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Education and the new Europe

At a conference held in Paris in February 1970, the French Minister of Education said he considered it "paradoxical that at a time when education has become a major priority in all the countries of the European Community, there should be no mention, among the projects whose implementation can be planned and programmed in the immediate future, of a European Educational Community."

M. Guichard's statement reflects the fact that although most countries now consider education a priority in economic and social development, (and this national recognition is not contested at the European level), very little in the way of a Community policy has been spelt out. Such a situation obtains in spite of the fact that progress made towards economic and monetary union and the increasing interdependence of the member states already requires a degree of co-ordination of educational policy within the Community.

The situation which now faces education requires at least a partial framework of joint activity. In quantitative terms alone the development of general education and the almost total elimination of illiteracy which results from lack of early schooling presents tremendous challenges to the western nations. Thus the length of compulsory schooling has increased considerably: in a quarter of a century it has risen from 4-5 years to 8 years minimum in all the Community countries. The school attendance figures are close to 100 per cent in five of the six countries in the original Community, for children between the ages of 7 and 13. The percentage is lower in Italy, particularly in the 13+ age group. There is still headway to be made: in the United States in 1960, 80 per cent of the population between the ages of 14 and 18 was in full-time education. The same percentage was reached by Japan in 1964. In the Community only 40 per cent of the same age group—half the percentage—was similarly occupied in 1965.

The number of university students has continued to rise, doubling in five of the original Six (Luxembourg has no universities). Between 1958 and 1968, they numbered over one and a half million. According to a survey published in 1969 by the Statistical Bureau of the Communities, the Six could in 1965 claim 30 million schoolchildren and students in full-time education, as against 25 million in 1958. By 1970, the number had risen to over 37 million out of a total population of 189 million (17.3 per cent of the whole.) Between 1962 and 1970, the school/student population of the Six had increased by 22.3 per cent as against an increase of 7.4 per cent in the overall population.

There have been changes in other areas too. The development of the natural, applied and social sciences is daily

enlarging the corpus of knowledge. It has become a commonplace to say that there are more scholars alive today than the world has seen in all its existence. It is difficult to estimate the precise extent of the progress made in the last fifty years, but there can be no doubt that this is an area of unparalleled growth: one discovery leads to another at an ever-increasing pace. If it was still possible until about 1930 for a university graduate to survive until the end of his professional life on his capital of acquired knowledge, the same cannot be said today. At the same time, methods of adding to the store of knowledge are being widely developed. It is in this perspective that we must view the increasingly important role of continuing education.

Lastly, the increase in numbers attending school and university, the rise in the number of teachers, the cost of school building and equipment have appreciably affected the proportion of the national budget devoted to education in every country. At present, something like 7 per cent of the GNP and 17 to 20 per cent of public spending goes on education. It is therefore one of the major items in the budgets of the Community members. In medium-range government planning, the trend towards the qualitative and quantitative development of education finds further confirmation, but it is clear that funds are unlikely to continue increasing at the same rate: the problem of financing this expansion will have to be considered.

The limitations of the treaties

In the face of such trends, it must immediately be recognized that the treaties setting up the European Coal and

Steel Community (1953), the European Economic Community and the European Atomic Energy Community (1957) contain little reference to educational problems. Although a few of the articles in the treaties have some bearing on educational matters, these are usually of limited application.

Article 9 of the Euratom treaty, for example, which looks forward to the creation of an "Institute of higher education" later served as a basis for discussion of the establishment of a European university. The mutual recognition of qualifications with special reference to the right of exercising a profession (article 57 of the Treaty of Rome) and the provisions for vocational training (art. 118 and 119 of the same Treaty) also have some bearing on education. Article 56 of the ECSC treaty and article 125 of the EEC Treaty refer to the re-training of workers losing their jobs as a result of the development of the Common Market, or made redundant by technological advance. Article 41 of the EEC Treaty looks forward to the coordination of the vocational training schemes in the field of agriculture.

Some observers consider that the provisions of the treaties concerning the recognition of qualifications or the development of a common policy on vocational training are intended merely to accompany personal mobility and the free exercise of professional activity within the Community, rather than to create a genuine educational policy at Community level. Whether such a policy would concern itself with the structure of national education systems, the nature and content of the curriculum, or teaching methods, is not clear. However, those who fear that implicit in the vague, well-meaning phrases 'harmonisation' and 'European educational policy' is the intention to rationalise, standardise or otherwise bring about changes in an area hitherto the preserve of national authorities, may extract some reassurance from the fact that positive proposals so far indicate that what is envisaged are measures to facilitate mobility, research, and exchange of information.

At the summit meeting of heads of state and government held in Bonn on 18th July 1961, the Six declared their intention of setting up a Council of the ministers responsible for educational affairs and of creating, among other things, a European University in Florence. But differences between the member states and the obstacles encountered by political union subsequently pushed these discussions into the background. Would the new establishment be linked to the existing Communities, and if so to what extent? The ensuing debate on the connections between educational and institutional questions was virtually never resolved.

This setback has not, however, prevented certain initiatives from seeing daylight in the course of the past fourteen years. There is for example the decision to encourage mobility among scientific personnel and cooperation in the sphere of post-secondary education, along the lines of the brief given on 31st October 1967 to the PREST group ('Policy for Scientific and Technical Research'). Other initiatives include the intention to create and develop university courses and research on the subject of European integration. New perspectives were opened up at the Hague Conference of December 1969, when the final communiqué of the conference referred to the need for the 'European University' in Florence (point 11) and to the desirability of 'associating young people with the building of Europe' (point 16).

The Commission has always considered that the pursuit of the economic and social objectives of the treaties must inevitably take cognizance, sooner or later, of the development of educational policies in the member states. The Commission and the European Parliament have not been alone in remarking the omission of specific mention of education in plans for European integration. During the last three years, several *lois-cadres* (outline laws) relating to the reform of higher education have been drafted within the member states: they all recognize that exchange and cooperation between universities should be strongly encouraged if the Community is ultimately to see the removal of all obstacles to free circulation.

Strong support for this development came from the then

French Minister of Education, Olivier Guichard, who said in a speech at The Hague in November 1969: "The strengthening of the bonds of the European Community requires that it should not be confined to the administration of the peoples and problems of today, but that it take steps towards building a common future, towards educating and training those who will be the Europeans of tomorrow." This echoes the statement made in Paris in February 1970, quoted at the outset, during which the Minister went on to propose the setting up of a "European Centre for Educational Development."

The European Parliament for its part has on many occasions since 1960 taken the initiative of presenting reports on cultural matters, and in particular on questions concerning youth and education. Among these could be listed the many reports on the European university, M. Merten's report in 1966 on the European schools and their development, and M. Scarascia-Mugnozza's report in the same year on the creation of a European Youth Office. In 1969, the European Parliament called for more positive progress towards encouraging mobility among teachers, researchers and students (reports by MM. Schuijt and Hougardy) and the problems of youth and education were again the subject of discussion on 8th February 1972 (M. Hougardy's report).

At the suggestion of the Belgian government, the Ministers of Education of the member states met for the first time on 16th November 1971 to examine and review together some of the problems of education. The direction taken by the Community in recent years and the prospects of future development led them to envisage the possibility of a common European educational policy, accompanied by increased cooperation between school and university systems.

The decisions taken at this meeting related in the first place to the establishment of a European University at Florence, and the further study of the French proposal for a "European Centre of Educational Development." In addition, the ministers asked the Committee of permanent representatives and the Commission to re-activate the talks already under way concerning the mutual recognition of qualifications with a view to introducing the right to the free exercise of professional activity within the Community.

These declarations of intent indicate that the time seems ripe for the introduction of a policy based on the few concrete provisions contained in the Treaties of Paris and Rome. As M. Albert Borschette, a member of the Commission, pointed out to the European Parliament, such a policy would indeed stand at the limit of the terms of reference of the Treaties, but not outside them altogether. It may be added that article 235 of the Treaty of Rome, the use of which has been authorized by the Paris Summit, might be invoked: "If Community action should appear necessary in order to realize, within the functioning of the Common Market, one of the aims of the Community in an area for which this treaty has not specified powers of action, the Council of Ministers may, on the proposal of the Commission and after consultation of the Assembly, proceed by an unanimous decision to make the appropriate provision."

The European university in Florence

On 19th April 1972, the Convention setting up a "European Institute of Higher Education" was signed in Florence. The three new members of the Community added their signatures to his Convention shortly afterwards. From the beginning of the academic year 1974-1975, university graduates from all over the world will be able to pursue their studies and research within a specifically European context.

Florence will thus be a post-graduate university, and there will be four "departments": history and civilization; economics; law; and social and political science. Compared with some of the earlier schemes, this is perhaps

something of a disappointment. But it must also be seen as a positive step at a time when the Nine are seeking to lay the foundations of a genuine European educational community. In this context the aim of the new Institute might be summarized as follows: to contribute to the development of Europe's cultural and scientific heritage in the perspective of European unity, while at the same time respecting its diversity.

