in availability of coking coal and price policies in various countries. The lowest delivered price of coke, \$10.71 per ton, is found in Western Germany, the largest producer and exporter; the highest price, \$16.47 per ton, in France, the largest importer of metallurgical fuels.⁷ See Table No. VII.

Actually the French and German products are sold to consumers at the same price. This equality in delivery prices arises from the German double pricing and discrimination in freight rates on imported coke. The elimination of these discriminations on the basis of the domestic prices would allow the coke of the Ruhr to be sold in Lorraine for \$3 or \$3.50 less per ton than the coke produced in Northern France. The creation of a united market could bring very significant savings for French steel industries through the use of larger quantities of superior quality German coke.

⁶Ibid.

⁷Ibid.

Comparison between the prices of iron ores is difficult because of varying iron content and other differences in quality. The richer ores permit a considerable economy in the amount of coke used for blasting and may command a premium over lower-grade ores. It appears that, in the countries of the Community, the imported ores are relatively high in iron content in contrast to very poor home ores; there is also an important difference between the prices of the producing countries in Western Europe. See Table No. VIII (1 and 2). Expressed by tons of iron content, the average price of home ores delivered is roughly \$8.00 for Lorraine and Luxembourg and about \$16.00 in Western Germany. The difference between the Lorraine and German price may be partly explained by the margin between labor productivity of the two countries. Even on the basis of present freight rates (German home ore benefits from extremely low freight charges), Lorraine ore could be delivered in the Ruhr at a price per ton of iron content about \$2.00 less than the German delivered home ores. Except in Western Germany, the delivered prices of home ores in the Community are substantially lower per unit of iron content than the costs of imported ores, varying from \$13.40 for Swedish ore to \$17.50 for Newfoundland ore.⁸

Transportation is the principal element in the prices of imported ores and for the Newfoundland ores amounts to half of the price. The urgency for production right after the war and the increase in the price of coke, greater in proportion than that of iron ore, have increased the preference for richer ores. This situation has tended to

⁸
Ibid.

decrease the amount of ore imported from France by the neighboring countries.

On the basis of the amounts of coke, iron ore and scrap consumed and of their average prices, estimates have been made of the average cost of pig iron production. See Table No. IX. Coke is, in all cases, the largest cost item of the three raw materials, and is the most stable as far as quantities consumed are concerned. The tonnage of iron ore and scrap and their relative importance vary widely. Since the war, certain factors have influenced the quantities of the three materials used. Among these are the increases in the cost of coke and the greater availability of scrap as compared with iron ore in most European countries. See Table No. IV. In France, coke consumption is relatively high because of the poor quality of domestic iron ores. In Germany, where the price of coke has risen less than the price of domestic iron ores, cheap scrap has been heavily utilized.

As a conclusion, we may say that in Europe, the raw-material costs of pig iron are lowest in England with a total of less than \$22.00 for the three items. (England is self-sufficient in coke and in scrap, meets a large part of its iron ore needs, and keeps home prices relatively low compared to other European countries.) Belgium and Luxembourg have the highest raw-material cost with \$28.00 per ton of pig iron, their extensive use of scrap being incapable of counteracting the high cost of coke. Western Germany and France occupy an intermediate position, the advantage of Germany in coke being offset by the advantage of France in iron ore. We, therefore, see the vital importance of coke for countries like France and Belgium. These two countries could realize important

economies, if their requirements could be met by low-cost producers, and specially by Western Germany, on the basis of equal prices and equal transportation costs. On the other hand, we find that the utilization of domestic iron ores in Germany appears to be one of the most irrational uses of raw material in Western Europe.⁹ In the recent past, the wide use of scrap in Germany and some other countries which are deficient in iron-ore production reduced temporarily their difficulties and their costs. However, the exhaustion of scrap supplies or even the return of scrap consumption to a normal ratio would, without any doubt, expand low-cost ore production in France, recreating the traditional coke-iron interdependence of France and Germany.

It is impossible to make an accurate statement on the cost of pig iron under a unified market without estimates of the behavior of supplies and prices, but it seems safe to assume that substantial economies would be made. Pig iron is the main cost element in the producing of crude steel by the Thomas process and enters less into the Martin process where scrap, fuel and labor represent a large share. The variations between countries begin a difference in the cost of steel production and the lack of detailed information concerning the conditions of steel production render a cost analysis of doubtful value. Quoted prices differ often from actual prices and classifications differ according to the country to such an extent that comparisons are uncertain. From Table No. X, we see that the costs of the billets which are the nearest to the crude steel stage show the same relationship of costs as for pig iron, with a low price for the British and

⁹"The Coal and Steel Industries of Western Europe". Economic Bulletin for Europe. Second Quarter, 1950. p. 36.

high cost in Belgium. The advantage of British steel at the crude stage is not maintained in the more advanced products which show the effect of the low wage rates in Germany. In Thomas steel, German prices are lower than those in France and Belgium, with a lowering of prices in the advanced stages of production. The high prices in Italy seem to reflect the inadequate accessibility to raw materials.¹⁰

A comparison with the costs in the United States shows that, as a rule, European steel prices would be competitive and that the difference in cost between the varying stages of production is larger for the United States, showing the effect of higher wages and their indisputable superiority in the production of sheets. One may conclude that if the European countries undertake the production and specialization in a few standard products for which they are low-cost producers, considerable economies would result from the unification of the market.

¹⁰ Ibid. p. 39.

TABLE NO. I

Finished Steel

Apparent consumption for the members
of the Community for selected years*

(in thousands of tons and per cent of the total consumption)

COUNTRIES	1929	1 9 3 7		1938	1948	1 9 4 9	
			%				%
Germany	7.529	10.317	55	12.230	3.613	6.036	36,7
Belgium		1.627	8,7				
and	1.806			1.012	1.925	1.556	9,5
Luxembourg		.36	0,2				
France and Saar	4.763	3.900	20,8	3.667	5.583	6.099	37,1
Italy	2.071	1.895	10,1	1.844	1.695	1.794	11
Netherlands	907	985	5,2	638	1.025	939	5,7
TOTAL	17.076	18.700	100	19.391	13.851	16.424	100

Source: The Journal Officiel de la Republique Francaise, November 30, 1951.

*Difference between real and apparent consumption: "The two terms, as applied in our company are used to differentiate between the apparent consumption of goods as determined by the production figures and the actual consumption which takes into account such factors as purchases from warehouses and increase or decrease of inventories". From a letter answering our inquiry on this subject by William J. Long, Special Assistant to the Chairman, United States Steel Corporation. May 19, 1952. See appendix.

TABLE NO. II

Finished Steel

Production for the members of the Community for selected years

(in thousands of tons)

COUNTRIES	1929	1937		1938	1948	1949	
			%				%
Germany	9.540	10.432	44,9	11.730	3.720	6.339	31,7
Belgium	3.275	2.827	12,4	1.760	3.046	2.952	14,8
and							
Luxembourg	1.910	1.695	7,3	1.026	1.626	1.483	7,4
France and Saar	7.042	6.422	27,6	6.040	5.906	7.313	36,5
Italy	1.952	1.779	7,7	1.735	1.529	1.627	8,1
Netherlands		18	0,1	48	237	298	1,5
TOTAL	23.719	23.173	100	22.339	16.064	20.012	100

Source: Bulletin Economique pour l'Europe, E.C.E. (Geneve, 1950).

TABLE NO. III

Production, trade and apparent consumption in 1949

(in millions of tons)

IRON ORE

	Germany	Belgium	Luxem- bourg	France- Saar	Italy	Nether- lands	Com- munity
1 Production	9,1		4,1	31,3	0,5		45
2 Imports from participating countries:	0,4	5,1	2,7	0,1		0,1	8,4
3 Others:	4,1	1,6	0,9	0,3	0,1	0,6	7,6
4 TOTAL IMPORTS	4,5	6,7	3,6	0,4	0,1	0,7	16
5 Exports to the participating countries:			1,6	6,8			8,4
6 To others:				0,4		0,1	0,5
TOTAL EXPORTS			1,6	7,2		0,1	8,9
Apparent Con- sumption	13,6	6,7	6,1	24,5	0,6	0,6	52,1

Source: Figures derived from the document of the experts on the steel situation. Journal Officiel de la République Française.

TABLE NO. IV

Division of the iron ore used by the members of the Community
according to the countries
of origin
(expressed in percentages)

C O U N T R Y	before the war			after the war		
	Production of the country itself	Imports from others in the Community	Imports from others	Production of the country itself	Imports from others in the Community	Imports from others
Western Germany	20	10	70	70		30
Belgium		85	15		60	40
Luxembourg	35	65		35	35	30
France	100			100		
Saar		100			100	
Italy	85		15	85		15
Netherlands		15	85		20	80

Source: Committee of experts for the Schuman Plan. Journal Officiel, November 30,
1951.

Scrap trade, consumption and apparent production, 1936-1938 and 1949

(millions of tons and percentages)

Item	Belgium	Luxem- bourg	France	Saar	Western Germany	Sweden	Italy	United Kingdom	Total
1936-1938									
Net imports (-) or net exports ().		0.4	0.4		-0.7	-0.1	-0.5	-0.7	-2.2
Consumption of scrap in:									
Blast furnaces	0.3		0.7	0.1	0.8		0.1	0.3	2.3
Steel works	0.5	0.2	2.2	0.5	6.1	0.6	1.6	7.0	19.7
Blast furnaces and steel works	0.8	0.2	2.9	0.6	6.9	0.6	1.7	7.3	21.0
Total Consumption as a percentage of crude steel output.	26%	11%	42%	27%	43%	61%	81%	61%	46%
Apparent production.	1.4		3.3	0.6	6.2	0.5	1.4	6.6	20.0
1949									
Net imports (-) or net exports ().		0.3	0.2		3.2	-0.2	-0.4	-2.1	0.4
Consumption of scrap in:									
Blast furnaces	1.0	0.3	1.3	0.2	1.7		0.1	1.7	5.4
Steel works	0.6	0.2	2.9	0.4	3.9	0.8	1.8	9.9	20.5
Blast furnaces and steel works	1.6	0.5	4.2	0.6	5.6	10.7	0.8	1.9	25.9
Total Consumption as a percentage of crude steel output.	41%	22%	46%	32%	61%	61%	92%	68%	57%
Apparent production.	1.8		4.4	0.6	8.8	0.6	1.4	8.6	26.2

Source: Economic Bulletin for Europe, Second Quarter, 1950, p. 23.

TABLE NO. VI

Quantity of scrap used in the production of a ton of pig iron
(in kilogrammes)

COUNTRIES	1 9 3 7	1 9 4 9
Germany	52	238
Belgium	122	265
Luxembourg		144
France	127	172
Saar	59	228
Italy	106	210
Netherlands		47

Source: Published in the Journal Officiel de la
Republique Francaise on November 30, 1951.

TABLE NO. VII

Domestic market prices of coal, coking fines and coke, first half of 1950

Average or typical quotations expressed in dollars per ton

C O U N T R Y	Price of coal at pithead	Price of coking fines at pithead	Price of coke at coke ovens	Coke delivered to blast furnaces	
				Price	As per cent of pithead price of coal
United Kingdom	6.61	6.99	9.92	11.23	170
Western Germany	7.92	7.74	10.00	10.71	135
France	10.00	10.36	13.44	16.47	165
Belgium	13.70	12.78	15.10	15.90	116

Source: From the Economic Bulletin for Europe, Second Quarter, 1950. p. 30.

