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The *Sanierungsplan* of Europe, 1914-1964

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Abstract

This paper reconstructs the emergence of European economic governance (EEG) between the breakdown of the pre-1914 economic order and the consolidation of the European Economic Community (EEC) in 1964. A subsequent paper will extend this analysis through an institutional history of EEG, from the Committee of Governors to the European Monetary Institute, from the European Central Bank to the 2024 reform of the Stability and Growth Pact. Methodologically, the study combines archival and official primary sources with historical and historiographical analysis, supported by insights from political economy, international relations, economic history and theory, and quantitative evidence. Accordingly, this research seeks to answer the following questions:

- Why the cooperative arrangements built after 1945 proved more durable than those attempted after the First World War?
- Which political, economic, and institutional forces transformed European interdependence into increasingly formal structures of governance?
- What were the defining characteristics of the European economy between 1914 and 1964?

To address the first question, the paper aims to unpack the main structural, especially economic, changes within the interwar period and compare it with the post-1945 reconstruction. In this perspective, the paper argues that European integration emerged less from the decline of the nation-state than from the attempt to recover its governing capacity under conditions of deepening economic interdependence. The interwar order failed because innovations in the political and economic systemic domains were not matched by equally evolved structures of political regulation capable of balancing power – while deflation, protectionism, and financial fragmentation fuelled instability. After 1945, by contrast, American guidance, the reconstruction of Germany, domestic commitments to welfare and full employment, and new mechanisms of multilateral cooperation created different structuralized mechanisms of governing European political and economic relations. To address the second and third questions, the paper advances a primarily political explanation of the post-war history of EEG. It argues that the transformation of interdependence into increasingly formal structures of governance was driven above all by shifts in political power and by the search for stable political equilibria, both within member states and among them.

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I. Introduction: The History and Politics of Europe's Reconstruction

That the use of political science models has been of help to the study of history is not something of recent understanding or discovery. In fact, as matter of example, in September 1969 Graham T. Allison applied three analytical conceptual models to the study of the Cuban Missile Crisis.[1] Of course, one might be wondering whether a seven-year temporal span from the event in question is a sufficient temporal digression, for to allow a solid, sufficient, and archives-unrelated response to be expressed against one of the most still-debated topics of contemporary international history. Allisson successfully came up with three different conceptual approaches, according to which analysts could have developed their models for describing, unfolding, and explaining the Cuban Missile Crisis. Not to disregard the impact of the analysis to predict – a word much disliked by the author of this paper, in that the real vocation of historians is to study the past and try at best to comprehend the present – governmental behaviours, and especially foreign policy decisions, in times of uncertainty and crises.[2] Applying the Rational Policy Model (Model I), the Organisational Process Model (Model II), and the Bureaucratic Politics Model (Model III), Allison explained different plausible policy and procedural outcomes.

The Rational Policy Model depicted the U.S. blockade of Cuba as the deliberate result of a unitary state acting in its own best interests. When faced with Soviet missiles ninety miles from its borders, Washington considered its options and logically decided on quarantine as the course of action that would maximize security while lowering the risk of nuclear escalation. The Organisational Process Model, on the other hand, viewed the blockade as the practical result of organisational procedures and capabilities rather than as an abstract calculation of utility. The Navy already had a ready-made repertoire for maritime interdiction, the Air Force was unable to ensure a clean strike, and the Army was unprepared for an immediate invasion, so the "choice" was essentially limited by what bureaucracies knew how to carry out. Lastly, the blockade is reframed by the Bureaucratic Politics Model as the contingent outcome of negotiations among influential figures in the Kennedy administration: military leaders demanded airstrikes, diplomats argued for moderation, and the president mediated between these conflicting intentions to reach a compromise that was acceptable to enough important players. As a result, even though all three models explained the same result, they each emphasized

[1] **G. T. Allison**, *Conceptual models and the Cuban Missile Crisis*, in *The American Political Science Review*, Vol. 63, No. 3 (Sep., 1969), pp. 689-718

[2] A similar attempt in political science, but with respect to dynamics of party competition, was successfully conducted by Ian Budge with his spatial theory of party competition in times of uncertainty. Budge masterfully applied five different models which seemed to explain the strategic behaviours of parties in twenty post-war democracies. See **I. Budge**, *A New Spatial Theory of Party Competition: Uncertainty, Ideology and Policy Equilibria Viewed Comparatively and Temporally*, in *The British Journal of Political Science*, Vol. 24(4), Oct., 1994, pp. 443-467.

a different causal logic – political negotiating, organisational routine, and logical calculation – that revealed the complexity of crisis management in government.

In 1979 Italian historian Ennio Di Nolfo put forward a schematic and analytic way of "operationalizing" the history of Italian foreign policy (IFP) based on two different indicators: autonomy and subordination.[3] To the ones proposed in 1979, Di Nolfo added two additional dimensions in 2003: those of interdependence and integration.[4] These four dimensions have been of great help with addressing IFP's history, especially when it came to Italy's relationship with single states and regional integration.[5] The ability to make judgments while naturally considering the global situation without being influenced by it is the primary definition of autonomy. Subordination, on the other hand, represents a state's incapacity to act outside of its borders without taking into account the restrictions imposed by hegemonic powers. Di Nolfo cautioned that this should not be confused with coherence, which denotes the internalization of external constraints and their impromptu translation into strategies. Between these two extremes – and this is where Di Nolfo's 1979 hypotheses give way to those of 2003 – there is integration, which is defined as action taken within a complex and legal entity made up of partners of at least formal equal standing, and interdependence, which is defined as a sui generis form of subordination with only slight asymmetry, signifying action bound by political membership obligations and marked by an awareness of the need or opportunity to safeguard them.

With this in mind, this paper aims, in a certain way, to overturn a common-sustained view, *selon que* the origins and causes of progression of the European economic governance (EEG) phenomenon, between the immediate post-war period and the most recent modification of the Stability and Growth Pact (SGP) which will be addressed in a follow-up 1964-2024 paper, had always been almost limited to pure economic reasons. Moreover, to pursue this goal, this study makes use also of political science conceptualization and models. As Robert Jervis argued, perceptions and mis-perceptions have been common patterns in governmental behaviours, suggesting some sort of influence on scholars devoted to the study of the Cold War.[6] In this case, the perception of the transformation of the European political and economic landscape from the horrors of

[3] **E. Di Nolfo**, *Sistema internazionale e sistema politico italiano: interazione e compatibilità*, in *La crisi italiana*, edited by L. Graziano and S. Tarrow, vol. I, Turin: Einaudi, 1979, pp. 79-112.

[4] **E. Di Nolfo**, *La politica estera italiana tra interdipendenza e integrazione*, in *L'Italia repubblicana nella crisi degli anni Settanta*, edited by A. Giovagnoli and S. Pons, Soveria Mannelli: Rubettino, 2003, pp. 17-28.

[5] A major example of this is **B. Bagnato**, *L'Italia, la Francia e una "subalternità leggera", 1947-1958*, in *Nuove questioni di storia delle relazioni internazionali*, edited by B. Bagnato, M. Guderzo, and L. Nuti, Rome-Bari: Editori Laterza, 2015, pp. 5-31.

[6] **R. Jervis**, *Perception and Misperception in International Politics*, Princeton: Princeton University Press, 1976, pp. 217-287; but also **W. C. Wohlforth**, *The Elusive Balance: Power Perceptions During the Cold War*, Ithaca-New York: Cornell University Press, 1993.

World Word II to the post-war recovery, largely due to US economic and political interventionism,[7] is probably to be blamed for the production of self-congratulatory narratives, from the US side, ultimately shaping the historiographical discourse. From the political and psychological boost it gave to nervous Europeans and Americans at the time to the current requests for modern-day equivalents, the idea that the Marshall Plan was successful exerted a strong influence on policymaking.[8] In short, the European Recovery Program's (ERP) perceived success has been just as substantial as its $12.3 billion market worth. As combat proved to be far more hot than cold, particularly with "America's Longest War" in Vietnam, it was far from coincidental that stories of triumph started to fall apart.[9] Hence, perceptions and misperceptions proved extremely influencing on both policy-makers and policy-takers – and policy-scholars – during the whole Cold War period. But, as Tony Judt put it, this way of analysing historical processes "leaves out a lot".[10] Particularly with what is addressed in this paper, it is important to try not to place impressions and perceptions in the study of the history of the architecture of European economic governance.[11] Or, to put it differently, once having taken them

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[7] A major debate has emerged with respect to whether Washington's political, and especially economic, support to the process of European integration has been at least helpful, not to refer to the degree of decisiveness. For instance, a great deal of scholars disagrees with economic historian Alan Milward's thesis that the Marshall Plan was not necessary for the European economy to recover in the post-war period, failing however to acknowledge the significant psychological effects that American support had on western Europe. There is also little agreement with his claim that the Marshall Plan forced Europeans to prioritize their own national recovery above working together, delaying the onset of true European economic unity. Cf. **A. S. Milward**, *The Reconstruction of Western Europe, 1945-1951*, London-New York: Routledge, 2006; but also **A. S. Milward**, *The European Rescue of the Nation State*, London-New York: Routledge, 1994. For an opposite view, see **K. Larres**, *The United States and European Integration, 1945-1990*, in *A Companion to Europe Since 1945*, edited by K. Larres, Chichester: Wiley Blackwell, 2014, pp. 151-182; but also **M. J. Hogan**, *The Marshall Plan: America, Britain, and the reconstruction of Western Europe, 1947-1952*, Cambridge: Cambridge University Press, 2008.