Most of the activities of the new university will take the form of seminars and group research projects. The language problem was a particularly delicate question. It was eventually agreed that the official languages of the Institute would be the four languages of the original Community (German, French, Italian and Dutch), plus English. At the beginning of each seminar or project, two working languages would be chosen, with reference to the origins of both teachers and students. Those students who have attended the Institute for at least two years and who have completed a piece of original research will be eligible for the title of Doctor of the European Institute of Florence (in law, political science etc.) The Italian government has acquired the Villa Tolomei with a park of about 20 hectares (about 50 acres) where it is thought that 250 students and researchers will be accommodated in the first year and about 350 in three years from now. Under certain circumstances, students will qualify for maintenance grants.

Three authorities will be responsible for the functioning of the Institute's academic activities: the Higher Council, composed of government representatives (responsible for general organization and functioning of the Institute); the President of the Institute, appointed for a period of three years; and the Academic Council (responsible for matters of teaching and research), composed of the President, the secretary-general, the heads of department, teachers attached to the Institute, and student representatives.

Until 1977, the Institute will be financed by intergovernmental contributions; from January 1978 it will be financed from sources not yet determined. (As of 1975, it should be remembered, the Community budget will be provided entirely by the system of self-financing laid down in the Treaty of April 1970.)

On the occasion of the signing of the Convention at Florence, M. Scarascia-Mugnozza, recently appointed vice-president of the European Commission, remarked with candour and realism that many years had passed since that far-off day in Messina, in 1956, when Italy had first proposed the idea of a European university. Nor could he avoid reminding his audience that Florence was the result of governmental rather than Community initiative, despite the mood at the Hague when the heads of state and government had declared that "the European Communities remain the original nucleus from which European unity has developed and taken flight".

The European Centre for Educational Development

During the (1971) meeting which led to the establishment of the European University, the Ministers of Education examined the French proposals to set up a European Centre for Educational Development. Their aim was to formulate a European educational policy which would, while respecting the diversity of the various school and university systems, encourage progress towards making them complementary, notably by increased specialisation of study and research.

The proposed formula for this centre was outlined by M. Olivier Guichard in his speech at The Hague on 27th November 1969. "If Europe has become a Community with a shared future", the French minister emphasised, "that future will in large measure depend on what we have achieved—or failed to achieve—in matters of culture and education." And since the policy of economic integration, of which one of the basic principles is the free circulation and right to exercise trades or professions within the member states, cannot proceed without

at least a minimum of coordination of training programmes, "a European educational policy is clearly essential, since the same problems are shared by all European societies. By studying them in common, we are more likely to provide means adequate to solve them. Joint solutions would prevent our paths from diverging irremediably."

The tasks of the proposed centre would be grouped round four basic aims:

1. To disseminate information on the different European educational systems. At present too little is known about them, and they are studied only in an uncoordinated fashion. One aim of the Centre should be to enlarge this knowledge, to store information systematically and distribute it widely, particularly in certain areas commonly neglected: the economics of education (comparability of statistics, systems of accounting and educational costs); the structures and the functioning of educational systems; educational research and experiment; the comparative study of the typical educational career pattern of young people in the nine member states. Such information, with the aid of data banks' employing the latest techniques for collecting and processing information, and made available to the relevant corporate bodies, would make it possible for governments to make improved decisions.

2. To encourage freedom of movement among both teachers and pupils, by the elimination of administrative obstacles to mobility in the teaching profession, and by the successful implementation of multi-national teaching programmes. Priority should be given to resolving the problems raised by a student's fulfilment of several periods of study in different countries—in other words the recognition of the validity of periods of attendance at institutions in the member states. In the long term a "European diploma" might be envisaged. The Centre would also be expected to distribute information about employment vacancies, grants etc., in the interests of increased mobility within the Community.

3. To encourage cooperation between universities in order to avoid costly duplication of facilities, and to recommend specialization in research. The centre might encourage scientific cooperation and further advanced research by the creation of a European degree.

4. To promote cooperation between the different educational systems, with particular reference to the development of new teaching techniques and aids (audio-visual equipment, educational television, videotapes, programmed learning etc.) to improve efficiency.

The mutual recognition of qualifications

The Treaty of Rome lays the foundation for the recognition of degrees, certificates and other qualifications in the context of removing obstacles to the free exercise of professions within the Community. The Commission has already put a number of proposals to the Council, in application of article 57, concerning in particular the following professions: architect, engineer, doctor, dentist, pharmacist, veterinary surgeon and economist.

Once adopted, such directives would become binding on member states; they would have to modify their existing legislation in order to recognize the qualifications issued by other Community states and if necessary in order to adapt their own training procedures if they should fail to conform to the directives.

Broadly speaking, the proposals submitted to the Council suggest that in every discipline, minimum criteria for training should be defined wherever vocational training is a condition of entry to a profession or of obtaining a qualification. The aim of the proposal is not therefore to pronounce on the relative value of the different training schemes: by specifying minimum criteria, the member states would merely be obtaining the necessary guarantees for the effective implementation of the right to exercise a profession anywhere within the Community.

In discussions on the harmonisation of qualifications, "academic" recognition should not be confused with the "professional" recognition which may be a condition to entry to professional practice. Academic recognition would apply essentially within universities. It would enable a student to continue his or her education in a different country and to be enrolled in a course at a level decided by the competent authority. The proposed Centre for Educational Development might provide a suitable setting within which the modalities of legislation to increase such mobility among students might be studied.

Training and mobility: other initiatives

The Commission is at present engaged upon the elaboration of a Community working programme on vocational training, under articles 118 and 128 of the Treaty of Rome. On 26th July 1971, the Council of Ministers approved the guidelines for this project; they were subsequently published in the Official Gazette of 12th August 1971 which states that: "economic, social, technical and educational development in the member states has led those responsible... to consider the development of educational systems and of measures of vocational guidance and training adapted to the aspirations and abilities of the workers, having due regard to the patterns of available employment."

Under the aegis of the Committee for medium-term economic policy, the experts, called upon to examine cooperation among the member states on matters of scientific and technical policy (the PREST group), have set up several specialized working parties in order to examine ways of providing coordinated training programmes and the exchange of scientists among the member states: (a) post-graduate education; (b) exchange and mobility of scientists; (c) training in computer techniques. On the first two questions, the working parties have already reported back to the Council; their conclusions on the third have not yet been received.

European schools

In 1953, after the European Coal and Steel Community had set up its headquarters in Luxemburg, a small primary school was opened. Originally organized by the parents of the pupils, it received official status, sanctioned by the Six, on 12th April 1957. On 15th July of the same year, the regulations governing the European *baccalauréat* were signed. In 1958, the second European school opened in Brussels, soon to be followed by four similar schools in Mol (1960), Varese (1960), Karlsruhe (1962) and Bergen (1963).

The content of the European schools syllabus was very close to that of each national syllabus. But classes in literature, history and geography in particular were enriched by contributions from each nation. Bearing in mind the attachment of each of our countries to its educational traditions, one cannot help but be pleasantly surprised by the rapidity with which the political and educational authorities of the time, unanimously eager to make the venture a success, reached agreement on a common syllabus and on the principles of a European education.

Basic instruction is given in the four official languages of the Six: German, French, Italian and Dutch. English and Danish are to be introduced shortly as a consequence of the enlarging of the Communities. The continued privileged position of each pupil's mother tongue is thus assured.

In order to promote unity within the school and social encounters between the different linguistic groups, some subjects are taught in common to classes of the same level. In the primary school, such courses take the form of "European hours", at secondary level common courses are taught in the "working languages", German and French.

Particular efforts are made to give the pupils a thorough knowledge of modern languages and besides the "working language" all pupils have compulsory tuition in English from the third year in the secondary school.

The instruction and education given at the European schools respect the conscience and convictions of the individual. Curriculum and timetable include hours set aside for either religious or moral education.

At present, about 8,000 pupils attend European schools and 1,427 school leavers have received the "European graduation certificate" which qualifies them for entry to any university within the original Community, as well as to those of Austria, and in certain circumstances those of the United Kingdom, Switzerland and the United States. To appreciate the proper significance of this certificate, one should bear in mind that the European schools were set up by an international agreement which placed them under the authority of a Higher Council composed of the six ministers of education. The status and syllabuses of the schools were formulated and adapted by the same Higher Council. They therefore represent a synthesis and harmonisation of primary and secondary syllabuses within the Six, proving that the latter were by no means irreconcilably divided.

Several ministers have already expressed the opinion that the experience gained in the European schools could well be extended—for instance by establishing other European schools in large cities whose population includes residents of several nationalities. It would be one way of tackling the problem of providing schooling for children of immigrant workers and the way would be prepared for the eventual harmonisation of teaching syllabuses within the entire Community.

The Community as a subject of study and research

The 'European University' in Florence will provide a particularly appropriate setting for European studies. But even now, following the precedent of the College of Europe at Bruges, about fifteen Institutes or University Centres of European Studies are active within the original member countries of the Community as well as in other European countries. Moreover, since 1965, the study of Community law, common policies, and foreign relations of the Communities have figured on the syllabuses of most faculties of law, economics and political science within the original member states as well as in many universities outside the Community, including eastern countries, the USA, Canada, Japan, etc.

The Community institutions are in contact with about a hundred reference libraries and over 180 centres of European documentation which they have helped to create within certain universities and which provide the necessary infrastructure for the development of the teaching and complementary research. In the academic year 1970-1971 for instance, the European Community Institute for University Studies had registered over 1,300 doctoral theses on various aspects of European integration. The development of such studies cannot but increase contacts between teachers and researchers and create the embryo of a European University Community.