TABLE NO. VIII₁

Prices of domestic and imported iron ores, April 1950

Dollars per ton of ore or ton of iron content and percentages

Domestic ores by country of production

Type of quotation	United Kingdom	Western Germany	France Lorraine	Western France	Luxembourg
Price at mine, f.o.r. _a	0.98	4.40	1.94	3.22	1.94
Price delivered to blast furnaces in home country.	1.82	4.93	2.80	5.82	2.14
Iron content (per cent)	30	30	32.5	48	27.7
Price at mine per ton of iron content _b	3.27	14.67	5.97	6.71	7.00
Delivered price per ton of iron content	6.07	16.43	8.62	12.12	7.73

(a) Free on railroad.

(b) If X is the percentage of iron content, the price per ton of iron content will be: the price of a ton of crude ore multiplied by $\frac{100}{X}$.

Source: Economic Bulletin for Europe. Second Quarter, 1950.

TABLE NO. VIII₂

Prices of iron ores imported by the United Kingdom according to the country
of origin

Type of quotation	Sweden	Spain	Algeria	Tunisia	French Morocco	Spanish Morocco	Sierra Leone	New- foundland
Price, United Kingdom ports, c.i.f.	8.43	7.42	8.26	8.20	6.24	8.38	6.75	9.10
Iron contents (per cent)	63	.50	.53	.54	.46	.58	.60	.52
Price, United Kingdom ports per ton of iron content, c.i.f.	13.38	14.84	15.58	15.19	13.57	16.17	11.25	17.50

Source: Economic Bulletin for Europe. Second Quarter, 1950.

TABLE NO. IX

Summary of raw material costs in pig iron production

(in dollar costs per ton of pig iron)

C O U N T R Y	Total 1949 production of pig iron (thousands of tons)	Coke costs		Iron-ore costs		Scrap costs		Total costs of coke, iron ore and scrap
		Dollars	% of total	Dollars	% of total	Dollars	% of total	
United Kingdom	9,645	11.81	54	9.44	43	0.64	3	21.89
Western Germany	7,140	10.54	42	10.20	41	4.14	17	24.88
France	8,345	16.05	61	7.76	30	2.41	9	26.22
Saar	1,582	13.02	55	7.80	33	3.05	13	23.88
Belgium	3,748	12.86	46	10.28	37	4.98	18	28.13
Luxembourg	2,372	16.14	58	9.12	33	2.59	9	27.85
Weighted average for six countries		13.10	53	9.17	37	2.60	10	24.88

Source: Economic Bulletin for Europe. Second Quarter, 1950.

TABLE NO. X

Steel prices in Western European countries and in the United States

(dollars per ton)

COUNTRY	Type of steel	Billets	Heavy rails	Heavy sections	Bars	Wire rods	Hoop and strip	Plates	Sheets
United Kingdom	Martin	43.61	52.70	51.46	58.70	55.43	60.77	54.36	76.61
Western Germany	Martin	46.67			55.00			57.14	72.62
	Thomas	45.24	55.72	52.62	53.57	54.53	62.86	55.72	71.43
France	Martin	50.22		64.02	66.88	69.14	71.11	80.68	97.14
	Thomas	42.93	62.79	54.27	59.25	60.13	61.13	71.82	86.54
Belgium	Thomas	47.00	68.00	57.20	59.00	61.00	67.00	64.80	81.00
Italy	Martin			99.20	102.40	89.60		108.80	
Netherlands	Martin			64.21	62.11	72.11	76.80	72.63	84.47
United States	Martin	58.42	74.96	74.96	76.06	84.88	71.65	77.16	73.86

Source: Economic Bulletin for Europe. Second Quarter, 1950. p. 38.

CHAPTER V

THE PROBLEM OF TRANSPORTATION COSTS

One of the main objectives of the Community is to contribute to the economic development of each of the six member-states as well as to create a common market. Therefore, coal and steel production must be put at the disposition of the respective industries at the lowest possible cost. This fact points up the extreme importance of transportation costs to both coal and steel output.

Transportation costs represent, as we have already seen, a large share of the delivered cost of pig iron; for instance, for a carload of steel bars sent from Lorraine to a railway station near Paris, the cost of moving the raw materials used in these bars to the mill, plus subsequent cost of transporting them to Paris amounted to 20 per cent of the delivered price.¹ The experts of the Schuman Plan have proposed three solutions which could bring about a substantial reduction in transportation costs: The first one is the elimination of all discriminations in rates and transportation policies; second, the suppression of uneconomic cross-handling of raw materials, which would result directly from the widening of the market; third, the modernization of transportation equipment, both rail and waterways, to permit an acceleration of traffic.²

The obstacles to an economic distribution of the production in the Community lie in the discriminatory character of the transportation rates, not in the absolute level of freight rates for coal and other raw materials

¹Journal Officiel de La Republique Francaise, "Avis et Rapports du Conseil Economique"; (November 30, 1951), p. 237.

²Ibid.

which are not too high. In fact, the railroad systems in the community barely cover their costs of operation or are operated at a deficit. There is no valid reason why rates for the transportation of iron ore, coal or pig iron should be lowered to the detriment of other commodities, thus establishing special preferences for the materials concerned.

We find the essence of the problem in the discriminatory effect of freight tariff policies between domestic and international traffic and what appears to be a tendency to favor transport by rail over the use of waterways. The railways show discrimination in two different ways. In Germany, for instance, the practice is to guarantee low preferential tariffs in special cases with methods subsidizing indirectly the production of the item concerned. The second method of discrimination is one regarding shipments across international borders and the use of what is called "split tariffs" which make the transportation costs much more expensive than domestic transport for the same distance.³ In the "split tariff" the division of the travelled distance at the frontier deprives the shipment of the benefit of the regressive freight rates as distance increases. France has developed a system of discrimination by refusing to apply to imports the "complete train" provision. Under this rule domestic shipments receive discounts from the regular rates to the extent of 20 per cent, granted according to the tonnage and the volume of the traffic.⁴

An illustration of the "split tariff" discrimination is found in the case of the transportation of coal and coke from Northern France or the Ruhr, to the steel industries of Lorraine. The distance is about the same

³Economic Bulletin for Europe, "The Coal and Steel Industries of Western Europe", Second quarter, 1950, page 39.

⁴Ibid.

in each case. However, French coal is transported under the French freight rate and the "complete train" provision, for about \$3 per ton,⁵ while the cost between the Ruhr and Lorraine is about \$5 per ton over the German and French railroads. If either French or German tariffs were applied all the way, this difference of cost would be eliminated.

An other example of preferential rate making shows that in Germany the cost of a shipment of coke and steel from the Ruhr to Salzgitter is less than \$1 per ton and the distance between these two points is only one-fifth less than the Ruhr-Lorraine distance. Transportation for a ton of iron ore costs about \$3.70 from Lorraine to the Ruhr, \$1 for 50 kilometres in France, and \$1.70 for 300 kilometres in Germany. This cost does not appear to be more than the transportation cost of Lorraine ore to the northern part of France for the same distances; freight rates, at first sight, do not seem to be an obstacle to French exports of iron ore from Lorraine. However, the role played by the preferential domestic rates in Germany is considerable.

The preceding examples show that a uniform freight tariff for the various countries of the Community would drastically alter the competitive position of each region. Taking into consideration added differences in wage-levels and operating costs in the various countries, it becomes clear that such a unification will meet with many difficulties.

The elimination of freight discrimination would create, by removing the differentials, favoring domestic over international transports, a more economic use of resources. The exchange of the French iron ore from Lorraine and the German coal and coke from the Ruhr could be revived. Before 1914,

⁵"The Coal and Steel Industries of Western Europe", Economic Bulletin for Europe, Second quarter, 1950, p. 39.

a two-way traffic was established, using the same freight cars for French iron ore in one direction and German coal and coke in the other. Today there is a one-way move only because France does not export Lorraine iron ore to the Ruhr. The return to a two-way traffic system could again reduce considerably the combined shipping costs.

The improvement of water connections could also bring about substantial economies in the Lorraine-Ruhr interchange. A project has been studies to improve the waterways between Lorraine and Saar areas and the Rhine. Water traffic now is expensive because transshipment is actually necessary and Germany discriminates in favor of its railways, by a substantial surcharge on coal and coke exported to France by waterways. Another anomaly of the rate pattern concerns the transportation of iron ore from Normandy to Belgium by rail, when sea-transport is possible and more economical for this kind of raw material.

Concrete illustrations have sufficiently demonstrated that the present transportation tariffs between the members of the Community are among the most important factors accounting for the difference in the cost of raw materials. Some, if not most of them are discriminatory and a contradiction to the spirit of the establishment of the Coal and Steel Community. One of the first steps must be the revamping of the freight rate structure avoiding major disturbances in the economy of the countries involved. Such a step would contribute greatly toward the establishment of a competitive market and a better distribution of the primary goods produced.

The Treaty constituting the European Coal and Steel Community prohibits discrimination in transport rates based on the country of origin

of the products in question. The signatories are obligated to apply to the transport of coal, originating in, or destined for another country of the Community, the rate scales, prices and tariff provisions of all types applicable to internal transport of the same merchandise over the same route.⁷

According to section 10 of the Convention containing the transitional provisions, the High Authority must appoint a commission of experts to study the transportation network of the Community, and the possibility of establishing direct international rates, which take into account the distances and are regressive in nature.⁸ We shall see later that the vagueness of this provision dealing with discrimination gives some complexity to the problem.

This concludes the description of the industries in the six countries involved in the Schuman proposal and forming the Community and reveals the complexity of the problem. Production, consumption, exchanges for coal of different qualities, iron ores, scrap, pig iron, coke and interdependence of their costs, which are themselves under the influence of many complex factors like wages, employment, transportation, etc..... All these variable factors are part of the picture of a dynamic economy. Its future development after the drastic change caused by this treaty can not be predicted safely on the basis of an analysis of the past.

⁷Text of the Treaty, Chapter IX, Transport Article 70.

⁸Convention containing the Transitional Provisions, Section 10.

PART THREE

THE ECONOMIC PRINCIPLES

We shall now turn to an examination of some economic principles which the Schuman Plan specifies as a basis for its operations and which will largely control the success or the failure of the proposed Community. These principles are of such an extent and imply so many changes from the existing conditions that many economic experts doubt the ability of the different national economies to stand such a reorganization without suffering from the "fundamental and persistent disturbances"¹ that the Schuman Plan was created to overcome.

It is beyond the scope of this study to analyze exhaustively the full list of economic problems presented by this proposal; they are too numerous. Some are still quite indefinite, and others can be pushed toward a solution only by the actual application of the treaty. We shall therefore limit the discussion of the economic problems of the Community to the following five aspects of particular importance:

1. The problems of establishing a "Common Market".
2. The maintenance of competition.
3. The improvement of productivity and living standards.
4. The economic unity of the Community.
5. Some problems regarding the particular situations of each member-state.

We shall trace briefly the character of each of these problems

¹Treaty Constituting the European Coal and Steel Community,
Title 1, Article 2.

separately, indicate the various possibilities and limitations, and report the criticisms which have been made by some authoritative voices in the field of European economics.

CHAPTER VI

THE ECONOMIC PRINCIPLES OF THE COMMON MARKET

Corresponding to the creation of the institutions of the Community, the pooling of the coal and steel production has a triple significance:

1. In a buyers' market the resources of the territory forming the Community are put at the disposal of all the consumers in the entire territory, without national discrimination.

2. In a period of shortages at going prices of a nature preventing the satisfactory distribution of resources through the free operation of the market, resource allocation falls under the control of the institutions of the Community. Such distribution will be guided by the urgency of a member's needs rather than his ability to outbid other countries.

3. As defined in the treaty, the coal and steel production is removed from the jurisdiction of member states and governed instead by the legislative body of the common institution.

The vital importance of these basic industries in linking all economic activity justifies their selection as pacemakers toward the integration of Europe. This kind of pool prepares for and necessitates other unifications. However, the nature of these industries is such that simply deciding to do away with customs barriers and other restrictions cannot be sufficient. The adjustments in each market cause daily problems of an international nature which require a special authority for their solution. An open market devoid of any supervision would lead

to concerted actions of the producers in order to avoid economic chaos.