[8] **J. Agnew** and **J. N. Entrikin**, *Introduction: Marshall Plan as Model and Metaphor*, in *The Marshall Plan Today: Model and Metaphor*, edited by J. Agnew and J. N. Entrikin, London: Routledge, 2004, pp. 1-18.

[9] Eonian chunks of literature have been written with respect to this all-time fascinating topic. Most notably, cf. **C. Herring**, *America's Longest War: The United States and Vietnam, 1950-1975*, 4th ed., New York: McGraw-Hill, 2011; **M. A. Lawrence**, *The Vietnam War: A Concise International History*, New York: Oxford University Press, 2008.

[10] **T. Judt**, *Postwar: A History of Europe Since 1945*, New York: Penguin, 2005, p. 5.

[11] By "European economic governance" (EEG) is, in this work, meant the system of institutions, rules, and procedures established at the supranational, European level to coordinate, monitor, and regulate the economic policies of its member states. While it strictly encompasses both monetary policy (managed by the European Central Bank) and fiscal policy (governed, also, by the Stability and Growth Pact), the definition hereby adopted extends far beyond them. It includes highly concerted regulatory frameworks designed to oversee broader economic affairs – such as labour markets, financial stability, competitiveness, and structural reforms – treating these policy choices as matters of common and shared concern to ensure the stability and cohesion of the entire single market. In essence, EEG here means any policy, decision, or concerted practice that concurs in regulating economic affairs of common, shared concern. In this work EEG will be addressed vis-à-vis the economic implications of the international political system.

into consideration, one can continue addressing the issue, disregarding – as far as possible – any disturbing interference to an objective historiographical account.[12]

A substantial literature assigns causal primacy in European economic integration not to political bargains or crisis management, but to economic interdependence, functional pressures and the evolution of expert knowledge. Liberal intergovernmentalism identifies increasing economic interdependence and the pursuit of national economic advantage as the principal sources of governmental preferences,[13] while transaction-based and neofunctionalist approaches emphasize the demand for supranational rules generated by cross-border market activity.[14] Contemporary economic analyses of the European Monetary Union (EMU) similarly presented monetary integration and fiscal coordination as functional complements to the single market.[15] Other scholarship locates the decisive force in the consolidation of a neoliberal monetary consensus

[12] I am not in the position to question the veracity of the belief according to which it could be possible to conduct a hundred-percent objective historical analysis. Anyway, considering John Maynard Keynes' reasonable thesis that the ideas put forth by economists and political philosophers inherently carry some "right-or-wrong" logic, and given that most authors do not agree on still-debated topics, it would be impossible to talk of the certain possibility of conducting unbiased and fair-minded historical considerations. Nevertheless, this is precisely food for thought for philosophers. What needs to be clearly stated here is that the present work is done with the maximum possible capacity of the author to assert an impartial account of the facts and furnish as much differentiating interpretations as possible inasmuch they are required by the topic addressed.

[13] See **A. Moravcsik**, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Ithaca: Cornell University Press, 1998 and **W. Mattli**, *The Logic of Regional Integration: Europe and Beyond*, Cambridge: Cambridge University Press, 1999.

[14] See **W. Sandholtz**, and **A. Stone Sweet**, *European Integration and Supranational Governance*. Oxford: Oxford University Press, 1998 and **N. Fligstein**, and **A. Stone Sweet**, *Constructing Polities and Markets: An Institutionalist Account of European Integration*, in American Journal of Sociology, 2002, vol. 107 (5): 1206–1243.

[15] See **T. Padoa-Schioppa, M. Emerson, M. King, L. Papademos, A. Pastor, J-C. Milleron**, and **J. Paelinck**, *Efficiency, Stability, and Equity: A Strategy for the Evolution of the Economic System of the European Community*, Oxford: Oxford University Press, 1987 and, as well, **Commission of the European Communities**, *One Market, One Money: An Evaluation of the Potential Benefits and Costs of Forming an Economic and Monetary Union. European Economy* 44, 1990. The report of the Commission is often regarded as the canonical expression of the functional-economic argument for EMU. It evaluates monetary union primarily through efficiency, transaction costs, price transparency, competition, macroeconomic stability, and the functioning of the internal market. Further, in economic theory, Optimum Currency Area (OCA) theory (of economists, such as Mundell, McKinnon, Kenen, etc.) cannot be regarded, by itself, as an historical theory of institutional evolution. But it can provide the analytical foundation for interpretations in which European governance changes because EMU continually encounters objective adjustment problems. In this respect, see Frankel and Rose (**J. Frankel**, and **A. K. Rose**, *The Endogeneity of the Optimum Currency Area Criteria*, in Economic Journal, 1998, vol. 108 (449): 1009-1025.), who argue that economic integration can make a monetary union more viable endogenously: closer trade ties tend to produce more synchronized business cycles. Of the opposite view is Nobel-laureate Krugman (**P. Krugman**, *Lessons of Massachusetts for EMU*, in Adjustment and Growth in the European Monetary Union, edited by F. Torres and F. Giavazzi, Cambridge: Cambridge University Press, 1993, pp. 241-266), according to whom greater economic and factor-market integration may encourage regional specialization and agglomeration, increasing rather than reducing exposure to asymmetric shocks; thereby integration can generate divergence and stronger demands for stabilization and redistribution. In all these OCA-theory accounts, economic factors are essential for to understand the conditions driving the success or the demise of an OCA, like EMU/EU; therefore, it is up to economic forces to determine the ultimate capacity to create any economically integrated regional union as well as its structure. In this paper, the conviction is quite the opposite: considering the history of the EU as a post-war

and in the epistemic authority of central bankers and economic experts. After the introduction of the euro, economic and comparative-political-economy accounts increasingly explained governance reform as a response to fiscal externalities, sovereign-debt fragility, financial-market integration and the incompatibility of national growth regimes. In these interpretations, politics determines the timing and institutional form of reform, but economic structures, market pressures or policy paradigms provide the underlying direction of change.

This study aims to show how the role of political structures and systems, first and foremost, contributed to shaping and ultimately determining the roots of the contemporary architecture of economic governance of the European Union (EU). This paper examines the formative fifty years of contemporary European economic governance, spanning the period from 1914 to 1964. A second paper will trace the subsequent institutional history of the European economic order from 1964 to 2024. The year 1964 has been chosen as a watershed because it was the year of the creation of the Committee of Governors (CoG), one of the main protagonists of the next paper.

In doing so, in addition to European economic history and historiography, this work draws inspiration from intuitions of literature of various other disciplines: including political science, political economy and economic policy, and economic theory.[16] By analysing the ways in which political events and forces, both internal and external to the European context, shaped the instruments of economic governance with which EU policymakers and actors brought to life the EU's current economic system, this paper shows that economic pressures, political choices, geopolitical shocks, and inherited institutions interacted sequentially, and that this interaction produced a distinctive pattern of crisis-driven institutional layering.

Beginning in 1914 rather than in 1945 changes the interpretation. The First World War destroyed much of the monetary and financial architecture that had sustained the pre-war European economy, while leaving behind obligations and dependencies that could no longer be managed through the mechanisms of the old order. Reparations, inter-Allied debts, unstable currencies, altered trade patterns, and the redistribution of financial power from Britain to the United States created an international economy in which national

project of political equilibrium in the continent, it sees economic aspects as essential but strongly determined by the dynamism of international and European politics.

[16] The idea of an interdisciplinary approach to the study of history has been greatly debated. More generally, see **E. Vandenberg**, *The Evolution of Historiography: From Classical to Contemporary Approaches*, in International Insurance Law Review, Vol 34 (1), 2026; **G. G. Iggers**, *Historiography in the twentieth century: From scientific objectivity to the postmodern challenge*, Middletown: Wesleyan University Press, 1997; **M. G. Ash**, *Interdisciplinarity in Historical Perspective*, in Perspectives on Science 2019, vol. 27 (4), 2019; **T. C. R. Horn**, and **H. Ritter**, *Interdisciplinary History: A Historiographical Review*, in The History Teacher, vol. 19 (3), 1986, 427-448; **P. Burke**, *Cultural history: an interdisciplinary approach*, in Diogenes, 2024, vol. 65, 87-96; **P. Burke**, *Cultural History and its Neighbours*, in Culture & History Digital Journal, 2012, vol. 1(1): e006; and **M. Tamm**, *Debating New Approaches to History* (ed. with Peter Burke), London: Bloomsbury Academic, 2018.

governments remained formally sovereign but increasingly lacked the means to achieve their objectives independently. Efforts to reconstruct stability nevertheless proliferated. Reparations conferences, the Dawes and Young Plans, the establishment of the Bank for International Settlements (BIS), proposals for European monetary cooperation, and the economic work of the League of Nations (LoN) all reflected an awareness that interdependence required some form of organised international management.