Further reading

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United States policy towards postwar Western Europe

As his second term as President of the United States drew to a close, George Washington delivered his Farewell Address to the American people, in which he set forth the principles he believed should guide future policies. In speaking of the United States' relations with Europe, he stated: 'Europe has a set of primary interests which to us have none or a very remote relation. Hence she must be engaged in frequent controversies, the causes of which are essentially foreign to our concerns. Hence, therefore, it must be unwise in us to implicate ourselves by artificial ties in the ordinary vicissitudes of her politics... Why, by interweaving our destiny with that of any part of Europe, entangle our peace and prosperity in the toils of European ambition, rivalry, interest, humor, or caprice? It is our true policy to steer clear of permanent alliances.'

For almost one hundred and fifty years this 'avoidance of entangling alliances', as subsequently formulated by Jefferson, served as the basis of American policy towards Europe. When basic American interests were threatened, as in the First World War, the United States was forced to intervene in European affairs, but such departures from the policy of non-involvement were temporary: as soon as the danger had subsided, the United States attempted to extricate itself from political developments on the European continent, as is illustrated most graphically by the Senate's refusal to ratify the Versailles Treaty, which was regarded as imposing worldwide commitments on the United States. Yet only twenty-five years after the American Expeditionary Forces had been sent to France the United States was once again embroiled in a European conflict, and this time one of the first casualties was to be the policy of non-involvement in Europe.

The general form of the United States' relations with postwar Europe was therefore determined by decisions made during the early 1940's. These constituted a crucial departure in American foreign policy: the United States having twice in less than thirty years become involved in European conflicts, it was no longer possible to argue that European affairs were of no concern to the United States. Rather, it was deemed necessary that the United States play an active part in European affairs so as to protect its interests and especially to prevent the outbreak of yet another catastrophic war. To the wartime leaders it was clear that changes in the nature of warfare and of international trade meant that the United States could no longer remain aloof from European developments. The rapid spread of conflicts throughout the world and the emergence of an interdependent world economy, in which the United States' prosperity was tied to that of Europe, made this impossible.

On this increasing willingness of the United States to assume a major role in international affairs was superimposed a growing disillusionment with the Soviet Union. As more and more of Eastern Europe came under Russian control, the original goal of preventing future outbreaks of armed conflict was supplemented and eventually overshadowed by that of stopping Soviet expansion into Western Europe, whose continued independence was regarded

as vital to that of the United States itself. These goals are evident in the three basic tenets of postwar American policy in Europe. First, a strong and democratic western Europe is in the interests of the United States. Although it was not expected that European and American views would be identical on all issues, it was believed that their shared commitment to democratic ideals and their common concern about Soviet influence would be the basis of a fundamental community of interest. It was consequently desirable that western Europe be strong in order to withstand possible Communist aggression and to contribute to the might of what was to become the western alliance. Second, the creation of a united Europe was to be encouraged as a means of achieving this first objective. National obstacles to trade were regarded as inimical to the recovery and subsequent growth of the European economy, and only as an integrated unit could western Europe wield the political power that would end its dependence on the United States. Moreover, the existence of a united Europe would preclude future armed conflicts among its members, notably France and Germany; and, of course, the establishment of a United States of Europe had a certain emotional appeal. Third, the United States should sacrifice its short-term economic interests to the longer-range political goal. In the immediate postwar period, of course, the United States enjoyed a balance of payments surplus that would have minimised the difficulties caused by discrimination against American manufactures, but even after this situation changed the United States viewed the creation of a strong, united, democratic western Europe as justifying transient commercial losses. Moreover, it was assumed that these reductions in exports would be attenuated by the rapid economic expansion resulting from economic union.

Although the containment of communism came to overshadow the other motives for American involvement in European affairs, United States policy towards western Europe since 1945 shows a remarkable constancy of purpose and conduct. The concrete manifestations changed with circumstances and were adapted to particular situations, but the basic principles and tenets remained unaltered.

Postwar recovery

With the cessation of hostilities in 1945, the United States terminated the assistance to its allies that had been provided under the Lend-Lease Program. Aid for refugees continued to be available through the United Nations Relief and Rehabilitation Administration and, for the occupied territories of Italy and Germany, through the military administrations, but the other western European countries were obliged to apply for loans. Yet even the \$3,750 million loan to the United Kingdom failed to resolve the severe economic difficulties. The war had destroyed much of the industrial plant of western Europe, and agricultural production was down to a fraction of pre-war levels; consequently, manufactured goods were scarce and the limited supplies of food had to be rationed. Clearly the situation was ripe for exploitation by communist agitators. But it would not have been enough to merely satisfy Europe's current requirements; rather, the reconstitution of European productive capacity was necessary.

The Marshall Plan responded to these twin needs. As advanced by Secretary of State Marshall in June 1947, it was to attempt to alleviate suffering and prevent starvation, to restore the economic health that would provide the best defence against communist subversion, and to revive national economies so that recurring assistance would not be necessary. Yet while the United States was to provide the major part of the aid, the administration of the Marshall Plan was to be European and the aid provided was to be based on the request submitted by a European committee that co-ordinated the various national proposals. Further, cooperation among the European participants was made a precondition for American assistance: to facilitate the expansion of intra-European commerce, barriers to trade were reduced and organisations such as the European Payments Union and the OEEC established. The Marshall Plan may not have resulted in economic integration, but it did make the economic recovery of Europe possible and furnished one of the earliest opportunities for national governments to work together to solve common European problems.

The North Atlantic Treaty Organisation was the military counterpart of the Marshall Plan. In response to the proposal of the five signatory states of the Brussels Pact (Britain, France, and the Benelux) to form a defensive alliance including the United States, the American government supported the establishment of NATO in 1949, although it again insisted that the alliance be multilateral, rather than a series of bilateral commitments. While only a minority in the State Department subscribed to the 'twin pillars' concept, in which the United States and Europe constituted two separate and equal bases on which the alliance was founded, there was an attempt to structure the organisation so that the United States and Europe could participate as equals. In practice, of course, the United States has predominated because of its preponderant military strength; nevertheless, while recognising the importance of NATO as a symbol of American involvement in and commitment to Europe, it has consistently been American policy to try to increase the role played by the European states, in terms of both decision-making and responsibilities.

Steps towards European unity

Despite the progress achieved towards European integration under the aegis of the United States and through the creation of such international organisations as OEEC and NATO, it was obvious that if European unity was to be attained, the initiative would have to be taken by the Europeans themselves. Thus, on May 9, 1950, Robert Schuman, then Foreign Minister of France, proposed the creation of a European Coal and Steel Community that

would pool the industries of the member countries under a single authority. Although statements issued by the United States were deliberately circumspect to avoid the appearance of pressuring European nations, it welcomed 'a most important development prompted by the desire to further "a rapprochement between Germany and France and progress towards the economic integration of western Europe", objectives favoured by the United States Government'.¹ The Schuman Plan was not only gratifying evidence that the limited steps taken with American encouragement had borne fruit; it also constituted a great advance towards the two major goals of American policy. The establishment of such a community would make war between its members unthinkable and materially impossible and would facilitate German entry into the community of nations; moreover, it seemed likely to engender further steps leading to European union.

Yet if the American policy towards the Schuman Plan may generally be described as discreet support, there were significant exceptions. The proposed ECSC was attacked by both conservatives and steel producers as dangerously socialistic, although this viewpoint found few adherents in the government. The plan's more ardent proponents tried to manoeuvre the United States into taking a more open stand: when the United Kingdom decided against joining the ECSC, several members of Congress demanded that Marshall Aid funds to Britain be curtailed. Although there was considerable feeling that British membership was desirable both for Britain and for the ECSC, the American government wisely abstained from intervention. In contrast, the United States openly demonstrated its support for the Coal and Steel Community once it came into existence by being one of the first nations to extend official recognition and by offering an enormous loan, for which the sole justification was political approbation.

That the Schuman Plan came to a successful conclusion reflected the general coincidence of American and European policies. The potentially disastrous consequences when these diverged were demonstrated by the history of the European Defence Community. With the outbreak of the Korean War in 1950, the United States became increasingly concerned about troop strength in Europe, where it feared an attack would materialize. It became American policy therefore to press not only for the fulfilment of NATO quotas but also for the rearmament of western Germany. The spectre of a remilitarized Germany understandably disturbed many European governments, particularly that of France. As an alternative to the unilateral rearmament of Germany, the French government proposed the creation of a European Defence Community, in which the members would jointly control all the forces. After prolonged negotiations, the six members of the Coal and Steel Community signed a treaty establishing the EDC in May, 1952.

The United States government was a strong overt advocate of the EDC, which it regarded as necessary for rearming Germany and completing the readmission of that country to the community of European nations. EDC also elicited American support because it would constitute a powerful military force counter-balancing the Soviet forces and would almost certainly necessitate further progress towards political unification. The efforts of the United States to promote the defence community were intensified in 1953, indicating concern over the slow progress, and culminated in Secretary of State Dulles's blatant threat that an "agonizing reappraisal" of American commitments in Europe would be necessary if the treaty were not ratified. Whether such statements were counterproductive or, as appears most likely in the case of France, were simply not believed, the treaty failed to achieve ratification. Subsequently, as the result of enormous American pressure, West Germany was admitted as a full member to NATO and the Western European Union (an expanded Brussels Pact), but the resort to coercion soured United States relations with France for several years thereafter.