For instance coal production, as we have seen previously, can be adjusted only with difficulty. Also the exceptional sensitivity of the steel industry to the cyclical fluctuations due to the inevitably large overhead of fixed investments, can easily lead to disorganization of the market; it may bring price changes of such magnitude that the whole steel industry and its dependent industries would suffer. Such characteristics of the market point out the need for supervision of some kind.

The Community is founded upon the combination of "spontaneous reactions of the market"² and the administrative decisions of individual institutions. It attempts a compromise of national planning techniques and free competition. The Community advocates the economic principle of organized competition as opposed to a ruinous kind of competition.³

The economic dispositions of the Treaty define very clearly the division of the responsibilities involved. The producers, for instance, retain complete direction of their own particular enterprise while the institutions of the Community bring them some help, and at the same time guarantee respect of the common interest. The actions of the institutions are exercised in four different directions:

²Francois Perroux, "Le Pool du Charbon et de l'Acier et le Plan Schuman. Illusions et Realites", Nouvelle Revue de l'Economie Contemporaine, Le Schuman Plan No. 16-17, p. 32.

³Ibid.

1. For the able administration of the enterprises, on which the whole economy depends, it is necessary that full market information be put at the disposal of the individual firms.
2. Through its credit facilities and its general influence, the Community can aid in the development of investments and the solution of employment problems.
3. Competition between different enterprises must be regulated and thus contribute to the expansion of production in the common interest.
4. Finally during a period of crisis or shortage it will be a public authority rather than private interests which will decide on the solution of emergency problems.

The economic philosophy of the Treaty for the European Coal and Steel Community is that no one set rule or method can be entirely right or applicable, whatever the circumstances. The objectives of the Community must be reached through the functioning of the market and the free initiative of the enterprises, yet it would have been inconceivable not to be prepared for some exceptional periods when intervention might be necessary.

Certainly the pooling of coal and steel is not an end in itself. Through its governing institutions it prepares the way for a larger economic integration, and a more complete political union. But this initial pooling of resources will offer an opportunity to demonstrate the soundness of this approach toward unification. This union must achieve a contribution to economic expansion and to the improvement of the social welfare within the limited framework assigned at this time. This expansion must avoid a conflict with conditions of domestic equilibrium

and full employment. The reconciliation of these requirements and limitations forms the fundamental economic principles which coordinate the actions of the Community and the member-states, and inspire the architecture of the institutions forming the Community.

THE ESTABLISHMENT OF THE COMMON MARKET

As we saw in chapter II, the establishment of a unified market permitting the circulation of products within a territory representing a population of 150 million aims at the development of more specialized production. At the primary level of coal and pig-iron production, the national markets of the countries forming the Community, considered as a unit of production, are large enough to profit from the use of modern technology. For instance, the optimum output of a modern steel mill is around one million tons yearly. When we reach some higher level in the transformation of steel, the widening of the market as created by the Community appears to be an essential condition for the improvement and expansion of production. The most powerful rolling mill can be used efficiently only in a market more extensive than that in any one of these countries taken separately⁴.... in any case the expanding of the market is the necessary condition for the specialization of enterprises and permits, through mass production, an important reduction of unit costs. On the other hand, it is possible for consumers, in choosing between competing concerns, to put pressure on prices and to impel a constant improvement of the quality of the product.

The enlargement of the market will diminish the demand fluctuations which have always been a menace to the development of the means of

⁴"Rapport de la Delegation Francaise sur le Traite Instituant la Communauté Europeenne du Charbon et de l'Acier," P. 73, Ministere des Affaires Etrangeres, Paris, October, 1951.

production. We can illustrate this fact by considering the shortage of coal which resulted between 1946-49 from the reduction of the British export, a situation which also caused a major disturbance in the steel industry. This risk is inherent in the present economic division of Europe. It is certain that when the different markets are separated and when there is a fall in the demand for coal, the countries which are partially importing coal will first preserve their domestic production, even if this production is more expensive. This contraction in demand will thus affect the countries which are primarily exporters. If we assume a similar drop should occur, the different productive areas will be submitted to a more proportional and more limited reduction.

We must realize that this development will cause the elimination of marginal suppliers in the coal and steel industries. Until now these producers continued their operations, sheltered by uneconomic practices now prohibited by the Treaty. This aspect of the establishment of the common market caused heated discussion of the Schuman Plan on a political level.

DELIMITATIONS OF THE COMMON MARKET

The delimitations of the territories forming the Community are stated in Article 79 of the treaty. The overseas dependencies of the member-states are not included under the jurisdiction of the Community. Those dependencies who have accepted preferential trade agreements are opened on an equality basis to the production of all members of the Community and all the members benefit by this existing agreement.

A special appendix to the treaty enumerates the list of products included under the denomination of coal and steel. A difficulty in drawing up this list consists in the definition of the stage of production where steel becomes a different product. It was finally agreed that the Council of the Community may modify this list. We find under the heading of coal not only bituminous coal but also coke and lignite; for steel, there is raw steel, finished steel and iron, and also the raw materials necessary for their production such as fuels, iron ores and other components.⁵ It is evident that the maintenance of the old trading conditions for these basic elements would be incompatible with the installation of the common market. For this reason, provisions of the treaty are applied to scrap iron according to some specific definitions. Special steels will be included in the common market only a year after

⁵Journal Officiel de la Republique Francaise, Avis et rapports du Conseil Economique, P. 246, (November 30, 1951).

the ordinary steels since their particular conditions of production and their market differs significantly.

The Community deals essentially with coal and steel production, but rules covering prices, competition and the structure of the enterprises directly tied to the production process made it inevitable that part of the distribution process was included under the rules of the treaty. Sales offices of the industry even though they have the character of distributive enterprises are subject to the same regulations as the producers. However, the retailing business is excluded for two reasons: first, because these enterprises are too numerous and too widely dispersed; secondly, they tend to renew their stock within limited areas in such a manner that their activity does not directly influence the functioning of the Common Market.

The establishment of the Community makes it possible for consumers in any of the countries entering the Common market to buy under identical conditions. This provision presupposes the elimination of the quantitative restrictions to free exchange established in the past by governmental authorities and associations of producers. Price differences, imposed by custom duties, or discrimination in the rate conditions, as a result of either governmental pressure or imposed by producers themselves, must be eliminated. For better competition between producers, economic subsidies which, until now have too often protected the weaknesses of certain producers must also be removed.

It has been said that in order for the Common Market to succeed, the countries of the Community should adopt the same system of

taxation.⁶ An indirect system of taxation established on different bases in the member-states is not incompatible with the proper functioning of the Common Market. Taken as an example is the "production tax" in France; in this country domestic products as well as imports are subjected to this tax, while sales destined for other countries, members of the Community or not, are exempt. They are, instead, subject to the taxation of the country in which they are sold. This solution appears to preserve free competition in the Common Market.⁷

The Common Market, being the main economic achievement of the Community, must be established in the shortest possible time and as soon as the institutions of the treaty are ready to begin functioning. The convention which followed the treaty defined two periods for its operation: first, a preparatory period, starting at the date of the treaty's application and lasting until customs duties between member-states are abolished; subsequently, a period of transition which will follow immediately and will last for five years. The object of the preparatory period is to put the functioning of the Community on a consultative basis between the different governments. The institutions of the Community will be established and the relations between the institutions,

⁶Bernard Lavergne, *Le Plan Schuman Expose et Critique de sa Portee Economique et Politique*, P. 51, *L'Annee Politique et Economique*, 1951.

⁷Rapport de la Delegation Francaise sur le Traite Instituant la Communauté Europeenne du Charbon et de l'Acier, P. 73, Ministere des Affaires Etrangeres, Paris, (October, 1951).

the enterprises, and the associations of workers, consumers, and distributors will be organized in such a way as to create a common point of view and mutual understanding among all the interested parties.⁸

⁸Convention Containing the Transitional Provisions, Section I, Part 3.

INTERNATIONAL CONDITIONS FOR THE ESTABLISHMENT
OF THE COMMON MARKET

Before the customs duties between the member-states can be dropped, negotiations must be opened to persuade third countries to agree on this preferential status. In other words, the elimination of customs duties within the Community must be excepted from the operation of the most favored nation clause. At present all the member-states have signed the General Agreement on Tariffs and Trade (G. A. T. T.).⁹ One might consider the Community as a new entity in international law with an effective unity and with its own sovereignty. From this viewpoint, the abolition of customs duties would no longer constitute a departure from the most favored nation clause. However, the institutions of the Community do not receive full responsibility for the commercial policies of the member-states. Coal and steel are still included in their individual commercial agreements. Therefore, article 24 of the G. A. T. T. seems inapplicable. Article 25 permits an exception to be granted by a vote either of two-thirds of the members or half of the nations which have signed the agreement. From the general attitude of the other members of the G. A. T. T., their approval of this exception seems to be assured.¹⁰

⁹Germany was Admitted at the Torquay Conference, (April, 1951).

¹⁰"Rapport de la delegation Francaise sur le traite instituant la Communauté Européenne du charbon et de l'Acier," Ministere des Affaires Etrangères, Paris, (October, 1951).

We saw in Chapter 5 that the transportation systems present some obstacles to the free flow of coal and steel as contemplated in a unified market. Some specific measures, to ensure free competition in the production of these two materials, have been proposed; first, the suppression of discrimination dealing with transportation, either in the country of origin or of destination; secondly, "for transports within the Community, the establishment of direct international rates which take into account total distance and are degressive in nature, yet do not prejudice the distribution of charges among the transport enterprises concerned."¹¹ A third clause in article 70 of the treaty¹² prohibits a differentiation in the setting of tariff rates, according to the area in which the transportation of goods takes place. These measures attempt to eliminate the existing discrimination¹³ practiced by the countries of the Community and more particularly by France and Germany.

As presently conceived, the Common Market is free from the quantitative limitations and customs barriers set up by the individual governments. Theoretically, the foundation has been laid for the most complete exchange of coal and steel possible under the rules of free

¹¹Convention Containing the Transitional Provisions, Chapter II, Section 10.

¹²Treaty Constituting the European Coal and Steel Community, Chapter IX, Article 70.

¹³Ibid, Chapter IX.

competition. However, many criticisms have been made concerning the actual achievement of this free exchange, most of them dealing with the extent of the Common Market.

It has been suggested that one of the short-comings of the Common Market is its inclusion of both coal and steel. According to some economists, to pool coal alone would have been sufficient since steel production is directly dependent on coal. The political advantage of this idea would be the enabling of the Community "To build a bridge over which the British might cross" and "since steel cannot be manufactured without coal it is not necessary to control the steel production".¹⁴ In a criticism which considers the Community too ambitious, we find the following statement: "The Common Market, tending toward free circulation from one country to another of merchandise only, is an absurd regime, truly impossible as long as it is not supplemented by free circulation of men and capital."¹⁵ These two criticisms by Professor Lavergne seem to be inspired by the non-existence of a common monetary market and his personal belief that in the countries of the Community there is an inherent dislike for expatriation. Article 36 of the treaty, although admittedly indefinite does give some solution to the problem of payments between the member-states while article 69 prohibits "any restriction based on nationality against the employment in the coal and steel

¹⁴"Some of the shortcomings of the Schuman Plan as it has been offered", Common Cause 4., P. 123-32, (October, 1950).

¹⁵Lavergne Robert, Le Plan Schuman Expose et Critique de sa Portee Economique et Politique", l'Annee Politique et Economique, P. 47.

industries of workers of proven qualification...¹⁶ This last clause is intended to permit a liberal exchange of workers and even suggests a complete revision of immigration laws inside the Community.

¹⁶Treaty Constituting the European Coal and Steel Community,
Chapter VIII, Article 69.