Interwar Europe therefore should neither be understood simply as a period of nationalism and protectionism preceding the eventual discovery of cooperation nor as a "pause" between the two interrelated wars. Indeed, as it will be shown, governments repeatedly attempted to coordinate economic relations, but the institutions available to them proved unable to reconcile international obligations with domestic political and social constraints. American lending temporarily sustained the post-Versailles financial structure; restoration of the gold standard sought to recreate monetary stability; multilateral conferences attempted to resolve debt and reparations; and proposals for common currencies or European financial institutions anticipated problems that would reappear after 1945. Yet, none created a sufficiently durable mechanism for distributing the costs of adjustment. Once international credit contracted, national responses became increasingly defensive. Deflation, tariffs, exchange controls, bilateral clearing arrangements, and competitive restrictions appeared rational from the perspective of individual governments while producing collectively destructive consequences.

Such failure constitutes one of the central problems of this study. Interdependence existed before 1945, as did proposals for international cooperation and institutions designed to facilitate coordination. Why, then, did the settlement constructed after the Second World War prove so much more durable? Any explanation based simply on growing economic interdependence is insufficient, since interdependence had itself contributed to instability during the interwar period. Nor can post-war integration be explained as the inevitable triumph of a European ideal. The contrast between the two settlements instead directs attention toward changing configurations of power, domestic political economy, institutional design, and the distribution of the costs and benefits of cooperation between the two extremes. Therefore, it will be necessary to return to the importance of the interwar period in the first chapter.

In this framework, international economic cooperation was never merely a technical question of improving efficiency or removing barriers to exchange. Reparations redistributed resources between states; adherence to the gold standard determined who bore the costs of adjustment; deflation transferred those costs to workers, farmers, debtors, and taxpayers; Marshall aid shifted resources toward European reconstruction; the European Payments Union provided credit to deficit countries; the European Coal and Steel Community reorganised the relationship between French security and German industrial recovery; and the Common Agricultural Policy ultimately redistributed income and adjustment costs among producers, consumers, taxpayers, and member states. Institutions became politically consequential precisely because they altered how the costs of economic interdependence were allocated.

Three questions therefore frame this history. First, why did the cooperative arrangements established after 1945 prove more durable than those attempted after the First World War? Second, which political, economic, and institutional forces transformed European interdependence into increasingly formalized structures of governance? Finally, what were the defining characteristics of European economic governance between 1914 and 1964?

No single explanation is sufficient. American power created indispensable economic, financial, and security conditions, but European integration cannot be reduced to an American design. Franco-German reconciliation was fundamental, but reconciliation itself rested upon bargains concerning industrial recovery, access to markets, security, and agricultural protection. Economic interdependence created powerful incentives for cooperation, but it could equally generate conflict when institutions for managing adjustment were absent. Federalist and functionalist ideas influenced political expectations, while national governments continued to calculate the domestic distributional consequences of European commitments. Institutional development resulted from the interaction of these forces rather than from the unfolding of any predetermined federal logic.

Methodologically, this study adopts an archive- and source-driven historical approach. It combines diplomatic and institutional records, official documents, contemporary speeches, reports, and other primary sources with the historiography of European integration, international relations, political economy, economic history, and economic thought. Quantitative evidence concerning trade, production, investment, public expenditure, aid, and monetary adjustment is employed where necessary to reconstruct the economic constraints within which political decisions were taken. Rather than seeking to isolate a single causal variable, the analysis follows the interaction between economic pressures, political interests, institutional learning, international power, and domestic distributive conflict across successive settlements.

This paper makes three principal contributions. First, it reperiodizes the history of European economic governance by locating the origins of its contemporary architecture in the post-1914 transformation of Europe. Second, it develops a historical account of a multifaceted institutional layering, showing how successive reforms emerged from the interaction between external political-economic shocks and the unresolved consequences of earlier, from-within institutional compromises. As such, also the Maastricht architecture, the SGP, the Six Pack, the Two Pack, the Fiscal Compact, and the 2024 reform – all policies addressed in the second paper – are therefore not separate episodes. They constitute a single historical sequence in which later reforms responded to problems embedded in earlier settlements. Third, it identifies a persistent tension between integration and convergence: European governance has repeatedly deepened not because monetary union produced sufficient economic and fiscal integration, but because common rules and supervisory mechanisms were required to compensate for its absence. Economic pressures, in this account, did not determine institutional outcomes automatically. Their effects were mediated by geopolitical circumstances, interstate bargaining, inherited legal structures, and changing economic ideas. This perspective explains why European economic governance became more integrated and resilient over time while also becoming increasingly complex and politically contested. More particularly, the EU has repeatedly pursued greater governance convergence (in the form of effective cyclical alignment of national political and economic choices) for the absence of sufficient integration (in the form of the expansion of common rules, surveillance, coordination, and European-level authority) among member states. This, in turn, shall explain why the system has become simultaneously more regulated at the EU-level but more contested.

II. A Quest for Redistribution and Stability, 1914-1944

European economic integration did not begin when six governments signed two treaties in Rome, nor did it arise from the continent's gradual awakening to an identity that history had merely concealed. It began, in a harsher and more consequential sense, when the European states discovered that they could neither restore the economic order destroyed in 1914 nor prosper indefinitely amid its ruins. Between the First World War and the mid-1960s, the central problem of European economic governance was therefore not how to abolish the nation-state, but how to make national political authority compatible with an interdependence that war, debt, industrial concentration, monetary instability and the geography of production had rendered inescapable. In the words of Alan Milward:

> But is there in fact an antithesis between the European Community and the nation-state? Does the evolution of the Community imply the replacement of the nation-state as an organizational framework and its eventual supersession? It is the argument of this book [i.e., of "the European Rescue of the Nation-State"] that there is no such antithesis and that the evolution of the European Community since 1945 has been an integral part of the reassertion of the nation-state as an organizational concept. The argument goes, however, beyond this, because the historical evidence points to the further conclusion that without the process of integration the west European nation-state might well not have retained the allegiance and support of its citizens in the way that it has. The European Community has been its buttress, an indispensable part of the nation-state's post-war construction. Without it, the nation-state could not have offered to its citizens the same measure of security and prosperity which it has provided and which has justified its survival. After 1945 the European nation-state rescued itself from collapse, created a new

> political consensus as the basis of its legitimacy, and through changes in its response to its citizens which meant a sweeping extension of its functions and ambitions reasserted itself as the fundamental unit of political organization. The European Community only evolved as an aspect of that national reassertion and without it the reassertion might well have proved impossible. To supersede the nation-state would be to destroy the Community. To put a finite limit to the process of integration would be to weaken the nation-state, to limit its scope and to curb its power.[17]

The successive arrangements of the period – from reparations and the gold standard to exchange controls, from Marshall aid and the European Payments Union (EPU) to the Coal and Steel Community (ECSC), the Common Market and the Common Agricultural Policy (CAP) – were attempts to answer that problem under changing distributions of power. None was inevitable; each was constructed from the materials, fears and failures left by the preceding settlement.

This history is easily distorted by the institutional evolution of its later stages. Read backwards from the European Economic Community (EEC), the interwar decades can appear as a dark prelude whose protectionism and nationalism merely delayed the natural emergence of cooperation.[18] Yet sources suggest a different trajectory. Integration was less the negation of national sovereignty than its reorganisation: a means by which governments attempted to recover the capacity to govern economies that no longer fitted within national frontiers. The supranational institutions established after 1950 imposed rules, mediated bargains and sometimes overrode domestic law; but they were authorised, financed and repeatedly constrained by states whose leaders expected European arrangements to secure national reconstruction, social stability, export markets and political legitimacy. The Community was not built because states had become obsolete. It was built because, after two wars and an economic catastrophe, states could survive only by embedding selected parts of their sovereignty in a much wider framework.

The history of European monetary unification reveals a persistent tension between the apparent economic rationality of a common currency and the political difficulty of agreeing on the sacrifices needed to create one, although diplomats and politicians were totally aware that the "maintenance of world peace

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[17] **A. Milward**, *The European Rescue of the Nation-State*, 2nd ed., London and New York: Routledge, 2000, p. 19.

[18] Much past and contemporary historiographical analysis looks at the 1919-1939 interval as a period marked by continuous war, by perpetual forms of shared destruction. For the sake of simplicity, see: **R. Aron**, *The century of total war*, Garden City, NY: Doubleday, 1954; **E. Nolte**, *Der europäische bürgerkrieg 1917-1945: Nationalsozialismus und bolschewismus*, Berlin, Germany: Propyläen Verlag, 1987; **E. Hobsbawm**, *The age of extremes: A history of the world, 1914-1991*, New York, NY: Pantheon Books, 1994; **P. Brendon**, *The dark valley: A panorama of the 1930s*, New York, NY: Knopf Doubleday, 2000; **E. Traverso**, *Fire and blood: The European civil war, 1914-1945* (D. Fernbach, Trans.), London, England: Verso Books, 2016. In my idea, instead already in that period, at least, forms of economic cooperation existed, especially when it comes to the questions of debt, reparations, and a common, universal currency. Of course, the kind of idea of a supranational, federal-kind of idea was immature for the time being.