¹ Dean ACHESON, *Present at the Creation*, London, Hamish Hamilton, pp. 385-386.

The EEC and Euratom

The proposals to establish the European Economic Community and Euratom were, in contrast, of European origin. The foreign ministers of the six members of the Coal and Steel Community, meeting in Messina in 1952, took the initiative to relaunch the integration movement. Throughout the negotiations among the six in Brussels the following year, the United States refrained from active involvement, although it indicated its general endorsement of the project. That progress towards European unification was once again being made elicited approval from Washington, but official statements were circumspect, both because of the unfortunate consequences of active intervention in the case of the EDC and because of the vague nature of the initial proposals. The creation of a common market could constitute a big step forward on the road to political integration, but it could also result in the emergence of regional trading blocs, to which the United States—as the champion of a global, multilateral economic system—was opposed. The final American judgement would therefore have to depend on the balance between supranationalism and protectionism embodied in the EEC. Similarly, the creation of a common energy authority could contribute to the realisation of a united Europe, but it could also engender a dangerous proliferation of nuclear weapons in Europe. Once again, the American position would have to be determined by the nature of the proposals presented by the Spaak Committee.²

After careful consideration, the United States endorsed the proposals of the Spaak Committee, although there was some apprehension about their potential for causing dislocations in US-European trade. Of much greater concern to American officials, however, was the fact that the EEC was to comprise only the six members of the Coal and Steel Community. The creation of the Common Market could therefore conceivably lead to the division of western Europe on economic grounds. And if these six were to proceed towards political union, this cleavage might be intensified and introduce a serious split. The restricted membership of the EEC caused particular disquietude in the United States because it was generally believed that Britain, with its strong heritage of stable and democratic government, was an indispensable member of any European political community. The United Kingdom was, however, clearly unwilling to surrender its sovereignty in certain areas to the institutions of the Community as was demanded by the Treaties of Rome, and the United States was equally averse to applying any pressure. The dilemma facing the American government was therefore whether to encourage the Six to proceed without Britain or to attempt to foster an agreement between the Six and the other European states that seemed almost certain to preclude political union for the foreseeable future.

The United States was compelled to face this question when the British government proposed the creation of a free trade area encompassing all of western Europe, inside which the Six would proceed alone to economic union. The American reaction to the Maudling Plan was decidedly negative, for it would have created the very regional trading blocs to which the United States was opposed and would have caused significant trade dislocations without the mitigating benefits of progress towards political union. Moreover, it was all too likely that the plan would in practice destroy the EEC, as the incentives for its members to create an economic union would be greatly reduced.

² At a meeting at Messina in June 1955, the foreign ministers of the countries belonging to the European Coal and Steel Community decided that future efforts for the unification of Europe should be concentrated on the economic field. Two important plans emerged: that for Euratom, the European atomic energy pool, and that for a common market. A group of experts was appointed to determine ways and means of achieving these goals. M. Paul-Henri Spaak, the Belgian Foreign Minister, presided over this intergovernmental committee and its findings—the Spaak Report—were submitted to the foreign ministers on 21st April 1956. 'Rapport des chefs de délégation aux Ministres des Affaires Etrangères', 135 pp., Brussels, 1956.

The six members of the ECSC therefore received firm American support in opposing the Maudling Plan and consequently in establishing their common market. Although the EEC's potential to economically divide the continent concerned the United States, it was indisputably a contribution to the creation of a politically and economically united Europe that was after all the ultimate goal. Moreover, the British interest in maintaining commercial ties with western Europe, as demonstrated by their desire for a free trade area, suggested that it was not entirely inconceivable that the United Kingdom might one day join with the Six and hence end the split that became manifest with the formation of the European Free Trade Association by seven states unable to subscribe to the EEC.

An enlarged Community

Thus while the United States regarded the abandonment of progress towards political unification as too high a price to pay for British membership of the EEC, it felt that British participation was desirable as it would not only strengthen the Community, but it would end the division of western Europe into two economic blocs. Also, British membership was indispensable for the strong and united Europe President Kennedy envisaged in his "Grand Design":

"We believe that a united Europe will be capable of playing a greater role in the common defense, of responding more generously to the needs of poorer nations, of joining with the United States and others in lowering trade barriers, resolving problems of currency and commodities, and developing coordinated policies in all other economic, diplomatic, and political areas . . . It would be premature, at this time, to more than indicate the high regard with which we would view the formation of this partnership. The first order of business is for our European friends to go forward in forming the more perfect union which will someday make it possible."³

If therefore the United States was determined to avoid the overt intervention that had produced such damaging results with the EDC, it nevertheless clearly supported and encouraged the 1961 British application for membership to the EEC on the terms of the Treaties of Rome. In addition to public and private indications of its endorsement of the bid, the United States dangled a material incentive before Europe: the Trade Expansion Act of 1962 gave the President the authority to completely abolish tariffs on items where the United States and the EEC accounted for more than eighty per cent of the world's trade—an offer that would be meaningful only if Great Britain were a member of the Community.

The United States also tried to improve the chances of British admission by coming to the aid of Prime Minister Macmillan's government, which was coming under heavy fire in December, 1962, after the cancellation of the joint Anglo-American Skybolt project because of escalating costs. This threatened to deprive the United Kingdom of a credible nuclear deterrent. Although the British government maintained that the United States was obliged under the terms of the agreement to provide an alternative weapons system, the American decision to furnish Britain with Polaris warheads reflected primarily a sense of personal commitment by the President and a fear that should the Conservative government fall over this issue, the prospects for British entry would be dim. To de Gaulle, however, the Nassau accord was the epitome of precisely that "special relationship" between Britain and the United States that he asserted was incompatible with membership in the EEC. Despite the offer of identical assistance to the French, de Gaulle seized upon the agreement as the pretext for his veto of the British application in January, 1963.

While de Gaulle's veto conclusively demonstrated that British membership in the EEC would not be a reality during his term in office, it was hoped that the French

³ George M. TABER, *John F. Kennedy and a Uniting Europe*, Bruges, College of Europe, pp. 98-99.

attitude might in time soften so that the enlargement of the Community might be possible. This optimistic assumption and the realistic perception that little could be done to change de Gaulle's policies resulted in the emphasis in American policy shifting from the growth and development of the EEC to the relationship between the United States and the Community. With the passage of time, the United States became increasingly dismayed by the lack of progress towards political union, especially as the sacrifices it believed it was making came at a period of economic difficulty. By the end of the 1960's, the view of the European Community as a protectionist trading bloc, discriminating against American products and concluding preferential trade agreements that kept American manufactures out of part of the developing world, was gaining currency. While this view seems exaggerated, it illustrates the magnitude of the changes that had occurred in ten years. The EEC was now a reality, with its own interests, not always identical with those of the United States. Although American disillusionment with the Community is to some extent responsible for the emergence of disputes between the United States and the EEC, many of the conflicts merely signify that the Community as a distinct entity has now come of age.

Relations between the United States and the EEC

While recognizing that the formation of the Common Market would entail certain economic sacrifices and accepting these losses as the price of achieving a united Europe, the United States has endeavoured to minimize these adverse effects, particularly as progress towards political union slowed and the American balance of payments worsened. The creation of an economic union inevitably tends to both increase and divert trade as the removal of tariff barriers acts to stimulate commerce among the members while discouraging imports from third countries by making them relatively more expensive. The United States has therefore tried to reinforce the trade-creating tendency by advocating the reduction and elimination of intra-European obstacles to trade. This would not only strengthen the bonds between the members but also foster a dynamic economy, and ensure that growth did not occur at the expense of non-members. It has therefore encouraged the Community to adopt a liberal external trading policy so as to lessen the trade-diverting effects caused by imports from outside being displaced by competition from member states and so that the Common Market can contribute to the emergence of a truly multilateral world economy, rather than foster one dominated by regional trading blocs. Since the EEC has succeeded in removing most of the internal barriers to trade, the conflicts between the Community and the United States focus largely on the extent to which the former is following protectionist policies.

According to the General Agreement on Tariffs and Trade, which embodies the principles governing commerce in most of the non-Communist world, the common set of tariffs adopted by a customs union must not on average be higher than those prevailing in the member states previously. Moreover, any non-member that can demonstrate that its trade has been adversely affected by the formation of the union is entitled to compensation for its losses. Although the common external tariff of the EEC is in accordance with the first provision of GATT, the United States and other nations could nevertheless show that because, for example, German manufactures could now enter France duty-free, their own exports were suffering from relative discrimination. Consequently a substantial part of the Dillon Round of GATT talks in 1961-1962 was devoted to assessing the effects of the establishment of the EEC on trade patterns. In the event, the six members of the Common Market declined to make any appreciable compensation but did offer to reduce the level of the external tariff by twenty percent if the other members of GATT reciprocated. On the basis of this proposal, the

Dillon Round came to a mildly successful conclusion, but consideration of agricultural trade, which was the major preoccupation of the United States, was deferred.