THE CONDITIONS OF COMPETITION

CHAPTER VII

If for the creation of a common market the six nations of the Community abandon, even in a limited domain, a fraction of their sovereignty it is evident that the transfer of this power can be granted only to a public authority and not to an organization representing private interests. To a certain extent the coal and steel enterprises are thus taken from their national jurisdiction.

It is also difficult to ask the same enterprises to renounce the former protections to which they were accustomed without giving them as a counterpart some assurance against any concerted action which might be undertaken by their competitors. Finally, the idea of the Community is to place coal and steel at the disposition of the whole economy formed by the union of the member-states..its aims are not to give to these industries a privileged position or any kind of domination over the production.

The creation of a Common Market can become acceptable only if it stands for the improvement of the production level, a reduction of prices and free access for the consumers to all the sources of production. This free access to suppliers will develop productivity and is incompatible with the restrictive practices leading to the maintenance of high prices and distribution of the markets. This principle excludes the domination of the Community by some of its members as well as the domination of the Community of the whole economic activity of the countries involved.

These principles explain the necessity for the special clause included

in the treaty dealing with cartels and concentrations, the two kinds of institutions which permit the massing in the hands of private interests of sufficient power to do away with technical progress, to divide production with no attention to productivity, and to impose their conditions on the consumers.¹ This special clause prohibits cartels, which would destroy all gains expected from the Common Market and prevents the formation of concentrations which would, through their importance, dominate the market, or by their structure, monopolize the sources of supply and distribution. These concentrations would obtain an artificial advantage to the detriment of the other producers of the Community.

¹Rapport de la Delegation Francaise, sur le Traite, Instituant la Communauté Europeenne du Charbon et de l'Acier, P. 92, Ministere des Affaires Etrangeres, Paris, (October, 1951.)

CARTELS

When we speak of Cartel policy the European steel industry shows us one of the most significant examples which have been developed in the last thirty years. It will be interesting to study the steel cartellization to be able to appreciate to what point the treaty for the European Coal and Steel Community can prevent such happenings and to be able to consider the accusations that the Schuman Plan tends to the organization of a "Super-Cartel".

The first international cartel for steel was created in 1926 between France and Germany under the name of "Entente Internationale de l'Acier" (International Association for Steel). Its creation was prompted by two necessities:

1. For Germany the need to supply more easily its demands for raw steel.
2. For France the need to ensure the distribution of the iron ore of Lorraine.

The Agreement signed on September 1926 united the Deutsche Rohstahlgemeinschaft, the French Comite des Forges, the Steel Mills of Belgium and Luxembourg, and the Trust Arbed, whose administrator, Emile Mayrish, became president of the cartel.² This first Agreement dealt chiefly with the regulation of production under the form of a control centered in production quotas. There was no sales organization of any kind nor any

²Journal Officiel de la Republique Francaise; Avis et Rapports du Conseil Economique, P. 229.

attempt at fixing prices. Each country had received his share of the total production and a change in this quota could be decided only with the unanimous vote of all the members of the cartel. Each country kept its freedom to export its products to the other members of the agreement.

Over-production was fined at a rate of \$4 per ton and Germany had to pay in 1927 a \$500,000 fine.³ This international agreement remained workable until 1929 and obtained the participation of Czechoslovakia, Austria and Hungary. German over-production and the economic crisis of 1929 brought a considerable drop in prices. In general in the economic life of a cartel, production quotas can be applied only when the possibilities of sales are in excess of the quantities produced. Whenever a reduction in demand makes sales difficult the cartel situation as a rule becomes very unstable, because the members of the cartel enter into a price-war, which leads easily to the disintegration of the cartel agreement. In 1930, the cartel leaders, realizing the coming of the above-mentioned facts, attempted to fix prices and to organize the distribution of sales. However, they did not succeed in eliminating the rise in production and at this point the cartel being without object, was not renewed at its legal expiration in April, 1931.⁴

A new international agreement was reached in 1935, using a different approach in an attempt to divide distribution by area assignments. Under

³Journal Officiel de la Republique Francaise; Avis et Rapports du Conseil Economique, P. 229.

⁴Ibid, P. 230.

this new organization the amount of exports and their prices were fixed in advance for steel products. The over-exporting countries were fined in favor of those countries which failed to reach their quotas. Sales were regulated and prices and conditions of trade were fixed by the agreement; a special committee was in charge of all the general questions of organization of trade and transportation. Poland joined this new agreement in 1935 and a similar agreement was concluded with the United Kingdom for the purpose of establishing export-quotas for British steel and to determine the entrance of special steel products in England. Similar agreements were concluded in 1937 with the United States. The fall in prices which characterized the steel industry during the depression of 1929 was stopped by the second cartel. Prices remained stable until 1936 but rose in 1937 and 1938. Table I shows that the policy of the cartel succeeded in maintaining higher prices for steel on the domestic markets than for export.

TABLE I

Years	Export Prices	Prices on the Domestic Market		General Index of Wholesale Prices in France
		Germany	France	
1929	100	100	100	100
1930	84	91	86	88.3
1931	60	90	67	80.0
1932	43	78	70	68.1
1933	49	78	74	63.4
1934	55	78	75	59.9
1935	55	78	75	53.9
1936	56	78	81	63.9
1937	92	78	123	92.6
1938	88	78	145	104.1

(From the Journal Officiel de La Republique Francaise (Nov. 30, 1951). P. 230.

The second cartel under its new form was lasting, the agreement was renewed, and from 1935 to 1939 the cartel controlled a great part of the world steel market and succeeded in maintaining stable prices. However, its influence must not be overestimated because most of the European countries produced their own steel and only the producer in small countries such as Switzerland were dependent on the prices dictated by the cartel.

In 1938 the cartel represented a production of 46 million tons, but the exports under the direction of the cartel were only 4.3 million tons, representing only one-tenth of the total production.

The economic principles contained in the Schuman declaration condemn the entire system used in Western Europe during the last twenty-five years. The Treaty for the European Coal and Steel Community governs now the position of the Community concerning the practice of cartels and concentrations.

Article 65 of the treaty relative to agreements and article 66 are enforceable within the territory of the common market as defined above. The prohibition contained in article 65 concerns "all the agreements among enterprises, all decisions of associations of enterprises and all concerted practices, which would tend directly or indirectly, to prevent or impede the normal operation of competition within the common market and in particular:

- a) to fix and influence prices
- b) to restrict or control production, technical development or investment.

c) to allocate markets, productions customers or sources of supply."⁵

However the agreement between the enterprises permitting exchange of technical information leading toward a reduction of costs of production and an increase in efficiency in production as well as in distribution, and which will not permit any kind of control or limitation are allowed by the same article 65. This kind of organization is similar to American Trade Associations. Such agreements must receive the permission of the High Authority, may be conditional or temporary, and will be suppressed if there is no more justification for their existence.

⁵Treaty Constituting the European Coal and Steel Community, Chapter VI, Agreements and Conventions; Article 65.

THE PROBLEM OF INDUSTRIAL CONCENTRATIONS*

As far as industrial concentrations are concerned they are subject to prior approval by the High Authority. (Art. 65)

The general rule is that the agreements are strictly prohibited unless their aims do not conflict with the economic principles of the common market. For the concentrations no absolute rule can be established in advance. The spirit of the treaty is not to oppose any kind of concentration and it has no intention to oppose some reorganization of the markets which would allow firms to obtain more economic structures. But the optimum size of an enterprise changes with technical development and the dimensions of the market in order to allow consideration of these different variables, prior authorization is adopted for the procedure of concentrations.

The concentrations according to their form must be considered separately. Horizontal concentration has the aim to group an important or dominant share of the market for one designated product under the same controlling power. It is evident that when they include dangers of monopoly, these practices must be prohibited for the existence of the common market.⁶ The aim of vertical concentration is

⁶Journal Officiel de la Republique Francaise; Avis et Rapports du Conseil Economique, P. 229, 251.

*Concentration is the word used in the official terminology of the treaty; this notion corresponds to the American economic concept of industrial mergers.

to unite under the same authority the production of two or more different products. The High Authority does not seem to be afraid that price determination or limitation of production may characterize this kind of concentration but wants to prevent the possibility of discrimination which could happen because of an artificially privileged position. For both kinds of concentration it is necessary to recognize their utility in some definite cases but it is impossible to define a priori the criterion for their existence.

The conditions of application for articles 65 and 66 of the treaty are different. Article 65 orders the liquidation of all the cartels in the shortest amount of time. At this point we must say that before the signature of the Schuman Plan a project of decartelization had been undertaken. The aim is to substitute 24 or 26 societies for the 12 Konzerns existing in the siderurgic industry. One of them, the Vereinigte Stahlwerke, produced more than 8 millions tons of steel and more than 26 millions tons of coal.⁷ Since the Allied occupation of Germany the Kohlen Syndicat was supposed to be liquidated and a new organization set up. A proposition has been made at Essen by a commission of experts to conform to the intentions of the Schuman Plan.⁸

Article 66 of the treaty has no retroactive effect on concentrations. The reading of the treaty and the official statements made on this subject make very clear that the experts of the Schuman Plan do not fear horizontal concentration which is not to be fought as a principle. The size and the competitive practices of industries have no obligatory relation

⁷Journal Officiel de la Republique Francaise; Avis et Rapports du Conseil Economique, P. 252.

⁸Ibid.

in themselves. The essential point for them was not the share taken by the industries on the market by industrial mergers but the possibilities of discrimination involved in a privileged situation to obtain raw materials. Thus the Schuman-Plan authorities seem to fear more than anything else the further development of vertical integration. During the post-war economic experiences in Germany there was a special emphasis on the suppression of integration. A deconcentration program has been undertaken in Germany to end the pre-war situation, characterized in the Ruhr by the combination of horizontal concentration and integration. Vertical integration has been suppressed and there will not exist in the Community any enterprise which by its size or structure can endanger the functioning of the Community.

The High Authority is empowered to nullify and impose fines concerning the infractions of the conditions of articles 65 and 66. It may by a recommendation to the member-state, ask for the execution of its action through their national legislation.

NATIONALIZATIONS

The nationalized industries are submitted to the disposition of articles 65 and 66 of the treaty if they participate in an agreement or take part in other enterprises. However, these articles do not prevent the right of the states to nationalize their coal and steel industry if they wish to do so.

Article 83 of the treaty exposes clearly this possibility and the only limitations for the states in this matter are that the operation of the nationalized industries cannot conflict with any of the economic principles of the common market. (An example illustrating this fact would be if a national law gave to some enterprises a monopoly on production, sales, and imports in a certain territory.) Many economists have already made some reservations on the possibilities for a coexistence within the Community of a system of nationalizations of coal and steel industries and the delegation of some national powers to a supra-national authority. We should like to point out that as a practical realization the concept of nationalization and economic internationalism has seemed to be historically in opposition.

The Treaty for the European Coal And Steel Community seems to have carefully determined its position concerning cartels and concentrations; however this point has been since the Schuman Proposal very much discussed. We find many articles published in different countries having titles such as: "Towards State-managed Cartels"⁹, European Steel,

⁹H. Hazlitt; Toward State-managed Cartels, Newsweek, (June 5, 1950), P. 35.

Monopoly in the Making"¹⁰, "The Schuman Plan: Iron and Steel Cartel"¹¹, and many others with titles reflecting the doubts of their authors. We shall try here to expose as objectively as possible the criticisms which have been made and their possible answers.

On May 15, 1950 the French government to answer the statements of the international press, which was questioning the powers of the proposed High Authority and its attitude toward the cartels, published a note which clarified in a very explicit manner the spirit of the Schuman Proposal.¹² This note makes a very precise differentiation between the concept of cartel and the proposed common market. The pool according to this document, will differ from a cartel in its objectives, its control, its method of operation and its administration.