depends largely upon the principles on which the economic policies of nations are framed and executed".[19] In the mid-nineteenth century, when railways, telegraph cables, industrial growth, and political reform were drawing states into closer contact, the simplification of Europe's monetary systems appeared to be a natural extension of economic modernization. Napoleon III's France gave this ambition practical form through the "Latin Monetary Union", established in December 1865, which standardized the coinage of France, Belgium, Switzerland, and Italy and allowed equivalent francs and lire to circulate across their borders. The World Monetary Conference held in Paris in 1867 sought to enlarge this arrangement into a wider international order by aligning the franc, dollar, and pound through relatively small changes in their metallic content. Yet the scheme failed because Britain would not accept even the slightest devaluation required to bring the sovereign into conformity with the proposed standard, fearing that it would reduce the value of debts denominated in pounds. The episode demonstrated how easily technical monetary adjustments could become questions of national prestige, private property, and political sovereignty.[20]

Later proposals therefore tended to avoid elevating any existing national currency to a European or global standard and instead imagined a wholly new and politically neutral unit of value. This approach acquired particular force after the First World War, especially during the inflationary and financial instability of the 1920s, when war finance had weakened confidence in many national currencies. During the negotiations of the late 1920s that preceded the establishment of the Bank for International Settlements (BIS) in Basel in 1930, French economist Pierre Quesnay proposed the "grammor", an artificial currency unit defined by a fixed quantity of gold. In 1929, Gustav Stresemann similarly presented the absence of a common European money as a symbol of the continent's continuing fragmentation, asking before the League of Nations (LoN) where Europe's common currency and postage stamp were to be found. In the summer of 1932, amid the Great Depression, German banker Hans Fürstenberg called for a European currency union supported by a European central bank. Such schemes promised to stabilize expectations, restrain competitive devaluations, and revive economic activity at a time of deep monetary disorder. Yet they emerged precisely when governments were least prepared to surrender monetary autonomy or accept the uneven costs of cooperation. The central obstacle was therefore not a lack of imaginative plans, but the unwillingness of states, from 1867 through the crisis years of 1929-1932, to transform their recognition of Europe's economic interdependence into binding political commitments.

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[19] "*Economic Tendencies Affecting the Peace of the World – Discussions at Economic Conference – 1927*", 1927, **United Nations Library & Archives Geneva**, accessed July 29, 2026, https://archives.ungeneva.org/economic-tendencies-affecting-the-peace-of-the-world-discussions-at-economic-conference-1927.

[20] See **L. Einaudi**, *Money and Politics: European Monetary Unification and the International Gold Standard (1865-1873)*, Oxford: Oxford University Press, 2001.

Further attempts at international economic cooperation, which did not represent any form of integration, were conducted amid the need of settling the issues of post-war indebtment and, therefore, repayment. They began with the Spa Conference of July 1920, which established the baseline percentage distribution of German reparations among the Allies, followed closely by the 1921 Paris Conference, where the total financial liability was calculated.[21] This trajectory advanced to the London Conference of April-May 1921, which officially fixed Germany's debt at 132 billion gold marks, and the aborted 1922 Cannes Conference, which attempted to ease geopolitical friction by considering temporary payment moratoriums. Following the disastrous Ruhr crisis of 1923, this cooperative ethos transitioned toward expert-driven technocratic governance; the Dawes Plan Negotiations (1924) synchronized German obligations with economic capacity through U.S. commercial loans, while the subsequent Young Plan Negotiations (1929) structurally reduced the debt cap and established an extended payment schedule until 1988. Political codification soon followed during the twin Hague Conferences (1929-1930), which ratified the Young Plan and institutionalized financial diplomacy by founding the BIS. As the Great Depression shattered macroeconomic stability, the Hoover Moratorium of 1931 enacted a comprehensive one-year freeze on inter-governmental debts, and later at the 1932 Lausanne Conference 90% of Germany's remaining reparations were liquidated. While the ultimate structural disintegration of this financial network was finalized by the collapse of the currency-stabilizing 1933 London Economic Conference, the vast sequence of conventions proves that in the interwar period states tried to rely on organised, multilateral dialogue to stabilize their deeply entangled financial realities.[22]

The answers to the three questions presented in the introduction lie less in a linear march towards federation than in the interaction of American power, German industrial recovery, French political strategy and a broad post-war faith in public economic management. The United States supplied the external monetary, commercial and security framework; European governments transformed that framework into regional bargains; and technical institutions made politically dangerous adjustments appear administrative, reciprocal and therefore tolerable. By 1964 Europe had not transcended the nation-state, but it had created a new method of governing interdependence: national in purpose, regional in scale and increasingly supranational in procedure.

[21] At Spa, the Allied powers agreed to distribute any current and future reparations collected from Germany according to the following strict percentage breakdown: France 52.0%, Great Britain and the British Empire 22.0%, Italy 10.0%, Belgium 8.0%, Japan 0.75%, Portugal 0.75%, Remaining Allies (Yugoslavia, Romania, Greece, etc.), 6.5%. The total amount of due reparations was divided into three series with different maturities: for series A (12 billion) and B (38 billion) there was a specific calendar to respect, differently for series C (76 billion) for which no timeline was agreed. The Paris Conference in January 1921 did not change these percentages; instead, it used the Spa framework to calculate the actual cash amounts each country would receive from the newly proposed 226 billion gold mark total.

[22] **E. Di Nolfo**, *Storia delle relazioni internazionali: Vol. 1. Dalla pace di Versailles alla conferenza di Potsdam (1919-1945)*, Bari: Laterza, 2015, pp. 33-36, 38-47.

The First World War did more than destroy capital, interrupt commerce and redraw frontiers. It disorganised the mechanisms through which the European economy had previously converted political plurality into commercial exchange. Before 1914, the gold standard had permitted currencies to be exchanged at fixed rates and had facilitated multilateral settlements: a country did not need to balance its trade with every partner so long as its aggregate international position could be settled through gold and credit. London, at the centre of this order, acted as the principal international creditor and supplied the financial mediation that permitted deficits and surpluses to circulate through a wider system. The arrangement was neither politically neutral nor socially painless, but its operation reduced the need for bilateral balancing and gave international trade a monetary architecture. After the war, the architecture survived in name while its distribution of power had disappeared. Britain no longer possessed the financial strength to perform its former role, the United States had become the principal creditor, and the fixed obligations imposed by war debts and reparations were superimposed upon economies whose productive capacities, fiscal systems and export markets had been radically disturbed. As Barry Eichengreen put it:

> The events leading up to the 1931 financial crisis, which brought down the interwar gold standard, bear an eerie resemblance to the exchange-market crisis that punctuated Stage I of the Maastricht process in September 1992. The interwar gold standard was disrupted by the destabilizing policies of the center countries, the United States and France, which between them possessed nearly two-thirds of global monetary gold. Starting in 1928, both countries ran increasingly restrictive monetary policies, drawing financial capital and reserves from the rest of the world and forcing other countries to raise interest rates in order to defend their increasingly overvalued exchange rates. Those other countries, led by Britain, were unwilling to adjust their exchange rates despite being hit by an external disturbance not of their own making, and instead cited the devastating impact on "confidence" of altering the rate. The immediate spark for the 1931 crisis was banking problems in Central Europe. When Germany and Austria were forced to restrict the convertibility of their currencies and the confidence crisis shifted to London, the Bank of England, slow to recognize the gravity of the situation and fearing the impact on the domestic economy, delayed raising interest rates. When the Bank finally responded, its actions were too little, too late.[23]

The Versailles settlement translated military victory into a chain of financial claims without creating an economic mechanism through which those claims could be discharged. Germany was presented with a reparations bill estimated at roughly $33 billion. France and Britain, themselves indebted to the United States,

[23] **B. Eichengreen**, *Deja Vu All Over Again: Lessons from the Gold Standard for European Monetary Unification*, Center For International And Development Economics Research, Working Paper No. C94-032, January 1994, p. 26.

depended upon German payments in order to meet their own obligations; Germany, deprived of easy access to traditional export markets and burdened by political instability, depended in turn upon American loans. The resulting structure was not a stable circuit of productive investment but a triangular pyramid of debt. Between 1924 and 1930 German governments borrowed approximately 28 billion marks, while paying about 10.3 billion in reparations.[24] The apparent solvency of the European settlement thus rested upon the continued willingness of American investors to recycle capital through Germany, and upon the ability of German industry to earn foreign exchange in markets whose governments were simultaneously under pressure to protect employment and balance payments.

This was the first great contradiction of the post-1918 order. The victorious powers demanded transfers on a scale that required an expansion of German exports, yet each government sought to defend its own producers and external accounts. The political language of punishment therefore collided with the economic requirements of payment. Reparations could be financed through loans for a time, but loans postponed rather than resolved the need for an export surplus. When governments responded to external deficits through deflation – cutting wages, expenditure and domestic demand – they redistributed the costs of international adjustment onto workers, especially farmers, taxpayers and debtors.[25] In theory, declining prices would restore competitiveness. In practice, simultaneous deflation across several countries contracted demand everywhere, intensified unemployment and deepened the fiscal weakness that made international obligations harder to service. In essence, the attempt to secure national solvency by reducing domestic consumption produced a collective shortage of markets. In this context, it is necessary to spend a few words on the historical distinctiveness, both idiosyncratically and methodologically, of the interwar period.

A large body of historiographical literature has identified the 1920s and 1930s as a critical period, if not indeed a moment of inflection or of "civil war" within the international order.[26] The period stretching from the beginning of the First World War to the end of the Second World War has even been described as a new

[24] In case it is not otherwise stated, statistics and numbers are extracted from the works of **Judt**, *Postwar*, 2005; **B. Lucarelli**, *The Origins and Evolution of the Single Market in Europe*, London and New York: Routledge, 2018 (reissued); and **H. James**, *Making the Monetary Union*, Cambridge, U.S.: Belknap Press, 2012.