Since both the members of the European Community and the United States are located in the temperate zone, it is an unfortunate fact that they grow essentially the same crops. Moreover, because of the political power of farming groups and the importance assigned to agriculture on both continents, the price of agricultural commodities and hence the incomes of farmers are maintained at artificially high levels by a series of quotas, levies, and other restrictions on imports that partially isolate the internal market. The level of protection depends on the efficiency of the domestic producers: while American prices are near to the world levels, those in Europe can be fifty to seventy-five percent higher, reflecting the relatively small size and obsolete methods typical of European farming. Although one of the main goals of the EEC's common agricultural policy is to promote the modernization and rationalization of European agriculture, its principal effect so far has been to guarantee high prices by means of a floating levy imposed on all imports of products covered by CAP. Since these items are precisely those grown in Europe and the United States, the result has been the partial exclusion of the cheaper American commodities and, in some cases, the accumulation of unwanted surpluses.

The common agricultural policy has therefore become one of the main targets of American criticism. The United States maintains that CAP is an inherently protectionist system that has acted to preserve an inefficient activity and to restrict the volume of American agricultural exports to Europe. Although the EEC emphasizes that the amount of imports from the United States has grown steadily and its percentage in terms of total European consumption has remained constant, it is clear that the principal benefits from expanding consumer demand have gone to European producers. In addition, the subsidised sale of surpluses abroad has provoked repeated criticism from Washington and some members of the Community. Despite an attempt to achieve agreement on agricultural trade in the Kennedy Round of GATT negotiations, the common agricultural policy still remains a sore point in relations between the United States and the Community.

Association agreements

Whereas American opposition to the present common agricultural policy, because of its protectionist elements, reflects the \$150-200 million in potential exports it is estimated to have cost the United States, criticism of the Community's policy of association with non-European countries is based much more on fundamental principles. The members of the Common Market argue that the association agreements with African states were necessary to prevent the economic disruption of these countries, many of whom, as colonies, enjoyed preferential access to European markets, and that they serve to channel aid from the EEC. The United States, however, views these arrangements as fostering regional trading blocs: by creating a system of reciprocal preferences, they promote the development of exclusive commercial ties between the African states and the Common Market members. This discriminates not only against the United States but also against other countries producing the same items as the associated states—the Latin American nations in particular, who in turn may be expected to put pressure on the United States to construct its own regional trading bloc in the western hemisphere.

The United States objects to the association agreements, therefore, because they are incompatible with a multilateral world economy. Although it is dubious of the value of trade preferences in providing aid, the United States has indicated its willingness to accept such a system, provided that the donor abjures any reciprocal advantages and that the benefits are extended without discrimination to all eligible countries. American criticism of the association

agreements consequently is directed at the particular method chosen rather than the attempt to provide assistance. Both the United States and Europe have in fact endorsed a global preference system, but pending its realisation, the European Community has refused to abandon its association agreements and is concluding new ones with members of the British Commonwealth. The United States government has repeatedly expressed great concern about these developments, as it fears they may lead to the fragmentation of the world economy.

By far the most contested set of issues between the United States and the European Community are those concerning trade and monetary affairs. The American positions on these topics are not based on objections to the policies of the Common Market or the lines along which it is developing, as in the case of the disputes over the common agricultural policy and the association agreements; rather the differences of opinion about the commercial relations between the two partners resemble traditional conflicts among individual states. That the participants are the United States and the EEC may mean that the stakes are higher and that solutions are somewhat more urgent, but essentially the negotiations are no different from normal diplomatic activity.

The subjects involved, however, are extremely complex: as the level of tariff barriers between the United States and the EEC has been reduced, the major obstacles to trade have become "non-tariff barriers", such as national regulations, procurement policies, and valuation procedures. Thus, the United States has repeatedly attacked protective devices like border taxes, while the Common Market has long called for the elimination of the American Selling Price system, a notorious obstacle to foreign chemical products. A major part of trade negotiations is, therefore, devoted to considering NTBs, but as it is very difficult to identify such impediments, let alone quantify their effects, progress has been disappointingly slow.

The same situation predominates in monetary affairs, where the need for fundamental reform is accepted, but consensus on how to proceed is lacking. The United States wishes to introduce considerable flexibility into the fixing of exchange rates and has asserted that trade and military issues must be considered simultaneously. The members of the EEC, in contrast, have insisted that the United States restore the convertibility of the dollar into gold and return to a system of fixed exchange rates. Although the differences in position and the complex interrelationships between trade and monetary matters suggests that resolution of these issues will require long and difficult negotiations, the importance to both Europe and the United States of maintaining healthy economic relations indicates that temporary compromises will furnish an interim solution to these problems.

Conclusion

The landmark decisions that determined the course of postwar United States policy towards Europe were made in the early 1940s, and thirty years later it is these same principles that still guide American action. Europe is still regarded as a region of vital importance to the United States, and one in which it is necessary that the United States play an active role. The United States believes today, as it did then, that a strong and democratic Europe is still

in the national interest, despite the changes that have occurred in the international political environment. In President Nixon's words:

"America's and western Europe's interests are parallel in most areas of policy. . . . The United States has always supported the strengthening and enlargement of the European Community. We still do. We welcome cohesion in Europe because it makes Europe a sturdier pillar of peace. . . . We recognize that our interests will necessarily be affected by Europe's evolution and we may have to make sacrifices in the common interest. We consider that the possible economic price of a truly unified Europe is outweighed by the gain in the political vitality of the West as a whole."⁴

But in the past thirty years dramatic changes have occurred in Europe, changes to which the policies of the United States contributed. These altered circumstances have necessitated changes in American policies as they continue to attempt to reach the same goal. As Europe has grown in economic power, the United States has encouraged her to assume the responsibilities, both in terms of decisions and commitments, commensurate with this development. "Twin pillars", "Atlantic Partnership", "Grand Design", and most recently "Nixon Doctrine" symbolize the attempts of successive administrations to persuade European nations that they had:

"The ability and responsibility to deal with local disputes which once might have required our intervention [The] central thesis [was] that the United States will participate in the defense and development of allies and friends, but that America cannot—and will not—conceive *all* the plans, design *all* the programs, execute *all* the decisions, and undertake *all* the defense of the free nations of the world."⁵

The frustrations produced when Europe failed to respond has engendered a sense of disillusionment with Europe, a feeling that was strengthened by the lack of progress towards political union. To the more cynical, European integration has seemed to have served only to produce economic benefits, and as the United States experienced increasing balance of payments difficulties, it was inevitable that Europe be held to some extent responsible. Now that the Common Market has been established as a going concern, the United States has become increasingly pre-occupied with its own interests. In some sense, this may mark the beginning of normal intergovernmental relations, with the habitual conflicts of national interest, but after almost two decades of commitment to the ideal of a united Europe and of identifying European interests with its own, this has been a difficult transition for the United States to make. The reevaluation of its policy towards Europe that the American government was to conduct during the "Year of Europe" reflects this perception that the interests of the United States and western Europe are no longer identical. But while it indicates that the American government believes that the changed circumstances in Europe necessitate a re-examination of American policy, it also demonstrates that the United States believes that it still has a vital interest in, crucial ties with, and an essential role to play in western Europe.

⁴ Richard M. NIXON, *US Foreign Policy for the 1970s: Building for Peace*, A Report to the Congress February 18, 1970, pp. 20-21.
Richard M. NIXON, *US Foreign Policy for the 1970s: A New Strategy for Peace*, A Report to the Congress February 18, 1970, pp. 20-21.

⁵ NIXON, *A New Strategy for Peace*, pp. 4-5.

Bretton Woods and After (2)

Ian Davidson

Part 2: The system breaks down

The international monetary system set up in 1944 represented a major step towards a world of greater rationality and co-operativeness, and made possible a period of unprecedented economic prosperity. Its major shortcoming was the assumption that the dollar would always remain the world's strongest currency. The attempts which were made during the middle and late 1960s to modify the system did not go far or fast enough to prevent the major crisis which erupted in 1971, and still continues.

The international monetary system created at Bretton Woods in the aftermath of the second World War was based on two principles. The first was that the International Monetary Fund would provide convertible currencies to enable member countries to weather temporary balance of payments difficulties by supporting their currencies in the foreign-exchange markets at pre-determined rates. The second was that all currencies would be fixed in terms of the US dollar, while the dollar would be fixed in terms of gold.

What the system did not do was to make adequate provision for the future. It failed to deal with the question of what would happen if the resources of the International Monetary Fund should prove inadequate, either in quality or quantity, to finance the needs of the world's monetary authorities. Much more seriously, it failed to deal with the question of what would happen if the dollar should become a weak currency and thus cease to be able to carry out its function as the keystone of the new international monetary system.

The problem of the Fund's resources, which is part of what is known as the problem of *international liquidity*, was at first fairly easily resolved. In 1959 the members of the IMF increased their contributions (otherwise known as their *quotas*) by 50 per cent, and in some cases by larger amounts, in order to keep its resources rising in line with the expansion of international trade. Further increases were also made in 1966 (by a quarter or more), as well as in 1970 (by a third or more), so that by that time the total subscriptions to the Fund amounted to slightly more than \$ 28,000 million.