A cartel attempts to maintain stable and high profits and preserve a privileged group. It does so by fixing prices on a monopolized market, it allows a mediocre productivity and permits enterprises of higher productivity to obtain added profits. The common market on the contrary, will increase production and productivity by improving techniques, expanding the markets and rationalizing production. The cartel concludes agreements which are generally kept secret and allows exorbitant profits prejudicial to the public interest. The common market will, through the institutions of the Community, be subject to the control of public

¹⁰ European Steel: Monopoly in the Making, C. B. Randall, Atlantic Monthly, (Oct., 1951), P. 34.

¹¹ "The Schuman Plan Iron and Steel Cartel", Soviet Russia Today, (Sept., 1950), P. 18-19.

¹² "Franco-German Coal and Steel Pool does not mean Franco-German Cartel", Ambassade de France, Document, (May 15, 1951).

opinion and reports on its activities will be published. Cartels fix prices, allocate production quotas, and divide the markets among their members. They eliminate competition and put themselves in a situation profitable only to their branch of industry. A similar situation is made impossible in the Community. As far as administration is concerned the cartel is managed by the representatives of a certain industry with only the profits of this industry in their concern. The administration of the Community will be assumed by qualified personalities who will have in mind the general interest of the members.

This complete comparison between the position of the Community regarding the cartel problem is very definite. We did not notice that any part of the official statements and the published information has since this early period expressed any other view.

The Community has been accused of being a super-cartel or a "Cartel of states"¹³ where all economic decisions will be at any time submitted to the arbitrary and absolute will of the High Authority. Another criticism made compares the Schuman Plan to a new version of the defunct international steel cartel"; the only difference being that the old type of cartel left untouched the independence of its members".¹⁴

Most of the criticisms advocate a system of free enterprise for

¹³Bernard Lavergne, *Le Plan Schuman, Expose et Critique de sa Portee Economique et Politique*, l'Annee Politique et Economique, Paris, (1951), P. 71.

¹⁴"European Steel-Coal Union Cartelization in disguise," *Commercial and financial chronicle*, (June 8, 1950).

European coal and steel and condemn any form of interventionism. These economists assume that without the Schuman Plan a system of free enterprise could be organized in Western Europe. Such an idea is apparently due to ignorance of facts. After the second world war cartels were not eliminated but on the contrary manifested themselves with intensified activity.¹⁵ The basic difference between a country like the United States where most of these criticisms have been made, and Europe, is that in the latter, cartels are not in anyway considered as harmful but are in many instances required by law.¹⁶

An American specialist of the steel industry has said that while the treaty bans cartels there are embodied in it many of the essential features of a cartel.¹⁷ The treaty

"in the most direct language forbids agreements between enterprises that would tend to fix or influence prices, to restrict or to control production, technical development or investments; to allocate markets, products, customers or sources of supply"¹⁸

while in its text it contains possibilities to fix quotas and has the legal right to use some of the powers it is supposed to prohibit.

We are not in a position to evaluate what seem to us subjective opinions on the treaty; however it appears that many times the possibilities

¹⁵William J. Donovan, "The Schuman Plan: A Blow to Monopoly", The Atlantic Monthly, (Feb., 1952), P. 59.

¹⁶Ibid.

¹⁷C. B. Randall, "European Steel: Monopoly in the Making", The Atlantic Monthly, (Oct., 1951), P. 36.

¹⁸"The Schuman Plan Iron and Steel Cartel", Soviet Russia Today, (Sept., 1950), P. 36.

for the misuse of the powers granted to the institutions governing the Community have been exaggerated. It is difficult to foresee in what spirit the clauses of the treaty will be enforced; it is even more difficult to make any prediction on the functioning of an economic entity which has no precedent. Words can be interpreted, and sometimes distorted from their meaning but we would like to emphasize the point that the sincerity of the men which have been the instigators of the idea cannot be denied. The treaty reflects their firm and sincere beliefs. Some of them, fervent advocates of the Schuman idea recognize some weaknesses in the present form of the treaty but are confident that a practical application will bring them out.¹⁹ The powers of the Authority in charge of the Community might frighten some economists; it is our belief that the inclusion of the consumer point of view and the strength of their representation within the institutions of the Community, will be the balancing factor which will grant the elimination of cartels and concentrations.

¹⁹Andre Philip, "Il faut maintenant s'unir pour faire du Plan Schuman une Realization Constructive," Acheteurs, No. 3, (Jan., 1952).

THE NOTION OF DISCRIMINATION

As we have already mentioned, the principle of non-discrimination within the Community is of essential importance. Since the object of the Community is contribution to general economic development, the coal and steel production must be put at the disposition of the consumers at the lowest price possible. This low price must also show a character of continuity and generality; in other words, it is not possible to have certain customers pay for the discounts given to others.

To insure, for all the economies of the member-states, some common basis for their development, it is vital that all the consumers placed in comparable positions obtain their supplies at a comparable price. This condition is achieved by the suppression of customs duties, a reorganization of transportation rates and finally by the rule of non-discrimination among producers. Each consumer can buy from the productive sources which, according to their geographical position are the most economical. Thus, production in the industrial sectors using coal and steel can be developed without the disturbances created by arbitrary discriminations by the sellers.

Competition can be established on a basis of equality among consumers and of loyalty among producers, if discriminations are eliminated. Article 60 of the treaty prohibits discriminations, as well as unfair practices in competition, and leaves the High Authority judge in this matter, after consultation with the Consultative Committee and the Council of the Community. As a counterpart, the discriminations practiced by the consumers are also prohibited and the High Authority has the power to make the necessary recommendations to the governments interested.

PRICING PRACTICES

The principle of non-discrimination has a very close relationship with the actual pricing system for coal and steel in the countries, members of the Community. It is well known that the practices used at present contain many discriminatory devices. Some think that a perfect non-discrimination requires that the selling enterprise receive the same amount of money for identical business transactions; that means that the conditions of sales should include a uniform price at the point of production. Actually, the pricing system includes some practices which take into consideration the quantities sold to a customer and volume discounts which correspond for the seller to difference in costs or in risks.

In fact, there is a large diversity in the conditions of sale at present applied in Europe by the enterprises forming the common market. If theoretically the customer buys coal at the mine and the buyer pays for the transportation, in practice it is very different. Some countries or mining areas apply the system of uniform delivered prices;²⁰ in France we have a multiple zone system constituting a discount according to distance.²¹

²⁰Fritz Machlup, Uniform delivered prices: "a seller quotes to every potential or actual buyer the same price for the product delivered to the buyer's destination," The Basing Point System, The Blakiston Co., (1948).

²¹Ibid, "A policy of uniform delivered prices is not suitable for products whose transportation is expensive relative to their value. A multiple-zone system overcomes this difficulty to some extent", P. 6.

Generally the system used is the basing-point pricing "which quotes identical²² delivered prices for any quantity of the product in standardized qualities and specifications" going to any place in the market.²³

The treaty has not adopted or imposed any particular pricing system but limited their application to avoid discrimination. The two major restrictions concern the abnormal location of the base-point and the definitions and limitations of discounts.²⁴ The adopted solution on the pricing system gives to the Community a flexible method of pricing to avoid economic disturbances and to take into account the particular situations in the Community.

We found that many economists disagree on the value of the pricing system used in Europe. The Committee of experts for the Schuman Plan felt the multiple basing-point pricing system has the advantage of suppressing the discrimination created by the pricing f.o.b. mill which would create a series of local monopolies around the points of production.²⁵ On the other hand some economists claim that the basing-point system is also discriminatory.²⁶

²²Fritz Machlup, The Basing Point System, Machlup establishes the difference between uniform and identical prices. P. 3.

²³Ibid, P. 7.

²⁴Rapport de la Delegation Francaise sur le Traite Constituant la Communauté Europeenne du Charbon et de l'Acier, Ministère des Affaires Etrangères, (Octobre, 1951), P. 111.

²⁵Clarence B. Randall, "European Steel: Monopoly In the Making", Atlantic Monthly, (October, 1951), P. 36.

²⁶Fritz Machlup, The Basing-Point System, Chapter V, "The Discriminatory Nature of the Basing-point System".

THE MEMBERS OF THE COMMUNITY AND THE CONDITIONS OF COMPETITION

The common market cannot achieve a more economical distribution of its output, if the competition is distorted through actions of the states in the limit of their general powers. We do not mean here the elimination of subsidies, protections or discriminations, but the repercussions which may follow the legitimate exercise of the sovereignty left in economic matters to the member-states. It is necessary to foresee the arrangements which will allow the coexistence of a sector with a supra-national statute with the economic legislation of the nations involved.

A variation of the exchange rate, a change in the tax determination, a variation in the controlled prices, give us some examples of possibilities for the alteration of competition, resulting from the use of rights not delegated to the treaty. According to article 67 of the treaty, the actions of a government which will influence the conditions of competition for the coal and steel industries must be reported to the High Authority. The actions of the governments may reduce or increase the difference between the costs of production. A devaluation, for instance might have a very different effect on the industries of coal and steel, if it occurs in a country where these industries are already in difficulty or if their competitive position is already favorable. If a government action reduces the differences between the production costs it will help the economic equilibrium of the common market; and in this case no intervention from the High Authority is necessary unless the

action creates a discrimination favoring the coal and steel against other domestic industries. Such a discrimination is in contradiction to the general principles of the treaty and the High Authority has the right to address recommendations to the government involved.²⁷

A disturbance will appear on the market if the action of a government increases the difference between the production costs independently of the productivity. The production costs are related to the quantity of productive factors used and their prices. An action on them can be unfavorable either to the domestic industries or to the competitors, for instance, change in the rates for electric power, or if this action is against the domestic industry, there is a possibility of temporary subsidies which are permitted by the High Authority. If the action has the result of a discrimination against the competitors, the government concerned must take measures to bring about a new equilibrium. The choice of these measures is left to the government.

²⁷Rapport de la Delegation Francaise sur le Traite Instituant la Communauté Européenne du Charbon et de l'Acier; Ministère des Affaires Etrangères, (Octobre, 1951), P. 114.

SUMMARY

In this chapter we have analysed the remedies that would cure the Western European Economy from what is generally considered as its traditional shortcoming, through the High Authority, which is to create the conditions under which the common market may be instituted. They consist mainly of the strict prohibition of cartels and their possibilities of control and limitation of the market; however, there is a possibility for the enterprises to cooperate in such a manner that no consumer or producer will be discriminated against. The formation of mergers will be also controlled and will be submitted to a prior authorization. Discrimination in pricing practices as well as in transportation will also be prevented by the High Authority. This institution will be also empowered to ensure that the share of an authority left to the national states will not interfere with its operations.

The omnipotent power of the high authority can be the sign of the best or the worst achievement in view of completing the organization of the common market. As we have mentioned already, the representatives of the different groups of interest in the High authority seem to be the key to the success of this revolution of the European Economy.

CHAPTER VIII

EXPANSION OF THE PRODUCTION AND IMPROVEMENT OF THE LIVING CONDITIONS

The development of production, the improvement of productivity, and the achievement of a better standard of living not alone suppose a widening of the market and the respect of rules of competition, permitting a better and more economical use of the resources of the Community. Industries whose evolution is so directly tied to the whole economic activity can only develop efficiently if their leaders obtain a general view concerning the markets, prices, trends of production and exchange. The establishment of such a general cooperation which has been impossible in the past, is one of the major duties of the High Authority.

The first task of the High Authority during the preparatory period is, according to the terms of the Convention, to acquire concrete information on the general trends of the industries, as well as on particular cases. Such information is the basis for effective expansion plans as well as for measures for full employment and the improvement of the standard of living.