[25] In the U.S., post-war farm prices plummeted, with corn dropping from $1.52 to 52 cents and wheat from $2.16 to $1.03 per bushel between 1919 and 1921. Concurrently, agricultural debt more than doubled from $6.3 billion in 1914 to $14.1 billion in 1921. This economic strain forced over 8,000 independent farm-owning families into tenancy by 1930. See **C. Collier** and **J. L. Collier**, *Progressivism, the Great Depression, and the New Deal, 1901-1941* (The Drama of American History Series), Ashland: Blackstone Publishing, 2012, pp. 36-37.

[26] In addition to the ones of note n.18, see also: **N. Doumanis** (ed.), *The Oxford Handbook of European History, 1914-1945*, Oxford: Oxford University Press, 2016; **M. Vincent**, "Political Violence and Mass Society: A European Civil War?", in N. Doumanis (ed.), *The Oxford Handbook of European History, 1914-1945*, Oxford: Oxford University Press, 2016, pp. 388-406; **M. Conway and R. Gerwarth**, "Europe's Age of Civil Wars? An Introduction", *Journal of Modern European History*, vol. 20 (4), 2022, pp. 442-451.

"Thirty Years' War": a period in which, within its peculiar political and economic flexibility – not to say volatile uncertainty – the seeds of conflict were planted, though never harvested. A Lacanian conflict, as Claude Lefort might have argued, was never institutionalized and was therefore perfectly predisposed to create the conditions for a confrontation that was not only political and economic, but also fully embedded in the technological and military developments of the time.[27] The result of this process would be the Second World War. Or, more precisely, what this literature would appear to maintain – and rightly so, I would add – are the so-called "First World War roots" of the Second World War: that is, roots already present within the dynamics of the First World War, which contributed to the consolidation of a conflictual politics that was never dissolved or institutionalized.[28] Hence the progressive cementing of international relations and, consequently, of domestic public opinions, which proved difficult to dismantle except by bombs.

The present author's thinking with regard to this configuration of relations and politics in the years following 1918 does not move very far from this view. More specifically, I am not concerned with finding an explanation for the Second World War in worlds other than that of the post-1918 period. Indeed, it may be said that the interpretation according to which the unresolved problems that led to September 1939 descended from the war of 1914 is now consolidated. My reflection concerns, more specifically, the 1920s and 1930s. I intend to provide an interpretation slightly different from the so-called "mainstream" or classical one. I am interested, in fact, in offering a more dynamic, and therefore structuralist, interpretation of that period. In my view, this span of time was not bound by a single thread to the First and Second World Wars. Such a view seems to imply a hetero-directed omni-causality that fits perfectly within certain logical schemes. Yet, from my perspective, it fails to consider a fundamental truth that is never far from historiographical work: the awareness, as Fernand Braudel reminds us, of the dynamism and constant intertwining of causes and consequences in historical evolution. This complexity of historical nature imposes, first and foremost upon the historian, the duty of critical reflection and therefore of identifying, within the same period, moments of continuity and moments of rupture.[29]

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[27] **C. Lefort**, "The Question of Democracy", in *Democracy and Political Theory*, trans. D. Macey, Cambridge: Polity Press, 1988, pp. 9-20; **C. Pavone**, "La seconda guerra mondiale: una guerra civile europea?", in G. Ranzato (ed.), *Guerre fratricide. Le guerre civili in età contemporanea*, Turin: Bollati Boringhieri, 1994, pp. 86-128.

[28] **R. Gerwarth and J. Horne** (eds.), *War in Peace: Paramilitary Violence in Europe after the Great War*, Oxford: Oxford University Press, 2012; **R. Gerwarth**, *The Vanquished: Why the First World War Failed to End, 1917-1923*, London: Allen Lane, 2016; **Z. Steiner**, *The Lights That Failed: European International History, 1919-1933*, Oxford: Oxford University Press, 2005; **Z. Steiner**, *The Triumph of the Dark: European International History, 1933-1939*, Oxford: Oxford University Press, 2011; **I. Kershaw**, *To Hell and Back: Europe, 1914-1949*, London: Allen Lane, 2015; **H. A. Winkler**, *The Age of Catastrophe: A History of the West, 1914-1945*, trans. S. Spencer, New Haven and London: Yale University Press, 2015.

[29] This does not seem the appropriate place to address the more or less plausible existence of "turning points" within the historical process – a debate which, moreover, remains alive in historiography and in the philosophy of history. I limit myself here to emphasizing how, much like

The hypothesis from which this research proceeds is that the interbellum cannot be understood merely as a space of conflictual continuity between 1911 and 1949 – that is, between the global beginning of the First World War and the global end of the Second – but must instead be investigated as a historical moment endowed with its own structural autonomy. It is in fact possible, through set-theoretical analysis, to distinguish between two orders of causes of the Second World War: (i) causes closely linked to the problems, especially of a territorial and border-related nature, of the post-1918 settlement and thus established during or before the First World War; and (ii) "new" causes grounded in innovative elements within the political-economic sphere that were established in the period between the two wars. While the primary causes make it possible to identify a direct connection between the two conflicts, the tactical insertion of the secondary causes obliges the historian to confront a phenomenon that is connected yet new. It is precisely in the 1920s and 1930s that these secondary causes take shape. Only with the end of the Second World War, therefore, do the unresolved knots of nineteenth-century structures reach definitive resolution, allowing the twentieth century to emerge fully with its dynamics, its developments, and its specific crises. It should also be emphasized that the political and institutional processes of the period from 1911 to 1949 were globally non-linear. Simply put, not all scenarios and contexts simultaneously experienced the same problems or faced the same political-economic questions as the European countries.[30] These elements, together with the substantial continuity of the regulatory structures of international relations – such as secret diplomacy, treaty-based regulation, power politics, and so

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biunivocal omni-causality, it appears illogical to maintain the existence of specific and unique points in the arrow of time, as well as in the cultural and/or political dimension, that would allow historical evolution to take different, sudden, and *ex ante* indeterminable paths. Both appear to me to be instrumental extremes, didactic but functionally pre-directed. The path most congenial to me is that which Cleobulus would call the "*metron ariston*", namely moderation and balance. A dynamic equilibrium between rigidly unidirectional omni-causality and hyper-flexible turning points: perhaps the possibility for history to make use of complex and multidimensional causes, sometimes, or perhaps most of the time, very difficult to determine. Within this "median" perspective, therefore, moments of rupture, or conversely of continuity, are situated in which, despite causes already consolidated in political development, different directions find space and time within the course of history. New directions, however, remain connected to what has previously manifested itself: the "new" is what succeeds the "old"; novelty is by its nature linked to what has already been. Thus two periods, such as the First and Second World Wars, are certainly connected, but not necessarily by a nexus of omni-causality. In sum, every period, or fact, is certainly linked to the preceding period, or fact: this is undoubtedly a fixed logic of the order of things. The fundamental point here appears rather to be: to what extent? Or, in any case, to what degree? And, moreover, are there innovative or specific elements relating to the second period, or fact, such as to make it connected yet peculiar? If the answer to this last question is positive, as it seems to be in this case, one must consider the possibility that new scenarios and dynamics enter into the period in question, through which it becomes possible to recover its historical specificity. My thesis, in substance, is that the period between the First and the Second World War is a complex period into which those innovative elements enter, such that the Second World War appears to be connected to the First, while at the same time detaching itself from it. Given these premises, it already appears irrelevant to consider such a diverse and diversified period as a "war", or "Thirty Years' War", all the more so while essential structures remain unchanged and new political, economic, social, and cultural systems assert themselves in ordinary life. War, by contrast, is a constant conflict between fundamental interests and structures. And this does not appear to be the case here.

[30] Consequentially, an international or global history approach proves to be essential in this case.

forth – point toward the historian's ability to distinguish between the two wars and to trace, in the period between them, the reasons for the particularity of the Second World War.

In other words, what makes the period 1919-1939, or even better 1922/23-1939, historically specific is not only its position "between" two wars, but its character as an unstable space of coexistence between permanence and innovation, between inherited regulative structures of international political power and emerging social systems – that is to say, between the continuity of the old order and the production of new political, economic, and cultural spaces.

After 1945, reconstruction took place under fundamentally altered conditions, or, one could argue, the reconstruction concerned structures of political regulation. American economic and strategic predominance provided Western Europe with an external framework that had been absent after the First World War. Bretton Woods supplied a new monetary architecture; Marshall aid addressed the shortage of dollars and essential imports; the Organisation for European Economic Co-operation (OEEC) institutionalised consultation; and the European Payments Union (EPU) made multilateral settlement possible before full currency convertibility had been restored. At the same time, European governments had themselves changed. Memories of depression, unemployment, political extremism, occupation, and total war strengthened commitments to full employment, welfare provision, public investment, planning, and economic growth. External adjustment could no longer be pursued indefinitely through domestic deflation without threatening the political legitimacy of the post-war state.[31]

Seen from this perspective, European integration formed part of the reconstruction of the nation-state rather than its straightforward negation. Alan Milward's interpretation of European integration as a means with which Western European states recovered economic capacity and political legitimacy provides an essential point of departure. Yet, placing the origins of post-war integration within the longer crisis beginning in 1914 makes it possible to extend that insight. What states recovered after 1945 was not simply national autonomy. Increasingly, governments recovered the capacity to act by embedding parts of national economic policy within international and European arrangements. Cooperation allowed states to pursue objectives – reconstruction, employment, export expansion, agricultural support, monetary stability, and political legitimacy – that had become increasingly difficult to secure through unilateral action.[32]

The United States occupied the pivotal position in this unstable arrangement but did not assume the stabilising functions that its new creditor status implied; the same functions that London used to have prior to

[31] **G. Ruggie**, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order", *International Organization*, vol. 36 (2), 1982, pp. 379-415.