These increases failed to keep pace with the needs of at least some of the major countries, notably the United Kingdom and the United States. Despite the devaluation of 1949, the UK repeatedly ran into balance-of-payments difficulties during most of the post-war period and regularly had to borrow from the IMF on a very large scale. To make matters much worse, the United States also ran into serious balance-

of-payments difficulties in the early 1960s, and never succeeded in escaping from them.

In theory, the British difficulties were not as serious as those of the US, since the pound did not have as central a position as the dollar. Nevertheless, the pound itself was the centre of a major international payments system, known as the sterling area, which largely overlapped with the Commonwealth. These countries kept most of their reserves in sterling rather than in dollars, and, because of the economic importance of the sterling area to the world's trade, it was widely felt (mostly in Britain, but also in other countries) that a particular effort should be made to support the pound in its difficulties.

Modifications of the Fund

It was largely for this reason, therefore, that in 1962 ten of the leading members of the Fund introduced a significant modification in the methods of financing the Fund. (This so-called Group of Ten included the United States, the United Kingdom, Canada, Japan, Sweden and the five biggest members of the Common Market.) Under the *General Arrangements to Borrow*, the Ten agreed to set up a new stand-by credit of \$ 6,000 million, which they would be prepared to lend to the Fund in case it needed additional resources. The immediate reason for this departure from the normal practice of making paid-up subscriptions to the Fund was that in 1961 Britain (together with certain less developed countries) had drawn heavily on the IMF, and had thus seriously run down its supply of usable currencies. (All countries put currency into the IMF; but only a few currencies—those of the major industrial nations—are really useful for settling international debts; e.g. the Brazilian cruzeiro is not as acceptable as the German mark.)

But the underlying reason for setting up the Group of Ten was that, while the European countries (who were all running a surplus on their balance-of-payments) were ready if somewhat reluctantly, to help the UK, they were not ready to sign a blank cheque by endorsing a new increase in the Fund's quotas. Drawings from the Fund take place on a quasi-automatic basis, over which the member states have little or no control. But the \$ 6,000 million stand-by credit would only be made available as and when the rich creditor countries agreed. The *General Arrangements to Borrow* thus institutionalised an inner group of the members of the International Monetary Fund, which was to remain for the next ten years the principal forum for all negotiations on international monetary questions.

These institutionalised mechanisms for supplementing the world's liquidity were difficult and slow to negotiate and set up. The *General Arrangements to Borrow* were less trouble than across-the-board increases in the Fund quotas of all IMF members, just because fewer countries were involved, but it was not an easy process even so. In parallel with these formal multilateral arrangements, therefore, many of the major central banks entered into private, bilateral agreements with other central banks, under which each of them could borrow each other's currency up to an agreed ceiling for short (i.e. three-month) periods. Strictly speaking, these borrowings take the form of exchanges

of currency, on the lines of drawings from the IMF, and thus are known as *swaps*.

Because of its balance-of-payments difficulties, the United States was far the most active in developing the swap system, and during the early 1960s it set up a complete network of them with most of the European creditor countries, and progressively persuaded them to expand the volume of short-term credit it could draw upon.

Despite their name, swaps were essentially one-sided in intention, since they were designed to prop up the dollar through what was felt initially to be a period of temporary difficulty, but the Europeans felt obliged to help. Under the IMF rules, the dollar was the keystone of the world's monetary system and the US was by far the most important economy. Political considerations seemed to be even more important: the Cold War between west and east was still erupting, with the Berlin Wall and the Cuban missile crisis, and the US was felt to be the main bastion of Europe's defence.

For these reasons most European countries were sympathetic to the Americans when they demanded more far-reaching measures to expand international liquidity. They recognised the self-interest of the Americans, who wanted the creation of additional quantities of international reserve assets in order to make it easier for them to finance their deficit; but they also recognised that the total volume of the world's gold and foreign exchange was growing more slowly than world trade, and that, if there was not already a shortage of world liquidity, such a shortage might well emerge and would then act as a brake on the development of world trade and on economic growth.

The only major exception was France. General de Gaulle bitterly resented America's privileged position in the world and relentlessly opposed any step to make life easier for Washington in its 'temporary' balance-of-payments difficulties. He attacked the Americans for fighting the war in Vietnam and for buying up European companies, both of which bore a large responsibility for the American balance-of-payments deficit. He argued that the real problem was not a shortage of liquidity, but a glut of it in the shape of the outflow of dollars from the US, and throughout most of the 1960s he rigorously opposed American demands for the creation of a new type of reserve asset.

Special Drawing Rights

The Americans nevertheless pursued their demands relentlessly, and the negotiations dragged their way laboriously forward from 1962 until a final agreement was reached, in 1969, on the establishment of a wholly new, international reserve asset called *Special Drawing Rights*. By 1967, most of the members of the Group of Ten were convinced that some new mechanism for creating international liquidity was needed, to supplement the very slow growth in the world's gold supply, and to offset the shortage which would occur when (or if) the US ended its balance-of-payments deficit. In 1968 nine of them overcame the strong objections of the French, and adopted the Special Drawing Rights scheme. And in 1969 it was agreed that \$ 9,500 million worth of these new Special Drawing Rights should be distributed in three annual slices to all the members of the IMF: \$ 3,500 million in 1970 and \$ 3,000 million in each of the following two years.

The most important fact about this new instrument was that it was an entirely artificial, man-made asset, created solely on paper as a result of a collective decision of sovereign governments. It was not backed by gold or any other asset (though it was defined in terms of gold), and it did not depend on any national contribution to the Fund in gold or foreign exchange. In this respect it was comparable to national bank notes, whose value is purely a matter of confidence or general acceptability. Indeed, SDRs are even more intangible than bank notes, since they only exist as a series of book-keeping entries in the ledgers of the IMF and of the central banks of the member states.

As such, SDRs cannot be used by a central bank that holds them: they only represent an entitlement to gold or foreign exchange, which can then be used for normal international transactions. If a government wants to draw on its SDRs, it says so to the managing director of the Fund. He will then designate a country which has large foreign exchange reserves, or a strong balance of payments surplus; this country is then obliged to swap some of its foreign exchange for SDRs.

There are limits on the use of SDRs, however. A country may only use on average 70 per cent of its allocation, and if it goes over this limit temporarily, it must subsequently buy back some SDRs with foreign currency. A surplus country can go on accepting SDRs without limit if it wants to; but it is not obliged to accept SDRs once its holdings reach three times its original allocation.

The creation of SDRs represented a major advance in the rational management of the international monetary system, at least as significant in its way as the original Bretton Woods charter. For the first time the governments of the world had created what amounts to an international currency, which was quite independent of any national currency and quite independent of any supplies of gold. For the first time, therefore, they were in a position where they could decide how much international liquidity should be created, without having to depend on the costs of mining gold, let alone on chance fluctuations in the balances of payments of the major reserve countries, such as Britain and the United States.

Monetary Crises

The Special Drawing Rights agreement did not, however, prevent the worst international monetary crisis in the post-war period. It started in 1967 and 1968, after the devaluation of sterling and the May Revolution in France, with waves of unprecedented speculation against the pound and the franc and in favour of gold and the German Mark. The British and French currencies were both regarded as weak and liable to be devalued while Germany was earning enormous balance-of-payments surpluses and its currency was expected to be raised in value.

By 1970 and 1971, however, it was increasingly clear that the strength of the German mark was at bottom the reflection of the weakness of the dollar. Throughout the 1960s the American government had repeatedly promised the European governments that its balance-of-payments problems would soon be eliminated; but by the end of the decade it was evident that the long-promised improvement was further off than ever. In 1970 the official settlements deficit reached nearly

\$ 10,000 million, and in the following year it soared to nearly \$ 30,000 million. A large part of this dramatic deterioration was due to the costs of the Vietnam war and to capital spending abroad; but for the first time in post-war history the US imported more goods than it exported (leading to a trade deficit of nearly \$ 3,000 million), as a result of inflation and rising domestic costs together with a very rapid increase in exports by Japan.

Drastic steps were called for, and on August 15, 1971, President Nixon announced a far-reaching package of balance-of-payments measures. It included a 10 per cent increase in the import duty on manufactured goods and special tax concessions to exporters. But the most significant item, from a political as well as a monetary point of view, was the suspension of the convertibility of dollars into gold.

Dollar Convertibility

The reason for the move was simple enough. The American balance-of-payments deficit had poured a vast glut of dollars into the hands of the creditor countries, notably Japan and European countries. Some of these dollars had been presented to the American authorities for conversion into gold, and as a result the US gold stock had fallen to around \$ 10,000 million. But the accumulation of dollars in foreign central banks, which the Americans had persuaded them not to convert 'for the sake of the stability of the system', was five times as big, and amounted to some \$ 50,000 million. Clearly the US could not convert all these dollars into gold; equally clearly, the foreign central banks would not agree to go on piling up unconvertible dollars indefinitely. Indeed, the suspension of convertibility was triggered off by a British demand for an American gold guarantee for its surplus dollar holdings.

In May of 1971, the German government had moved to keep out the flood of surplus dollars by ceasing to support the dollar in order to keep the mark at its official dollar parity in the foreign exchange markets; when the mark was no longer held down, it gradually floated up. In August, after President Nixon's announcement, virtually all countries suspended their parities, and allowed their currencies to float more or less freely upwards against the dollar. (Once again, the French were a significant exception, since they refused to contemplate any deterioration in the price of their currency in order to help the Americans solve their balance-of-payments problem. They therefore maintained the official rate of the franc against the dollar for trade transactions, though they allowed some upward movement in francs used for purely financial transactions.)