DEVELOPMENT OF THE INVESTMENTS:

One of the most decisive means to increase productivity is the permanent modernization of industries. At the same time the industries must be able to increase their production to satisfy the increasing needs of the European market which will be the result of their own progress. In this field the High Authority has a double role. It will inform the enterprises of the most needed type of investments

and, on the other hand, it will be able to furnish help in obtaining a means of financing. It is only in the case where the investment will present an anti-economic character based on nationalistic aspirations that the High Authority will have the power to prohibit them.

Investment in the field of coal and steel is generally very expensive. Self-financing over a short period of time is very difficult without a rise in prices. It is hoped that the High Authority will be able to obtain capital more easily and at a cheaper rate than the private enterprises wishing to undertake an expansion. According to the treaty¹ this financial help can be a direct loan or a guarantee of the loan obtained from others. The High Authority has the power to sell bonds of its own and borrow funds in the open market. To insure payment of these obligations the High Authority has the power to place levies on the production of coal and steel. These levies may not exceed one per cent of the average value of the products made. The same authority to tax is used for administrative expenses of the Community for the non-reimbursable assistance concerning the problems of readaptation.

RESEARCH:

The High Authority will encourage financially technical and economic research concerning the production and the development of consumption of coal and steel as well as labor safety in these industries.

¹Treaty Instituting the European Coal and Steel Community,
article 54.

THE PROBLEMS OF READAPTATION:

We must recognize that there is a risk that the production might be increased more rapidly than the demand of the market can absorb. If the added output is caused by greater production, technological unemployment may result. This is a calculated risk that must be taken. The maintainance of a fixed employment level in each industry or in each enterprise would stifle progress. The full employment level must be obtained for the total labor force of the Community and in liaison with the whole economy of the same Community. There must exist a possibility for a readaptation of the labor force, moving from the declining to prosperous industries.

The dispositions for such a readaptation are one of the major innovations instituted by the treaty and must be considered with the disposition concerning investment to which they are a counterpart and a complement. They are a counterpart of the investment measures because they take into account the social cost of technical progress and help to prevent its ill effect on the workers who are not able to retain their employment. They are also an indispensable complement because it is very well known from experience that the ill-will which often meets technical progress is provoked by the risk included in it for the continuity of a steady employment. Thus some special provisions have to eliminate the fear of unemployment and facilitate the necessary changes in the labor force through either a local readaptation or a geographical movement of labor. Article 56 of the treaty grants non-reimbursable help, the possibility of loans and even the

possibility for the creation of new economic activities as a remedy against unemployment. This recognition of the necessity of readaptation and the schemes which lead to its practical realization, joined to the measures on the regulation of the salaries represent the major contribution of the treaty toward social advancement.

THE SALARIES WITHIN THE COMMUNITY:

The basic idea on salaries, considered by the treaty, is their close relation to the economic conditions of each area of the Community. The salaries in the coal and steel industries cannot be isolated from the salaries in the other economic activities of the same region, or from the conditions which in each region determine the real income of the workers. This relation is fully recognized by the treaty, which leaves intact the procedures for wage determination and fixation of the social charges within the territory of the Community. According to this idea a salary below the average wage level of the region would be classified as abnormally low.²

The salary provisions determine three distinct cases which call for action of the High Authority. They are respectively:

- The abnormally low wage level
- The practical application of the principle prohibiting lowering of wages as a competitive tool.
- The disturbances in competition created by a rise in the wage level.

²Treaty Instituting the European Coal and Steel Community,
Article 68.

An abnormally low wage level based on the average salaries in the same area may cause abnormally low prices to the consumer. In this case the representatives of the workers are entitled to relief. However, there is no direct intervention of the High Authority in favor of the worker. When the abnormally low salaries help to maintain prices unfair to the rest of the producers, the High Authority has the power to address recommendations to the enterprises or to their governments according to which one of these two determines the wage level.

The principles establishing the common market does not permit wage-cutting as a competitive tool. However a wage reduction corresponding to a decrease in the cost of living within the same area would be permissible by the High Authority because the real level of wages would not be changed and the equilibrium of real wages to cost of living would remain the same.

A wage rise "if it produces harmful effects for coal or steel enterprises coming under the jurisdiction of the state in question, the High Authority may authorize members to grant to such enterprises assistance, the amount, conditions and duration of which shall be determined in agreement with the High Authority."

MIGRATION OF WORKERS:

Dispositions regarding the migration of workers provide possibilities for an equalization of living and working conditions. According to the treaty the adjustment between output and the conditions of

production will be facilitated by the free movement of the labor force within the six countries forming the common market.³ No discrimination on the basis of nationality of the workers is permitted by the treaty. Thus when the qualified labor force cannot be found in the area of prosperity, it is more economical to bring such labor from a different area than to train it on the same place. This disposition on the nondiscrimination on the basis of nationality is complementary to the prohibition against lowering of salaries: The labor force which cannot be used economically in the production of one area ought to contribute to the development of the more economical enterprises which are substituted for them. Other considerations such as social environment are likely to keep such migration to a minimum; but these factors do not change the principle of free search for better economic conditions.

³Treaty Instituting the European Coal and Steel Community;
Article 54.

CHAPTER IX

THE ECONOMIC UNITY OF THE COMMUNITY AND THE PRECAUTIONARY MEASURES

The preceding chapters deal with the problems encountered in the formation of a common market. We shall discuss now, the rules governing this new economic entity; these rules govern the relations between the member states of the Community and third countries, and the specific actions delegated to the institutions of the Community.

RELATION OF THE COMMUNITY AND THIRD COUNTRIES:

Three fundamental principles govern the commercial policy described in the treaty and the convention:

1. It is not possible to separate coal and steel completely from the commercial exchanges with third countries non-members of the common market.
2. The Community is not at any degree an autarchic entity protected against the competition from the producers outside the common market. The role of exporter and the development of productivity will permit, on the contrary, a non-protectionist attitude. However this attitude can be subject to negotiations with third countries in view of obtaining such counter-parts and thus reach a more intensive and free movement of exchanges.
3. The Community does not claim any right recognized as belonging to the member-states by existing commercial treaties, but an attitude of solidarity must exist between the member-states for the protection of coal and steel enterprises.

As an answer to these objectives the following rules on the commercial policy of the Community have been adopted:

For the customs policy some minima or maxima rates can be fixed by an unanimous decision of the Council of Ministers on a proposition from the High Authority. Between these limits a harmonization of the tariffs will be reached. "Between these limits fixed by the said decision, each government will set its tariffs according to its national procedure. The High Authority may, on its own initiative or at the request of one of the member-states, issue an opinion suggesting the modification of the tariffs of such participating countries".¹

The allocation of the import and export licenses stays in the hands of the governments. The High Authority is empowered to address recommendations to the member-states in order to prevent the application of measures too restrictive or to insure the necessary coordination of such measures.

For the commercial agreements or arrangements the member-states have to keep the High Authority informed to the extent that such agreement is related to coal and steel.

INDIRECT ACTION OF THE COMMUNITY ON THE COAL AND STEEL MARKET:

The dispositions on the commercial policy of the Community contain also interventions to limit the too wide fluctuations of the coal and steel market created by cyclical fluctuations. These interventions can take different forms and be applied at different degrees. The

¹Treaty constituting the European Coal and Steel Community, Article 72.

indirect methods of interventions can be produced through the financial institutions of the Community; and the rules on the fixation of prices on the common market or for export.

In the first case to assure to all consumers a comparable position within the common market and see that this market is readily supplied,² the Consultative Committee and the Council may authorize the institution of financial mechanisms common to several enterprises which are deemed necessary for the accomplishment of the mentioned objectives. These financial mechanisms will grant compensations which will permit the application of a price under the cost of the marginal enterprises.

For the fixation of prices the treaty does not adopt any dogmatic attitude. Maxima and minima prices may be determined by the High Authority but only in the case that such a fixation of prices is needed. In case of shortages, for instance, maxima prices may be necessary. The fixation of minima prices apparently seems to be a contradiction to the aim of the Community to obtain lower prices; however, they are justified when a sharp decline in price would eliminate some of the productive capacities necessary to the normal supply of the market or would be the result of speculation of the consumers.

DIRECT INTERVENTION ON THE MARKET:

When indirect actions have proved to be ineffective, provisions must exist to care for exceptional circumstances, such as economic

²Treaty constituting the European Coal and Steel Community, Article 3.

crises or acute shortages. Some of these measures are also authorized during the transition period for the protection of the steel industry.

To face emergency situations the High Authority may establish a system of quotas which will be according to the spirit of the treaty exceptional and temporary. In case of a shortage of a persistent nature the problem is far more complex. Since one of the basic missions of the High Authority is the assurance of a necessary supply for the common market, it is evident that it has power to organize the division of the supply. But such a division affects directly the general economic activity within the common market; then the council of ministers representing the interest of each member state has the right to claim a participation in the allocation of the supply. The Council must reach a unanimous decision on this subject; if not, the division can be made only through the High Authority.

"To the extent of their competence, the member States will take all appropriate measures to assure the international payments arising out of trade in coal and steel within the common market; they will lend assistance to each other to facilitate such payments."³

We shall conclude this description of the economic policies of the Community by stressing the fact that decisions such as the fixation of minima and maxima pricing, rationing of the output can be the source of conflicts which might be fatal to the existence of the Community. Only honesty and good will, leading to the decisions of

³Treaty constituting the European Coal and Steel Community, Article 86.

the institutions can guarantee the successful achievement of a global commercial policy.

THE PRECAUTIONARY MEASURES:

If the treaty constituting the European Coal and Steel Community can be applied to all the member States, under identical conditions and in a normal period, some special clauses must complete the general measures⁴ which are going to be characteristic of the transitional Period. These special clauses will take into account the particular situation found in some of the member States of the Community.

SPECIAL DISPOSITIONS FOR BELGIUM:

During the negotiations leading to the signature of the treaty the Belgian representatives expressed their conviction that the integral application of the Schuman Proposal on the basis of the original schemes could have for result the closing of most of the Belgian coal mines. This particular situation justifies a delay in their integration into the Common Market. The price of Belgian coal is considerably higher than the prices in the neighbouring countries⁵ and especially in Germany. Geographical protection for Belgian coal is very poor because distances are very short and transportation between the Ruhr and Belgium is by waterway, which is very inexpensive.

⁴These general measures are: The dispositions for readaptation, the precautionary mechanisms, zone prices and compensation funds. Convention Containing the Transitional Provisions, Sections 23, 24 and 25.

⁵This is due to the lack of modern equipment for the Belgian mines and the difference between the level of salaries in Belgium and the other member States.

It is agreed that net Belgian production

"-shall not have to bear an annual reduction of more than 3 percent as compared with the preceding year, if the total production of the Community is the same as, or greater than that during the preceding year; or

-shall not be less than Belgian production during the preceding year diminished by 3 percent, the figure thus obtained being further reduced by the coefficient of reduction applicable to the total production of the Community as compared with the preceding year."⁶

To these quantitative regulations are added some financial dispositions and an effort is made to bring down the prices on the Belgian market to make them competitive with the rest of the common market. The High Authority shall ensure that the special dispositions concerning the coal industry do not prevent the steel industries from joining the common market. The compensation will be fixed by the High Authority in such a way that such compensations have no harmful effect on the steel industries of other member States. A special compensation can be granted "for the exports of Belgian coal within the common market as the High Authority may determine to be necessary in view of the outlook for production and requirements in the Community as a whole."⁷

The above dispositions will be partially eliminated according to the circumstances. The compensation levy will be eliminated at the

⁶Convention containing the Transitional Provisions, Section 26.

⁷Ibid.

⁸Ibid.

end of the transition period. The Belgian Government must eliminate also all the mechanisms" making possible the separation of the Belgium market from the common market"⁸ however, a possibility for no more than two additional one-year periods of grace can be granted.

The integration of the Belgian coal into the common market will be the subject of agreement between the Belgian Government and the High Authority. Subsidies from the Belgian Government taking into account the natural conditions for exploitation can be granted by the High Authority.