[32] **P. L. Lindseth**, *Power and Legitimacy: Reconciling Europe and the Nation-State*, Oxford: Oxford University Press, 2010.

the war. After the First World War successive American governments disengaged from the economic crisis of Europe and retreated into policies of isolation, while private lending supplied the short-term capital that official coordination did not. Long-term American investment abroad rose by almost $9 billion between 1919 and 1929 and accounted for roughly two-thirds of the international increase in investment and one-third of total foreign investment in the major interwar economies. Yet the flows were vulnerable to changes in confidence and domestic conditions in the United States. They did not constitute a public settlement capable of coordinating trade, debt and currency policy; they were market claims that could be recalled. A profound division in public sentiment emerged regarding the nation's international role, stemming from the tension between America's supreme industrial status and its self-contained economic wealth. As such, John E. Moser noted that:

> On one hand, a powerful internationalist elite had emerged in the northeast, particularly in New York City, centered on Wall Street banking firms, certain export-oriented industrial corporations, and the Federal Reserve Bank of New York. This group was cosmopolitan and deeply concerned about global affairs, both for self-interested and sentimental reasons. It was instrumental in directing American investment abroad for the purposes of postwar reconstruction. Its leaders were international bankers such as Thomas W. Lamont, Dwight Morrow, Russell Leffingwell, and J. P. Morgan Jr.; corporate executives such as Owen Young of General Electric; and the governor of the New York Federal Reserve Bank, Benjamin Strong. [...]. But while these individuals were wealthy and influential, they remained a tiny minority among the US population. The census of 1920 may have shown that less than half the population lived in rural areas, but the definition of "urban" included any location with more than 2,500 inhabitants. In fact, more than half of the American people lived in locations with fewer than 5,000 inhabitants, and well over two-thirds lived in places with fewer than 50,000. For small-town America, normalcy meant a return to the values of a day when the United States had practically nothing to do with the rest of the world. [...]. Both Warren Harding and his successor, Calvin Coolidge, had grown up in small towns. Neither had spent significant time traveling abroad, nor did they demonstrate any particular interest in doing so.[33]

Europe's recovery therefore acquired the outward appearance of normality while remaining dependent upon a financial centre whose government rejected responsibility for the system as a whole. This dependence helps explain why the contrast between the reconstructions after 1918 and 1945 would later be so decisive. In the 1920s Americans already urged European states to modernise production, attract capital and cooperate economically. Europeans likewise looked across the Atlantic for both practical aid and models of industrial organisation. But after the First World War the United States supplied loans rather than grants, usually

[33] **J. E. Moser**, *The Global Great Depression and the Coming of World War II*, London and New York: Routledge, 2015, p. 11-12

through private markets and often at short maturity. The capital carried enforceable claims, and when it was withdrawn after 1929 the European economies were compelled to contract precisely when expansion was required.[34] The post-1918 settlement internationalised liabilities without internationalising responsibility. It treated the reconstruction of production, the service of debt and the maintenance of political order as separate questions; the Depression would reveal that they were one and the same.

The Wall Street crash did not create every weakness of the European economy, but it converted a precarious equilibrium into collapse. When American loans ceased, Germany lost the means by which it had temporarily reconciled reparations, budgetary pressures and external payments. The contraction of credit forced governments and firms to retrench. Falling prices increased the real burden of debt; declining production reduced tax receipts; unemployment enlarged social expenditure while weakening demand. Primary-producing economies suffered an especially severe fall in export income, which reduced their capacity to purchase European manufactures. What appeared within each country as a shortage of demand was reproduced internationally as a contraction of trade. The logic was circular and self-reinforcing: every attempt to protect a national balance of payments diminished the export earnings of another state, provoking a further round of restriction.

The gold standard magnified the crisis because it transformed external disequilibrium into domestic deflation. Under fixed exchange rates, a deficit country unable or unwilling to devalue was expected to reduce prices and wages until its exports became competitive and imports declined. Before 1914, the availability of credit and the central position of London had allowed this mechanism to function with greater flexibility.[35] In the 1930s, with creditors defending their claims and governments confronting mass electorates, the adjustment was economically destructive and politically explosive. The fixed rate made national policy subordinate to the defence of the currency, yet the social costs of that defence eroded the legitimacy of governments. When the system finally broke down between 1931 and 1933, the collapse did not restore a liberal freedom of manoeuvre. It produced exchange controls, multiple currency practices, bilateral clearing agreements and national blocs. Monetary sovereignty was recovered, but only in a form that fragmented commerce. The 1919 Interim Report of the Cunliffe Committee on the war's consequences for the currency and foreign exchange markets, commissioned by the British government, advocated for a return of the prominent role of the Bank of England as one of the "prerequisites for the restoration of an effective gold standard", more in particular:

[34] **C. P. Kindleberger**, *The World in Depression, 1929-1939*, Berkeley: University of California Press, 1973.

[35] **M. D. Bordo**, *The Gold Standard: The Traditional Approach*, in A Retrospective on the Classical Gold Standard, 1821-1931 (A Conference report/National Bureau of Economic Research), ed. Michael D. Bordo and Anna J. Schwartz), Chicago and London: The University of Chicago Press, 1984, pp. 23-119.

> (b) The recognized machinery, namely the raising and making effective of the Bank of England discount rate, which before the war operated to check a foreign drain of gold and the speculative expansion of credit in this country, must be kept in working order. This necessity cannot, and should not, be evaded by any attempt to continue differential rates for home and foreign money after the war.[36]

Trade policy followed the same descent from multilateralism to retaliation. The United States enacted the Smoot-Hawley tariff in 1930; other governments responded with their own restrictions. Tariffs, quotas and import licensing were intended to conserve employment and foreign exchange, but their aggregate effect was to shrink the markets upon which recovery depended. World trade, measured in gold dollars, contracted with extraordinary speed between 1929 and 1933. The precise national sequence mattered less than the common mechanism: falling prices reduced incomes; protection reduced trade; declining trade reduced output; and falling output justified still more protection. The Depression was thus not merely a collapse within separate national economies. It was a failure of economic governance between them, a demonstration that uncoordinated national responses to a shared crisis could transform rational defensive measures into collective disaster.

The political consequences were inseparable from this economic disintegration. The resolutions prepared for and adopted at the Ninth Congress of the International Chamber of Commerce, held in Berlin from 28 June to 3 July 1937, clearly portrayed this depression-protectionism-conflict linkage: since "[i]mport quotas, discriminatory tariffs and currency restrictions, which accompany this barter, are hostile to trade and therefore to the prosperity of all whom they affect; they divert trade from one country to another and reduce the total volume of trade", the Chamber so went, "[i]nadequate standards of material well-being are causes of social and political unrest, and so enhance the risk of war".[37]

Governments increasingly managed trade through bilateral bargains, commodity agreements and exchange controls. Currency zones and imperial preferences linked commerce to geopolitical allegiance. Douglas A. Irwin argued that "[i]n addition, Smoot-Hawley damaged the economies of neighboring countries and this, in turn, led to political changes that were contrary to American interests, particularly the fall of pro-

[36] Great Britain. *Committee on Currency and Foreign Exchanges After the War. Interim Report.* Command Papers, Cd. 9182. London: **HMSO**, 1918.

[37] International Chamber of Commerce, "*Commercial Policy*," Resolution R.E.F. 4, Ninth Congress of the International Chamber of Commerce, Berlin, June 28-July 3, 1937, in League of Nations Economic Relations Registry, file 10A/22777/2822, **United Nations Library & Archives Geneva**. https://archives.ungeneva.org/economic-relations-9eme-congres-de-la-chambre-de-commerce-internationale-berlin-1937

American governments in both Canada and Cuba."[38] Autarky promised insulation from external shocks and supplied authoritarian regimes with an economic language of mobilisation. Economic nationalism thereby hardened the distinction between domestic welfare and foreign exchange: another state's export became a threat, its devaluation an act of aggression, its access to raw materials a strategic advantage. The liberal premise that commerce would moderate conflict gave way to an order in which control over trade, payments and industrial capacity became instruments of political rivalry. The state did not simply return because ideology changed; it returned because markets no longer possessed institutions capable of coordinating adjustment, and because survival within a disintegrating system required the administrative allocation of scarce foreign exchange, imports and investment.