The next four months were occupied with heavy international bargaining. Each of the creditor countries was determined to preserve its own balance-of-payments surplus as far as possible, and was therefore determined to minimise the amount by which it would revalue its currency in any new realignment of parities; each country was anxious to push on to its neighbour the concessions necessary to enable the US to right its balance-of-payments deficit. Inevitably Japan and Germany were regarded as candidates for the biggest revaluations, since they had the largest balance-of-payments surpluses. Britain, too, had a very large surplus, partly because of the economic recession and the low demand

for imports; but it was expected to disappear once expansion started again, and more particularly after the country started having to bear the costs of the common agricultural policy inside the Common Market.

For a number of countries, especially those on the continent of Europe (led by the French), no bargain was possible on a realignment of exchange rates until the US agreed to an increase in the price of gold. This had long been considered difficult, if not actually impossible, because Congress would be required to approve any increase, and the official gold price of \$35 an ounce, which had been in force for 37 years, was widely regarded in America as proof that the dollar was 'as good as gold'. Once it could be seen that the price was not immutable, the gold-dollar equivalence would no longer seem valid.

It soon became apparent, however, that the official price of gold was little more than a convenient fiction. The US would not in fact be in a position to convert foreign dollar holdings into gold unless the price were multiplied by five to \$175 an ounce, and no-one contemplated any such dramatic increase; for one thing it would have given a completely disproportionate advantage to gold-producing countries like South Africa and the Soviet Union, as well as to gold-hoarding countries like France; for another it would have given gold a new importance in the international monetary system, which was favoured by very few countries apart from South Africa and Switzerland. The sort of symbolic increase being discussed during the autumn of 1971 was only of the order of 10 per cent, which was, as some people put it at the time, the price at which the US would continue to refuse to sell gold. In the circumstances, any change was irrational; but some increase was required by the Europeans, to show that the dollar could no longer remain the keystone of the international monetary system.

On December 18, 1971 the haggling was over. The US agreed to raise the price of gold by 8.57 per cent, and all other surplus countries agreed to revalue against the dollar: Japan by nearly 17 per cent, Germany by nearly 14 per cent, and other countries by smaller amounts. It was also agreed that negotiations should take place on a fundamental reform of the international monetary system; and that, in the meantime, the permitted fluctuation of individual currencies against the dollar would be widened from 1 to 2½ per cent on either side of a "central" rate, in order to allow greater freedom of manoeuvre in this new, and very uncertain situation.

A number of important lessons emerged from the 1971 monetary crisis and its provisional resolution. The

first was that no country was at that time prepared to embark on a major trade war in order to protect its balance of payments or its exchange rate. The second was that the US dollar could not remain indefinitely the standard of value in the international monetary system, if it remained in chronic over-supply as a result of the US deficit; no-one doubted that the dollar would remain the world's most important currency for the foreseeable future, because of the size of the American economy—but that was not the same thing. The third was that the world's major trading nations had progressed far enough in the joint management of the international monetary system, and had so much to lose from any return to anarchy, that they were able to negotiate a simultaneous realignment of their exchange rates; no-one could be sure that the new rates would prove ideal or durable—hence the widening of the margins of fluctuation—but any agreement on a new international pattern was a major achievement of the negotiation process. The fourth lesson was that some new rules would be necessary in future to prevent a recurrence of a similar crisis.

What these new rules should be is obscure. But many countries, including Britain and the six members of the European Community believed that the international monetary system should in future be based on Special Drawing Rights as the central reserve asset and standard of value, and not on dollars. Hitherto the dollar had occupied a unique position, since it had been (in theory if not in practice) the only currency to be convertible into gold; henceforward, they argued, the dollar should have exactly the same functions as any other currency.

Many obstacles would have to be surmounted before such a transformation could take place. For one thing, the dollar is by far the most important reserve asset, and it would be difficult to replace it by SDRs and to find some way in which the US could buy back these dollars; for another, SDRs are a very new type of asset whose value depends solely on the faith of central banks. But if such a reform could be negotiated, it would represent a step forward in the rational management of the world's monetary affairs besides which the Bretton Woods charter would pale into insignificance.

Further reading

Guardian, Times, Financial Times: November 1967, August 1971, December 1971, July 1972 and July 1973.

See also ESTS issues 15 and 16.

Worker participation in the European Community

Developments in the Original Six

In 1948, the German industrialist Alfried Krupp von Bohlen und Halbach was sentenced to twelve years in jail for employing concentration camp inmates and prisoners-of-war in the gigantic Ruhr coal and steel empire which bore, and still bears, the family name.

As for the company itself, Krupps, along with other lesser fiefdoms in the heavy industrial sector, was to be broken up and dispersed: never again, it was agreed, should control over so large and basic a sector of the German economy be vested in so few people.

This view commended itself particularly strongly to the reconstituted German trade union movement, itself one of the principal casualties of the Nazi regime. Accordingly, it put forward to the occupying powers a scheme for Mitbestimmung—co-determination by a firm's workers—to prevent a company's power from being abused for political ends. And so, when new management boards were appointed for the dismembered industrial trusts of the Ruhr, the military administration divided their members equally between employers' and workers' representatives.

Thus was the modern practice of "participation" born.

Had the authorities who officiated so benevolently at the birth foreseen that it would become a most contentious issue in Western industrial relations for the next quarter, probably half, a century, they might well have pondered rather longer before giving their blessing.

A veto at this stage could not have suppressed the idea for long however; for though the motive force behind the first *Mitbestimmung* demand was broadly and urgently political, the other main impulse is being provided all the time by the simple logic of industrial development.

Factories and companies (and trade unions, for that matter) are getting bigger and bigger. They merge. They are taken over. They are hived off and rationalised. Workers and their jobs are, in effect, bought and sold with the capital machinery. Manufacturing processes are broken down into the tiniest component parts and then timed with a stop-watch, so that a car-worker, for example, doesn't make a car: he spends his day bolting one small part on another small part, over and over and over again, so many point something seconds a time, on a moving assembly line. A report in *The Times* (16 March 1972) on an American car plant noted: "The main complaint of the workers is that

they are treated like machines not people. (...) They want more interesting, more responsible work. At present, they feel a strong sense of alienation, of no pride whatever in what they are doing."

They are demanding a say in the way their jobs are organised and in the decisions which affect them. A form of participation, in fact.

The idea is currently making considerable headway in the EEC, where the German *Mitbestimmung* system has exerted a lot of influence. Just how far the original Six have moved from the doctrine of pure managerial prerogative—"I'm the boss and whatever I say goes"—to genuine employee involvement in decision-making is illustrated by the following survey.

Germany

The starting point is Germany, the home of it all, where the keystone of the participation edifice is the law of 21 May 1951, which lays down the famous *Mitbestimmung* principle for the country's mining and steel enterprises. Under the terms of the *Mitbestimmungsgesetz*, every coal and steel company with more

than 1000 workers must have a "supervisory board" normally composed of 11 members, five of them elected by the shareholders, five to represent the workers, and one identifiable with neither side but acceptable to both. The unions (as opposed to the workers—an important distinction) have secured their position in the system through their role in the selection of the board's five worker representatives: three of them are direct union appointments (one of whom at least must come from outside the company), whilst the other two are elected by the employees in agreement with the union in question. Under this two-tier system, the supervisory board has "hire and fire" authority over a second, smaller board responsible for the day to day running of the business. In the companies covered by the *Mitbestimmungsgesetz*, this board must include a director with special responsibility for personal questions, whose appointment or dismissal can be vetoed by the workers' representatives on the supervisory board.

In industries other than coal and steel, companies are subject to the 1952 *Betriebsverfassungsgesetz* (works constitution law), which allots only a minority—one-third—of supervisory board seats to workers.

The *Betriebsverfassungsgesetz* also governs the operations of the works councils, which form the second main prop of the system. Playing in general a watchdog role, their working has not always been satisfactory, especially in the ordinary one-third representation system applicable to most of industry. Two of the most frequent criticisms are that the councils, being company rather than union bodies, tend to by-pass the organised labour movement and consequently lack the latter's strength and cohesion; and that whilst in the full *Mitbestimmung* system the council has a direct management opposite number to talk to in the personnel director, this is not the case elsewhere. The result is very often not the desired concertation and compromise, but friction. Going some (though not all) the way to meet these union objections, Willy Brandt's government of Social Democrats and Free Democrats recently put on the statute books a law greatly reinforcing works council powers and increasing the union presence within them. In particular, it gives the works council authority to veto dismissals, subject to mediation and then decision by the labour courts, and hands them wide-ranging powers over manpower policy, training, health, company housing and payment systems. It is still too early to pass judgement on these reforms; but it is fair to say that whilst the unions would prefer even more radical measures, particularly in the economic field, German employers are frankly appalled at what they see as a severe threat to the free market economy.

This is also the critics' view of the unions' longstanding claims for the extension of the full "co-determination" system to all industrial concerns above a certain size (about 500 companies would be affected under the union criteria). They argue that *Mitbestimmung* is time-wasting, results in overcautious policies and requires from the personnel director the impossible task of representing at one and the same time both workforce and management.