The special clauses concerning Belgium and which bring some complicated mechanisms reflect the strong bargaining of the Belgian delegates to insure the protection of their coal industries mainly for political reasons.⁹

FRANCE:

As far as France is concerned, section 28 of the Convention gives an idea of the importance of the movement of production which would be detrimental to this country. Thus it is agreed that: the French mines

"-shall not have to bear an annual reduction of more than a million tons as compared with the preceding year, if the total production of the Community is the same as, or greater than that during the preceding year."¹⁰

However this reduction cannot be in all cases calculated in

⁹Belgian delegates pointed out that there was a possibility of Western Germany's withdrawing one day from the pool. Belgium would then have to depend on big coal imports which not only would burden its balance of payments but its iron and steel industry would become wholly dependant on foreign coal.

¹⁰Convention Containing the Transitional Provisions, Section 28.

absolute value. If the production of the Community diminishes through a reduction in demand the French coal mines will have to share this decrease as well. Then the figure obtained after subtracting one million tons will be reduced by the application of the coefficient of reduction for the whole Community.

The mechanisms which permit the limitation of these sudden displacements in production are the establishment of compensation funds financed by a levy or zone price.

"For the establishment of this levy, there shall be taken into consideration the quantities representing net deliveries effected during each period in excess of those during 1950, to the extent that they are correlated with a decrease in the production of the French mines as compared with 1950, the latter figure being reduced by the same coefficient of reduction as the total production of the Community."

These measures concerning French coal industries will make it possible to avoid the shifts of productive which would ¹¹ provoke economic disturbances. We shall see in our next chapter that even these dispositions are considered by many French experts as insufficient to protect efficiently the economic sovereignty of their country.

ITALY:

Italy will benefit by the system of compensation and subsidies pending the completion of the investment operations now underway in the Sulcis mines. The High Authority will determine the amount of assistance but the external aid cannot last more than two years. The

¹¹Convention Containing the Transitional Provisions, Section 28.

Italian Government is also authorized to maintain customs duties on coke coming from the other member States during the transition period and their limits are defined in Section 27 of the Convention.

Italy is also authorized to maintain customs duties on steel products coming from the other member States during the transition period. Section 30 of the Convention establishes the limitations for these duties. Another measure regarding prices protects the Italian steel industry against competition using discount facilities. We can say that the economic importance of the Italian coal and steel production is very minimal when it is compared with the whole Community. Italy has always depended on imports and the creation of the common market will largely compensate the elimination of its marginal industries in this field.

LUXEMBOURG:

The particular case of the steel industry in Luxembourg and the special marketing conditions of the Belgian-Luxembourg Economic Union have received the attention of the High Authority, which has availed funds to help these industries.¹²

¹²Convention Containing the Transitional Provisions, Section 31.

as we see it, the precautionary measures are generally more influenced by political fears than real economic conditions. The elimination of marginal producers will affect some countries in a larger proportion than others. However, changes must be undertaken with certain precautions and we might assume that the economic security of minor countries of the Community justify these measures.

PART FOUR

CHAPTER X

THE POLITICAL IMPLICATIONS OF THE SCHUMAN PLAN

The real significance of the Schuman Plan transcends narrow economic considerations and is substantially of a political nature. The technical achievement of a common market must be seen in the broader framework of European integration. Toward this goal it forms the first step. The original Schuman Proposal of May 1950 brings out very clearly its final aim to safeguard the world peace which cannot exist "without creative efforts proportionate to the dangers that threaten it".¹

The Schuman Plan attempts to bring to an end the age-old hostility between France and Germany. As a means, coal, ore, and steel products, the basic ingredients of modern warfare, will be merged under the control of a single authority to render a Franco-German war impossible. The proposal itself even contemplates German participation in African development.²

It is contended that the rivalry between French and German heavy industries was responsible for the Franco-German conflicts. This is true only for coal and for the Saar question because before the war

¹Ambassade de France, Document No. 12, (May 10, 1950).

²Ibid.

the European steel cartel was functioning. We may notice also that Robert Schuman who is the promoter of the Plan was born in Lorraine at a time when this province was annexed to Germany and it might be easier for him to foresee the end of this long enmity between the two countries than it is for the mass of the population.³

The approach to federation of Europe brings also a very new political factor in European history when the High Authority receives a part of the sovereignty of each member-state. It is the first time that a partial surrender of national sovereignty has been accepted and if this principle proves successful it might be the solution for the long-dreamed-of European Federation.

We said early in this study that the choice for the pooling of coal and steel was mainly inspired by the share of these two basic factors in the economies of the member-states; considered under a political point of view we could say that the need for a solution of the Ruhr problem had an influence on this choice. Each country interested politically or economically in the creation of the Community has expressed its opinions concerning the Schuman Plan. It may be of a great interest for the future of this project to see where the other interested countries stand.

It is of course the delegation of sovereignty which aroused British opposition and stopped this country from joining the pool. The British attitude was unanimous and characterized from the beginning by a very

³Jacque Chastenet, "The Schuman Plan", Harvard Business Review, (March, 1951), P. 63.

cautious approach. Knowing that Winston Churchill had been the first after the war to call for a unification of Europe, other European countries took for granted that the United Kingdom was eager to participate in such a proposal. Disillusionment came when the United Kingdom made clear that it would keep the full autonomy of its political moves and had no intention whatsoever of delegating even partially its sovereignty. But if we read the Churchill speech made on March 19, 1946, we see that he never spoke of the participation of the United Kingdom itself.⁴ England will encourage and protect the idea but will not participate in it.

Because of its Commonwealth and its economic organization, Great Britain could not participate directly in the creation of the Community. This country is the center of a part of the world known as the British Commonwealth of Nations; some of the ties between Great Britain and its empire have been broken already but it is precisely for that reason that England wants to keep jealously the remaining privileges to which it is entitled: commercial preference, monetary ties, etc. How could Great Britain achieve these aims if its sovereignty had been delegated to another supra-national Authority? On the other hand England has suffered very much from the consequences of the Second World War and the economic measures which have been taken (the British Government itself admits it)⁵ are artificial and cannot remain only in closed economic

⁴ Jacques Chastenet, "L'Angleterre Soutiendra Mais ne Participera pas." Le Monde, (March 4, 1951).

⁵ Ibid.

area.

England very early opposed the choice of coal and steel to form the Community; the main argument on that was that the search for productivity would reveal the superiority of the coal of the Ruhr over British coal. At a difficult moment of the negotiations with England, Jean Monnet who is the most competent French specialist and promoter of the Plan said: "The Nations of Continental Europe have unfortunately lived in disunion without Great Britain; why without her could not Europe live united?"⁵ England will stay a very attentive spectator on the evolution of the Community and in the declaration made in Washington on September 14, 1951 by the Foreign Ministers of England, France, and the United States the British government expressed its wish to establish the closest possible association with the European Community at all the steps of its development. England without giving its adhesion is as much interested in it as the participating countries.

The United States is also an interested witness of the creation of the Community and the declaration on May 9, 1950 provoked a very enthusiastic approval, both Democrats and Republicans applauding what Senator Cabot Lodge from Massachusetts called "the best news received from Europe since the end of the second World War."⁶ What the American government saw first in the Schuman proposal was not the economic and technical proposals but above all, the long-term political implications and the fact that the creation of the Community would be the first step

⁶ Le Monde, (March 4, 1951).

toward European Integration. Great Britain's indifference to and non-participation in the Plan was criticized by American newspapers.

Concern was shown by some industrialists when the American High Commissioner in Western Germany, considering the need of a rapid German decision, used some kind of pressure on the Bonn Government.

We have already seen how the different members reacted to the economic implications of the Community. They all agreed in principle on the political implications, however German public opinion and even the Bonn Government felt deeply anxious about the Saar problem, not only for economic but also for nationalistic reasons.

"The Saar is a part of Germany" said the Vice-Chancellor Blucher in March, 1951⁷ and the Bonn Government refused to recognize the present Saar status as a definitive settlement. Through an exchange of letters between the Chancellor Adenauer of Western-Germany and Robert Schuman on April 18, 1951, it was agreed that if France is acting in the name of the Saar, this fact is not a recognition of the future status of this territory. This status will be settled by the peace treaty between the two countries.

These are the main political issues of the Schuman Plan as faced by the members of the Community and the third countries. We shall not discuss here what some journalists or authors call political implications, because they are nothing but wordy statements on the

⁷Jean Monnet, "L'Europe peut vivre dans l'union sans la Grande-Bretagne," Le Monde, (May, 15, 1951),

possibilities of problems not yet encountered or assumptions based on facts which are very improbable. The Schuman Plan as we have already said, is a step in a large movement toward the creation of a United Europe. We can even foresee an Occidental System, which is taking shape, formed of three federated groups; the United States of America, Great Britain and its Commonwealth, and the United States of Europe; each one of these elements would have a distinct autonomy and would be under the general supervision of the Supra-Atlantic Council whose task would be to harmonize the whole Union. The organization should be coherent and flexible enough to function with efficiency and without arousing unsolvable difficulties. A study of the present economic facts shows that the Schuman Plan as we see it is the most sensible way to help the creation of an Atlantic Community not only strong but well balanced.

CHAPTER XI

CONCLUSIONS

The Coal and Steel Community project contains the germs of revolutionary developments. The first one is an economic revolution. Today each country of Western Europe, even though equipped with a modern industrial structure, stays within the political limitations of the past. This restricts available markets and explains partly the low and stagnant standard of living of these nations. Following traditional economic policy each country frees itself from imports and makes efforts to reach an increased level of self-sufficiency. For this reason, the coal importers of Western Europe exploit marginal coal mines and adopt many other uneconomic practices raising the costs of end-products. For the steel industries the practice of double pricing of coke, iron-ore and scrap between countries with complementary resources also exercises upward pressure on production costs.

The Schuman Plan recognizes the common interest of the divided European countries and the need for the creation of an integrated market of 155 million people. Its approach is gradual, starting with basic raw materials and internationalizing a major war potential. The example of the United States of America with a standard of living three times as high as Western Europe served as a model and furnished the final goal.

The Plan must deal with political realities. To break down traditional barriers requires new institutions to defend the broader

concept against the inevitable attacks of nationalists until the principle of the common market can rest on popular acceptance. Common resource control implies the existence of a supra-national High Authority as proposed by the treaty. The delegation of sovereign interests to a common power is the basis of integration.

The risks are numerous, as they always are for great innovations, but this treaty is above all an act of faith for a United Europe. The battle for ratification which has been won is the first concrete battle for Europe and a victory against narrow selfish interests, age-old habits and exaggerations of nationalisms.

May we conclude in an expression of hope that the Schuman Plan expressing the ideals and ideas of a war-ravaged generation may lead to the fulfillment of its search toward a united Europe.

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Appendix I.

AMBASSADE DE FRANCE

SERVICE DE PRESSE ET D'INFORMATION

610 FIFTH AVENUE, NEW YORK 20, N. Y. CIRCLE 6-0103

FRANCE PROPOSES A FRANCO-GERMAN COAL AND STEEL POOL

Full text of the statement made on May 9 by Robert Schuman, French Foreign Minister, at the press conference held at the Quai d'Orsay after the adoption by the French Cabinet of a proposal to coordinate under a single authority the coal and steel production of France and Germany.

It is no longer a question of vain words but of an act, a bold act, a constructive act. France has acted, and the consequences of her action may be immense. We hope that they will be.

France has acted essentially for peace. If peace is to have a chance, there must first of all be a Europe. Five years almost to the day after the unconditional surrender of Germany, France is taking the first decisive act in the construction of Europe and is associating Germany with it. This act must necessarily transform European conditions. This transformation will make it possible to take other common actions that have been impossible until now.