Yet the interwar expansion of state authority contained an ambiguity that would matter after 1945. Planning was not then the consensual language of democratic reconstruction. Its advocates often found established parties unwilling to treat capitalism as an object of deliberate public direction. On the conservative Right, intervention appeared an assault on property; on much of the socialist Left, planning a capitalist economy seemed either futile or a betrayal of revolutionary purpose. Political confusion was the by-product of a misconceptualization of international, and national, economic conditions and of rampant ideological battles. In the words of Dietmar Rothermund:

> Almost everywhere, the depression hit the poor harder than the rich. Peasants, unemployed workers, small traders they all suffered from severe deprivation. Debtors were faced with debt service at constant rates whereas their incomes had declined considerably. The only beneficiaries were those who received fixed salaries as they could enjoy cheap food and a drop in the prices of most consumer goods. Those who were confronted with the depression, including politicians and economists, had no idea why all this had happened, and looked for scapegoats. Speculators, bankers and monopoly capitalists were blamed for the depression. Since scapegoats have to be named there were even more concrete allegations: the people in Wall Street, the Jews, etc. were at fault. Some people went a step further and constructed conspiracy theories. There must have been a deep laid plan behind all this to fool the people and to destroy their livelihood. In many countries this led to the rise of populism. Politicians tried to portray themselves as protectors of the people against these sinister forces. They usually had no idea of economic affairs, but they made up for this by impressive rhetoric. Wherever the political system had been dominated by a small upper class in previous years, such populist leaders managed to seize power and to cling to it by making arrangements with the upper classes without depending on them too much.[39]

[38] **D. A. Irwin**, *Peddling Protectionism: Smoot-Hawley and the Great Depression*, Princeton and Oxford: Princeton University Press, 2011, pp. 144-145.

[39] **D. Rothermund**, *The Global Impact of the Great Depression, 1929-1939*, London and New York: Routledge, 1996, p. 149.

Frustrated planners therefore sometimes migrated toward authoritarian movements that appeared willing to coordinate industry, investment and labour. Fascism and war became the bridge by which techniques once marginal or ideologically compromised entered the administrative mainstream. Sectoral organisation, production targets, allocation controls and state direction acquired practical authority in regimes mobilised for conflict. The methods later employed for democratic reconstruction were not born innocent; they were inherited from total war, dictatorship, depression and occupation.[40]

This inheritance should not be mistaken for continuity of political purpose. The importance of wartime planning lay precisely in its demonstration that the state could mobilise resources on a scale that interwar governments had claimed was impossible. In Britain the Emergency Powers legislation of May 1940 placed property, labour and industrial plants under comprehensive public direction. In occupied and belligerent Europe, administrators and industrial managers learned to coordinate production across sectors and frontiers. The war made economic planning less a doctrinal project than an experienced fact. It also exposed the fatal inadequacy of the interwar separation between economics and security: steel, coal, transport, currency and food supply were revealed as elements of national power. After 1945, European governments would seek to retain the administrative capacity of mobilisation while redirecting it toward reconstruction, employment and social security.[41]

The Second World War completed the destruction of Europe's autonomous economic order. It exhausted Britain, devastated continental production and shifted control over credit, shipping, energy and

[40] In similar terms, **R. Bessel** (in *The Nazi Capture of Power*, Journal of Contemporary History, vol. 39(2), 2004, pp. 169-188) argues that "[i]n broad, general terms, the themes which link how the nazis captured power in 1933 with what nazi Germany did in the years thereafter appear to be the following: war, racism, violence and order." In other words, In the aftermath of World War I, the economic desperation of the Great Depression shattered democratic legitimacy and weaponized political violence, allowing fascist dictatorships to seize power by using institutional racism as a tool for societal control and mobilization. These totalitarian regimes then pursued a radical, expansionist regional order through brutal military occupation, a ruthless quest for dominance that ultimately collapsed the continent into the unchecked devastation of total war. Indeed, "[t]ogether, therefore, they may help to explain the nature of the profound crisis of modern industrial society which led to the collapse of the Weimar Republic, to the peculiar constellation of forces and interests which allowed the nazis to replace the Republic with a murderous racist dictatorship, and to the ways in which the legacy of 30 January 1933 helped to shape the terrible events which followed from it." (pp. 171-172).

[41] A classic example, in this regard, can be the activation of welfare policies in Great Britain with the 1942 Beveridge Plan, which successfully established the National Health Service (NHS) in 1948 and introduced a "cradle-to-grave" social safety net that dramatically reduced extreme poverty and improved public health. Politically, public enthusiasm for these reforms triggered a landslide victory for the Labour Party in 1945, forging a decade-long "post-war consensus" where both major parties accepted state responsibility for full employment, though this massive expansion ultimately required a permanently larger government and higher taxation to sustain it – and a lower involvement in world affairs, from which the Truman Doctrine (March 1947) would follow suit. Another example is President Roosevelt's Executive Order 8802 issued on June 25, 1941. This historic order banned workplace discrimination based on race, creed, or national origin within the government and defence industries. It also created the "Fair Employment Practices Committee" (F.E.P.C.) to enforce these rules.

strategic materials decisively toward the United States. American exports rose from roughly $3 billion to $15 billion during the war. The sterling area still accounted for more than one-third of world trade, but its reserves and productive base had been consumed by conflict. Britain entered the peace formally victorious yet financially dependent. Its debts to the colonies rose from about £450 million in 1945 to nearly £1.3 billion by 1957, while its postwar balance-of-payments deficit was estimated at approximately £2.1 billion. The Anglo-American loan – $3.75 billion, within credits totalling about $4.4 billion, repayable over fifty years at 2 per cent from 1951 – did not restore the old order; it marked the transfer of authority within it.

American planners had already decided that postwar reconstruction would not reproduce the commercial blocs of the 1930s. During the war they pressed for the dismantling of British imperial preferences and for convertibility within the sterling area. They sought a system of freer trade, multilateral payments and access to markets and raw materials. This programme reflected American interest: a productive United States required solvent foreign customers, and an open Europe offered opportunities denied by protected imperial systems. But the policy was more than a crude demand for market access. American officials had absorbed the lesson that the contraction of European trade after 1929 had rebounded upon the United States itself. The preservation of American prosperity required the reconstruction of other economies capable of importing American goods; the restoration of Europe, as well as the "reinvention of international society", was therefore conceived as an element of a wider international order, not as charity detached from national advantage.[42]

III. **Evolved Nation-States, 1945-1954**

The Bretton Woods settlement (July 1944) embodied this determination to prevent the monetary anarchy of the interwar period. Keynes and other architects sought an arrangement less rigid and deflationary than the gold standard but more stable than uncoordinated floating currencies. The International Monetary Fund (IMF) was created to facilitate the expansion and balanced growth of trade, while a World Bank and a projected trade organisation – eventually represented by the General Agreement on Tariffs and Trade (GATT) – were intended to provide finance, rules and procedures for a more open commercial system. Currencies were to be related to the dollar, and convertibility was treated as a condition of predictable exchange. These institutions implied an unprecedented degree of legitimate external influence over national economic practices. They recognised that monetary autonomy exercised without rules could destroy the commerce upon which national prosperity depended.

[42] **F. Ninkovich**, *The Global Republic: America's Inadvertent Rise to World Power*, Chicago: The University of Chicago Press, 2014, pp. 171-173.

But institutional design ran ahead of political and material reality. Britain resisted full convertibility in order to defend the sterling area and its depleted reserves; France preserved multiple exchange practices and its attachment to a strong franc. The Soviet Union declined to join the Bretton Woods institutions, and the onset of the Cold War divided what had been conceived as a universal settlement. Full convertibility took more than a decade: the franc entered the system in 1958, the pound in 1959, the Deutschmark in May 1959 and the lira in January 1960. The delay was not a technical inconvenience. It revealed that an international monetary constitution could not be established by agreement alone when national economies lacked reserves, governments feared unemployment and Europe's political division assigned economic institutions to rival strategic camps.

Within Western Europe the immediate postwar difficulty was not simply physical destruction, though that was immense. It was the danger that reconstruction would be blocked by a shortage of imports and foreign exchange. The continent required coal, wheat, cotton, machinery and oil in order to restart production; yet its export earnings were insufficient to purchase them. By 1947 the American trade surplus was roughly $10 billion and the European deficit about $7.5 billion, approximately three-quarters of it with the United States. The resulting dollar gap threatened to arrest recovery just as domestic demand revived. Unless production expanded rapidly, governments would have to compress consumption, reduce imports and impose deflation; but such measures risked unemployment, social conflict and the political radicalisation of societies emerging from occupation and war.

The political economy of reconstruction was therefore inseparable from the legitimacy of the postwar state. The Keynesian paradigm fully established itself in the second post-war period, within a context deeply marked by the memory of the Great Depression of the 1930s, the disaster of the war, and the imperative need to avoid a return of the economic and political conditions that had threatened the stability of capitalism and fuelled conflict between states. Reconstructing the post-war order required a combination of markets, democratic institutions, and state intervention capable of guaranteeing social peace, growth, inclusion, and stability. Keynesianism – also defined as the social-democratic compromise or "embedded liberalism" – thus took shape as a class compromise between capital and labour: the capitalist system was preserved, but market processes were embedded within a web of political, social, and institutional constraints. The State did not limit itself to formally protecting property and contracts; instead, it assumed responsibility for full employment, economic development, and citizen welfare, intervening alongside the market and, when necessary, substituting for it.