They would appear nevertheless to be fighting a losing battle: with practicable schemes tabled by both the Social Democrats and the Christian Democrat opposition, extended co-determination seems only a matter of time.

France

From one extreme to the other: in France, only the government, echoing De Gaulle's phrase about finding a "middle way between capitalism and communism", seems to have much interest in participation, both unions and employers rejecting the notion for one reason or another, and its achievements have so far been small.

The main reason no doubt lies in the still very combative nature of French industrial relations. In France, as almost nowhere else in Europe, employers cling to their old managerial prerogatives and unions to their class-warfare. It was not until the "événements de mai" in 1968 that unions were guaranteed the elementary right to form branches and carry on normal union activities inside the factory precincts. Some communications do exist. Staff representatives and works councils have existed on a legal basis since 1945 and 1946, but with such limited consultation functions that they can hardly count as organs of participation. There are safety and hygiene committees. And some workers sit on the boards of public sector industry.

But the only real French claim to originality in the field lies in the law on financial participation reactivated in 1967, according to which profit-sharing is compulsory in firms with more than 100 workers. This law comes in for particular scorn from the French trade unions, who see in it an attempt to buy their co-operation for worthless currency (perhaps the most effective of the Paris wall posters in May 1968 was a simple white sheet bearing the words "Je participe, tu participes, il participe, nous participons, vous participez, ils profitent"): how they say, can you have "participation" where trade union rights are not fully guaranteed and where many employers are still hostile to the very concept of trade unionism?

Italy

Like the French labour movement, Italian trade unions refuse responsibility with managements for running capitalist enterprises because they want to change the whole basis of society. Not that employers would accept them as partners anyway: the notion of the factory as the inviolable personal property of the entrepreneur still holds strong sway south of the Alps.

What the unions do demand, though, is a say in working conditions and the planning of production methods, with equivalent influence over national political decisions in the social field. Interestingly enough, Italian unions have made more collective impression in the political sphere than in the factories: large scale action undertaken jointly by all three of the major trade union federations has over the last couple of years secured important housing and pension reforms, for example. And such is the ineffectiveness of the present parties that this political participation is liable to increase as the unions are drawn into the vacuum.

In the plant, Article 46 of the Italian constitution guarantees "the right of workers to collaborate, according to the means and within the limits laid down by the law, in the running of enterprises"; industrial real-

ities, however, have seldom lived up to these brave words. It is only since the "hot autumn" of 1970, and even then only in the most advanced sectors, that a union presence in the plant has begun to be tolerated at all.

Italian employers would much prefer to deal with the "insiders" of the *commissioni interne*, the equivalent of other countries' works councils, than the "outsiders" of the trade unions, and as in other countries, the relationship of unions to the *commissioni* is currently a major bone of industrial contention. Elected by all the workers of an enterprise, trade unionists or not, these bodies used to play a significant role in plant negotiations; hostility and considerable pressure from the trade unions have now reduced their functions in the main to administering social welfare and policing agreements.

Belgium

The third of the anti-participation countries is Belgium. Here again, though, the rejection by the unions of participation as a form of integration into the capitalist system conceals a demand which in fact takes the idea of worker involvement in industry to its ultimate extreme: workers' control, which is the aim of the powerful Belgian socialist trade union federation FGTB (the still stronger Christian trade unions are just as militant). Workers' control, as the FGTB sees it, is a step towards self-management—a concept dear also to some of the French unions—and would give labour the right of veto and counterproposal before economic decisions are made. Through a co-ordinated system of union representation at regional and national level as well as plant level, workers' control would gradually shift the emphasis of industrial life from profits at all cost to social justice and the will of the majority.

Though employers are no more impressed with the idea of workers on their boards of management than the unions themselves, contacts between the state and the two sides of industry do occur. In fact, from a national labour council, a consumer council, and a central economic council, through the *commissions paritaires*—joint negotiating boards—which cover most sectors of industry down to works councils and a guaranteed place in the plant for a union representative, Belgium possesses all the potential organs of participation, and through them the unions have considerable influence over the economy. Participation, one might say, in all but name.

The Netherlands

Here participation by both employers' and workers' organisations in the running of the economy has, until recently, been much more extensive. Institutionalised consultation between the state and Holland's pluralist professional organisations (both unions and employers have separate socialist, catholic and protestant organisations) has become a fact of life. But in the last few years, the unions especially have become more militant. Demanding less state intervention in the movement of wages, they are now pressing for legislation to improve their position in the factories which, on their own admission, they have somewhat neglected in the past in favour of broader national considerations.

This pressure had tangible results in 1971 with the passage of two new laws. The first reinforces an earlier and ineffective act on works councils. Under the new provisions, works councils, obligatory in all firms with more than 100 employees, get considerably more powers: they have to be consulted on certain major issues like plant closures, mergers, manpower and promotion policies and important organisational changes, and their agreement is necessary on matters concerning safety and health, profit-sharing and pension schemes. This power is offset to some extent by the fact that the council chairman is the firm's managing director; but the change is nonetheless important.

The second law institutes a supervisory board along German lines with authority to appoint and dismiss the directors. Candidates for the board can be put forward by the board itself, shareholders, management and works council, the latter two groups having in certain circumstances the right of veto. The law applies to roughly 750 large companies with a capital of 10 million florin (\$ 2.5 m) or over and will cover about half the Netherlands' industrial workers. It does not, on the other hand, apply to subsidiaries set up in Holland by foreign firms or to Dutch companies employing more workers outside than inside the country.

Whilst immediate employer reactions naturally vary, most accept that participation in some form had to come. Many suspect, probably rightly, that the trend has still further to go before the unions are fully satisfied.

Luxembourg

In the Grand Duchy, legislation on participation is still being considered. It is expected shortly, and will probably be based on a union programme drawn up as far back as 1967—though the union proposals are unlikely to appear in it in full.

What the unions want is a system of works councils, set up on a parity basis between management and workers in companies with more than 250 workers, coupled in big firms employing over 1000 people with a supervisory board including union representation.

The works councils would lay down principles of personnel policy—staff engagement, promotion, dismissal and transfer. They would have a say in production, sales and investment decisions and be kept fully up to date on the firm's financial position.

Participation on a European level

Pressure for more worker representation in the councils of industry has also come to the surface at the western European level, where a unified system of company law is being devised by the European Community to encourage industrial regrouping over national borders. The European Commission has suggested, to the dislike of the employers, that the model European company should roughly follow the German arrangement, with a supervisory board allowing workers one seat for every two held by the shareholders. At the

same time, there would be a central works council with members drawn from all the company plants and veto authority over personnel and wage systems.

This arrangement, too extreme for the employers, does not go as far as some people would like. The largest European labour grouping, the European Confederation of Free Trade Unions in the Community, for example, suggested that the new supervisory board should give the shareholders one-third of the seats, like the unions, with the final third filled by neutrals. (Even this was less than perfect for the Germans, who were unhappy about settling for less at Community level than they had already achieved at home.)

Strangely, it is the unions' rather than the Commissions' proposals which are getting the first trial run, the German and Dutch steel firms Hoesch and Hoogovens having this year agreed under pressure to adopt the ECFTU model for the supervisory board of their merged company.

This practical breakthrough will certainly strengthen the unions' hand in pressing for similar agreements in future international mergers.

Conclusion

The participation issue in Europe tends to be confused but nobody would deny that in all countries, even where unions (and certainly employers) reject the idea, organised labour is increasingly seeking to extend its influence over decision-making both at plant and national level, either by obliging employers to extend the scope of collective bargaining or by obliging governments to undertake legislation.

In one country this is labelled participation; does it cease to be participation in another just because the unions say it isn't?

The Belgian FGFB declares (a bit provocatively) that "the choice is between participation... to promote a change in the system... and participation which would subordinate union autonomy to the needs of the ruling class." In practice, the main difference seems to be whether or not to push for workers on company boards. Interestingly, those against—the unions in Italy, Belgium and France—can still strike with impunity as a means of problem-solving; participation's protagonists in the other countries are legally restricted in their use

of the strike weapon and argue that since the board-room is the scene of so many decisions affecting the workforce, it would be folly to pass up the chance of being present. At the same time, they are as committed to the taming of capitalism as anyone else, and would hotly dispute the idea that their chosen form of participation served the needs of the big industrialists better than their own.

Further extending the scope, already immense, of this one controversial word is the employers' counter to works council and worker-director power. Job motivation and enrichment techniques are still in their infancy and no one country has a monopoly of them; but who is to say that abolishing the rigidity of assembly lines and giving groups of workpeople extensive autonomy to organise themselves as they wish to accomplish a given task is not participation? Indeed, if a recent German survey of attitudes to *Mitbestimmung* is to be believed, it may well turn out to be the most important form of all for the ordinary worker.

Better education and communications mean more aware and more articulate people. This is as relevant in industrial as in social affairs, and has particular relevance to the highly developed societies of the EEC. Moreover, claims made and satisfied in one country are quickly used as precedents in another; the trend is self-reinforcing. Whatever the final mix of state intervention, employer initiated job-enrichment programmes and union representation in company decision-making, participation seems here to stay and a Europe aiming to be more than just an economic entity should not only recognise but welcome the fact.

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