Out of all this will emerge a sound, united and strongly constructed Europe, a Europe whose standard of living will rise, thanks to the pooling of production and the extension of markets, which will bring about a drop in prices. In this Europe, the Ruhr, the Saar and the French basins will work together, and their peaceful labor, followed by United Nations observers, will benefit all Europeans, Eastern as well as Western, and all lands, especially Africa, that look to the old Continent for their development and prosperity.

Such is France's decision, and these are the considerations that inspired it: World peace cannot be safeguarded without creative efforts proportionate to the dangers that threaten it. The contribution that an organized and vital Europe can make to civilization is indispensable to the maintenance of peaceful relations. As the champion of a united Europe for more than twenty years, France has always had one main objective: to serve the cause of peace. Europe has not been organized. We have had war.

Europe will not be built at one stroke or by means of one over-all structure. It will be built, first, by means of concrete steps that create

real solidarity. The unification of the European nations demands that the age-old enmity of France and Germany be eliminated; the action undertaken must apply primarily to France and Germany. To this end, the French Government proposes immediately to take action on a limited but decisive point; it proposes to place all French and German steel and coal production under a common high authority in an organization open to the other European countries.

The pooling of coal and steel production will insure the immediate establishment of common bases of economic development, the first stage in European federation, and will change the destiny of these regions which have long been devoted to the manufacture of weapons of war of which they themselves have been the most constant victims.

The solidarity of production thus established will prove that any war between France and Germany has become not only unthinkable, but materially impossible. The creation of this powerful production pool, open to all countries that wish to participate in it, and making available to all its members on the same conditions the basic necessities for industrial production, will lay the real foundations for the economic unification of these countries. The output of this pool will be offered to the whole world without discrimination or exclusion, as a contribution to the improvement of living standards and the advancement of peaceful enterprises. Europe will have increased means with which to promote the realization of one of her essential tasks; the development of the African continent.

The fusion of interests, indispensable to the establishment of a broader and deeper community between countries that have long been kept apart by bloody conflicts, will thus be realized simply and rapidly. By pooling their basic industries and establishing a new high authority whose decisions will be binding for France, Germany and the other participating countries, this proposal will lay the first concrete foundations of a European federation that is essential for the safeguarding of peace.

In order to work toward the realization of the objectives defined above, the French Government is ready to open negotiations on the following basis: the common high authority will be charged with insuring the shortest possible time the modernization of production and the improvement of its quality; the supplying of coal and steel on the same terms to the markets of France, Germany and other member countries; the increase of joint exports; the improvement and equalization of the living conditions of the industrial workers in the participating countries.

Since production conditions are very different in the member countries, certain transitional measures must be adopted to achieve these objectives: the application of a production and investment plan, the establishment of mechanisms to equalize prices, and the creation of a reconversion fund to facilitate the rationalization of production. All customs duties on

cial and steel between participating countries will be abolished immediately and the same railway freight rates will be applied. Gradually conditions will be created which will automatically insure the most rational distribution of production and the highest level of productivity.

Appendix II

Paris, le 18 avril 1951.

MONSIEUR LE CHANCELIER,

En reponse a votre lettre du 18 avril 1951, le Gouvernement francais prend acte de ce que le Gouvernement Federal n'entend pas, en signant le Traite instituant la Communaute Europeenne du Charbon et de l'Acier, reconnaitre le statut actuel de la Sarre.

Le Gouvernement francais declare, en conformite de son propre point de vue, qu'il agit au nom de la Sarre en vertu du statut actuel de celle-ci, mais qu'il ne voit pas dans la signature par le Gouvernement Federal du Traite une reconnaissance du statut actuel de la Sarre par le Gouvernement Federal. Il n'a pas entendu que le Traite instituant la Communaute Europeenne du Charbon et de l'Acier prejugeat le statut definitif de la Sarre, qui releve du Traite de Paix ou d'un Traite en tenant lieu.

Veillez agreer, Monsieur le Chancelier, l'expression de ma tres haute consideration.

Signe: Schuman.

Monsieur le Docteur Konrad Adenauer,
Chancelier et Ministre des Affaires Etrangeres
de la Republique Federale d'Allemagne.

Appendix III
DER BUNDESKANZLER
UND
DER BUNDESMINISTER DES AUSWÄRTIGEN

Paris, den 18. April 1951.

Seiner Exzellenz
Herrn
Präsident Robert Schuman
Minister Des Auswärtigen
Paris

Herr Präsident,

Die Vertreter der Bundesregierung haben bei den Verhandlungen über die Europäische Gemeinschaft für Kohle und Stahl wiederholt die Erklärung abgegeben, dass die endgültige Regelung des Status der Saar nur durch den Friedensvertrag oder einen gleichartigen Vertrag erfolgen kann. Sie haben ferner bei den Verhandlungen die Erklärung abgegeben, dass die Bundesregierung durch die Unterzeichnung des Vertrages keine Anerkennung des gegenwärtigen Status an der Saar ausspricht.

Ich wiederhole diese Erklärung and bitte, mir zu bestätigen, dass die französische Regierung mit der Bundesregierung darüber übereinstimmt, dass die endgültige Regelung des Status der Saar nur durch den Friedensvertrag oder einen gleichartigen Vertrag erfolgt und dass die französische Regierung in der Unterzeichnung des Vertrages über die Europäische Gemeinschaft für Kohle und Stahl durch die Bundesregierung keine Anerkennung des gegenwärtigen Status an der Saar durch die Bundesregierung erblickt.

Genehmigen Sie, Herr Präsident, den Ausdruck meiner ausgezeichnetsten Hochachtung.

(gez.) Adenauer.

Appendix IV

UNITED STATES STEEL CORPORATION

71 Broadway, New York 6, N. Y.

May 19, 1952

Mr. Louis A. Couderc
School of Arts and Sciences
Oklahoma Agricultural and Mechanical College
Stillwater, Oklahoma

Dear Mr. Couderc:

In answer to your inquiry of May 9, we have checked with our statistical division as to the difference between "real" and "apparent" consumption of any commodity.

The two terms, as applied in our company, are used to differentiate between the apparent consumption of goods as determined by production figures and the actual consumption which takes into account such factors as purchases from warehouses and increase or decrease of inventories.

The terms as applied to European statistics may have some other or additional significance due to black-market activities or other statistically incomputable factors. It would be advisable to write to the statistical staff of the United Nations or to the United States Department of Commerce for a definition of the terms as used in the various economic reviews you are studying.

Sincerely yours,

William J. Long.

LE PLAN SCHUMAN¹1) BUT -

Le but du Plan Schuman est d'amorcer la construction d'une Europe unie. L'idée n'est pas nouvelle, certes, et l'histoire de l'Europe c'est un peu l'histoire de toutes les tentatives qui ont été faites pour réaliser ce dessein; mais, fondées sur la domination d'un Etat ou d'un Peuple sur les autres et le maintien par la contrainte d'une organisation imposée par la force, ces tentatives avaient échoué.

2) ESPRIT -

Aux notions de domination et de force devraient donc se substituer celles de coopération et d'adhésion; l'autoritarisme des essais précédents fait place à une tentative dont rien ne devrait laisser discuter le caractère démocratique: la limitation ou même l'abandon des souverainetés nationales ne peut résulter d'une action par surprise ou d'une pression extérieure, mais d'une acceptation claire et librement consentie des peuples participants.

3) MOYENS -

Pour atteindre ce but, on aurait pu commencer par créer les institutions politiques de l'Europe unie, mais les Auteurs du Plan Schuman ne l'ont pas voulu et le préambule du Traité instituant la Communauté du Charbon et de l'Acier déclare que "l'Europe ne se construira que par des réalisations concrètes créant d'abord une solidarité de fait et par l'établissement de bases communes de développement économique."

Mais si, dans l'esprit de ses Auteurs, la Communauté du Charbon et de l'Acier n'est qu'un point de départ, la question peut se poser de savoir s'il était opportun et s'il peut être efficace de commencer par là pour construire l'Europe et si l'ordre choisi est le meilleur pour aboutir aux résultats souhaités.

Il importe, de toutes manières, de ne pas chercher par là à esquiver l'obligation de respecter le droit des peuples à disposer d'eux-mêmes.

4) PORTEE du PLAN -

Il s'agit de créer un marché commun, de nature à faciliter l'approvisionnement des pays membres de ce marché et à en réduire le coût, en permettant à tout consommateur de s'adresser librement au fournisseur de son choix.

¹The origin of this document, addressed to the writer of this study, is withheld at the request of the author.

Pour des produits de grande fabrication, l'élargissement du marché permet une production à meilleur compte; en est-il de même pour une matière première telle que le charbon?

Entend-on réduire le coût de l'extraction par une amélioration de la technique? Mais cette notion n'a rien à voir avec celle du marché commun. Estime-t-on pouvoir y parvenir par une rationalisation de la production, en fermant les mines les moins rentables? Mais cela pose des problèmes particulièrement délicats: en mettant des ouvriers en chômage ou en les obligeant à des déplacements au-delà de leurs frontières qui, pour eux, signifient, qu'on le veuille ou non, une expatriation, ne risque-t-on pas de créer une armée de mécontents disposés à se rallier à n'importe quelle idéologie et ne va-t-on pas à l'encontre du but poursuivi?

La consommation de charbon en Europe est d'ailleurs très instable et les variations de la demande très sensibles. Si l'on veut être à même de faire face aux demandes des périodes de pointe, ne faut-il pas maintenir certaines exploitations en activité, dont la production peut, à certains moments, être absolument nécessaire, pour éviter des perturbations graves dans les approvisionnements et les prix.

L'existence d'un marché commun n'est pas de nature à assurer automatiquement la satisfaction des besoins de tous les consommateurs. L'état d'équilibre du marché charbonnier n'est pratiquement jamais atteint et, ou bien on se trouve dans une période où il n'y a pas assez de charbon et on n'échappe pas à la nécessité de procéder à une répartition internationale, ou bien il y a trop de charbon, et, dans l'un et l'autre cas, il est difficile d'apprécier quels éléments nouveaux de solution peut apporter l'existence d'un marché commun.

Le problème des prix est évidemment un de ceux auxquels se sont particulièrement attachés les Auteurs du Plan Schuman, émus de ce que l'on a appelé la politique des doubles prix.

Le but du Plan Schuman est en effet de faire acheter le charbon à un prix qui soit le même pour une provenance déterminée, par conséquent qui ne soit ni plus élevé ni moins élevé que le prix intérieur du pays fournisseur.

Il semble qu'une telle notion soit contraire à la notion de prix de marché car, pour un lieu de consommation donné, l'alignement doit se faire, non pas au départ, sur un prix intérieur, mais par le jeu de la concurrence entre les différentes sources d'approvisionnement, sur le lieu de consommation lui-même.

Enfin, pour assurer la liberté des approvisionnements, le Plan Schuman s'est élevé contre tout organisme centralisé d'achat ou de vente et les critiques se sont cristallisées autour de l'organisme de vente des charbons de la Ruhr, le Deutscher Kohlen Verkauf, que l'on a eu tendance à assimiler au Kohlen-Syndikat qui existait avant-guerre.

Or, on peut se demander si l'existence d'organismes de vente et d'achat nationaux ne permet pas d'éviter des monopoles particuliers qui

sont d'autant plus graves qu'ils ne sont pas contrôlés et ne seraient pas de nature à faciliter la tâche de la Haute Autorité du Plan Schuman.

CONCLUSION -

Si l'idée de faire l'Europe est une grande idée qui doit être poursuivie, on ne peut s'empêcher de craindre que les modalités prévues pour la réalisation du Pool Charbon/Acier ne fassent pas leur part suffisante à certains aspects pratiques et techniques qui, malgré tout, s'imposent car ils seront plus forts que les conceptions théoriques qui ont présidé à l'élaboration du Plan Schuman.

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