Across Western Europe, this model translated into a mixed economy, in which private initiative coexisted with an extensive public presence. Wartime experience had strengthened the conviction that government must secure employment, regulate investment and protect citizens against destitution. Planning attracted socialists and Christian Democrats alike, although its form varied. Britain nationalised mines, railways, transport and utilities and established medical services; France favoured indicative planning and public investment; Italy retained extensive structures of state oversight inherited from the Fascist period while redirecting them toward reconstruction.[43] The German case is interesting because the post-war economic settlement combined a distinctly German conception of the social market economy, rooted in the ordoliberal tradition, with American-inspired antitrust institutions, drawing on a tradition that stretched back to the Sherman Antitrust Act of 1890.[44] What united these models was not a single doctrine but faith in the state as the only institution capable of coordinating scarcity, investment and social obligation. The "commanding heights" were not necessarily seized in order to abolish markets; they were placed under public control to make a mixed system governable, or as Daniel Yergin and Joseph Stanislaw argued:

> At the extreme, the Soviet Union, the People's Republic of China, and other communist states sought to suppress market intelligence and private property altogether and replace them with central planning and state ownership. Government would be all-knowing. In the many industrial countries of the West and in large parts of the developing world, the model was the "mixed economy," in which governments flexed their knowledge and played a strong dominating role without completely stifling the market mechanism. They would reconstruct, modernize, and propel economic growth; they would deliver equity, opportunity, and a decent way of life. In order to achieve all that, governments in many countries sought to capture and hold the high ground of their economies – the "commanding heights". [45]

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[43] In Italy, the so-called "IRI formula" inaugurated an original model of a mixed economy. The Institute ("Istituto per la Ricostruzione Industriale") was an autonomous public entity, detached from ordinary state administration, and therefore possessed relative operational independence. The controlled enterprises were not transformed into state bureaucracies: they retained their status as private-law companies and continued to operate under market conditions, despite being majority-owned by a public entity. Equity holdings were organized through sector-specific financial holding companies, such as Finsider for steel and Finmare for shipping; state-guaranteed bonds were also utilized to raise capital. Under the presidency of Oscar Sinigaglia, Finsider developed a plan for the construction of a new integrated steel plant, destined to provide low-cost steel to domestic industry. Public intervention, therefore, did not eliminate capitalism; rather, it enabled its functioning in sectors that private capital was no longer able to sustain autonomously.

[44] See **T. Ergen** and **S. Kohl**, "*Varieties of Economization in Competition Policy: Institutional Change in German and American Antitrust, 1960-2000*", Review of International Political Economy, vol. 26(2), 2019, pp. 256-286; **M. Cole** and **S. Hartmann**, "*Ordoliberalism: What We Know and What We Think We Know*", The Modern Law Review, vol. 86(6), 2023, pp. 1309-1335; **M.-L. Djelic** and **S. Quack**, "*Rethinking Path Dependency: The Crooked Path of Institutional Change in Post-War Germany*", in G. Morgan, R. Whitley and E. Moen (eds.), *Changing Capitalisms? Internationalization, Institutional Change, and Systems of Economic Organization*, Oxford: Oxford University Press, 2005, pp. 137-166.

[45] **D. Yergin** and **J. Stanislaw**, *The Commanding Heights: The Battle for the World Economy*, (Revised edition), New York: Simon & Schuster, 2002, p. xii. Coined by an ailing Vladimir Lenin at the 1922 Fourth Comintern Congress, the term "commanding heights" defended his New Economic Policy (NEP) against communist purists who viewed the return of small trade and private farming as a capitalist betrayal. Lenin argued that permitting limited markets was safe because the state retained control over the economy's most strategic sectors – a pragmatic compromise that predated the total eradication of private markets under Stalinism.

The welfare state extended the same principle from production to citizenship. In 1938 France devoted about 5 per cent of GDP to social services; by 1949 the share was 8.2 per cent. In Britain, nearly 17 per cent of public expenditure in 1949 went to social security alone, excluding other publicly provided services. Italy's social expenditure rose from 3.3 per cent of GDP in 1938 to 5.2 per cent in 1949. These commitments were undertaken before reconstruction was complete and while foreign-exchange constraints remained acute. Their significance was political as much as distributive. Social insurance and public services promised a minimum of security after depression and war; they also bound workers and middle classes to a common institutional order. Economic recovery could no longer be pursued through deflation without jeopardising the social settlement upon which democratic authority rested.

A stronger role for the state was already vividly imagined in a 1926 pamphlet written by Chicago engineer B. A. Fernandez and submitted the following year to the Economic and Financial Section of the League of Nations. Entitled "How to Abolish Involuntary Poverty", the pamphlet argued that modern society's fundamental problem was no longer insufficient productive capacity, but the failure to coordinate production, purchasing power, and distribution. As Fernandez put it, "in the present conditions of society, the problem is not How to produce, but How to distribute, how to apportion that which is produced.".[46] Its proposed solution was strikingly ambitious: the creation of a governmental Department of Economics that would act simultaneously as producer, commercial intermediary, and banker – providing workers with machinery and raw materials, guaranteeing a market for useful goods, and issuing currency backed by the commodities stored in public warehouses. Fernandez's vision is intellectually revealing because it did not present state intervention merely as emergency relief or redistribution after the market had operated; instead, it imagined the state as the institutional architecture of the market itself, capable of reconciling individual ownership and initiative with collective economic coordination.

This constraint distinguished the post-1945 crisis from its predecessor. Governments could not repeat the interwar prescription of lowering wages, cutting demand and waiting for competitiveness to return. They had committed themselves to full employment, public investment and welfare.[47] The international economy would therefore have to accommodate domestic political stability rather than demand its sacrifice. That imperative underlay the emerging system of managed openness: fixed but adjustable exchange rates, credit for temporary deficits, progressive trade liberalisation and state responsibility for social outcomes. European

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[46] "*Questions économiques et financières – Correspondance avec M. B. A. Fernandez*", 1927, **United Nations Library & Archives Geneva**, accessed July 29, 2026, https://archives.ungeneva.org/questions-economiques-et-financieres-correspondance-avec-m-b-a-fernandez.

[47] **W. I. Trattner**, *From Poor Law to Welfare State: A History of Social Welfare in America*, New York City: Free Press, 2007, pp. 304-305.

integration would develop inside this settlement. It did not represent the triumph of laissez-faire over national intervention; it represented an effort to reconcile active national states with an increasingly open regional market.

By the spring of 1947 bilateral American assistance had failed to overcome Europe's external constraint. The trading deficit between Europe and the United States was expected to reach $4.742 billion that year, more than twice the 1946 figure. The Marshall proposals constituted a break with the post-1918 pattern in three respects. Aid would be organised as a multi-year programme rather than an emergency disbursement; the sums would be large enough to sustain investment and imports; and the Europeans would be required to formulate a collective response. By the end of the programme in 1952, the United States had spent about $13 billion, exceeding all previous American foreign aid combined. Britain and France received the largest absolute amounts, though the relative impact was greater in smaller and poorer countries.

The European Recovery Program (ERP) was neither a disinterested gift nor a blueprint mechanically imposed upon passive recipients. It pursued American strategic and commercial objectives: preventing economic collapse, limiting Communist influence, restoring a major trading partner and advancing liberalisation. Yet its effectiveness depended upon allowing national governments to use counterpart funds within their own political settlements. Below is part of the text from the speech Secretary Marshall gave at Harvard University on 5 June 1947:

> It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. [...]. Furthermore, governments, political parties, or groups which seek to perpetuate human misery in order to profit therefrom politically or otherwise will encounter the opposition of the United States. It is already evident that, before the United States Government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government. It would be neither fitting nor efficacious for this Government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and

of later support of such a program so far as it may be practical for us to do so. The program should be a joint one, agreed to by a number, if not all European nations.[48]

In France, Marshall dollars financed almost half of public investment under the Monnet Plan during the aid years. In Italy, after emergency imports, approximately 90 per cent of counterpart funds were directed toward engineering, energy, agriculture and transport. Greece received $649 million and in 1950 Marshall assistance was credited with providing half of national product. The programme supplied the imports and time without which elected governments would have faced the choice between external solvency and domestic legitimacy.

The aggregate recovery was rapid.[49] French industrial and agricultural production exceeded 1938 levels by 1949; Austria and Italy achieved comparable recovery in the same year, Greece and West Germany in 1950, while Belgium, Denmark and Norway had done so in 1947. Between 1947 and 1951 the combined Gross National Product (GNP) of Western Europe rose by 30 per cent. Dollar credits financed trade deficits and the purchase of food, fuel and raw materials; four-fifths of the wheat consumed in Europe between 1949 and 1951 came from the dollar zone. It is possible that production could have risen without American aid, but only through sharper compression of consumption, public services and imports. The economic contribution of the programme was therefore inseparable from the political crisis it prevented.[50] It purchased time for democratic reconstruction and made expansion compatible with the new social obligations of the state.

The organisational consequences were subtler. In July 1947 the United States encouraged the creation of the Committee of European Economic Co-operation (CEEC), bringing together sixteen states to formulate a programme for recovery. American officials hoped that the CEEC might develop into an embryonic supranational organisation; in practice, governments resisted any body capable of directing national policy. The Organisation for European Economic Co-operation (OEEC), established in 1948 to administer ERP funds, remained primarily an intergovernmental forum. Its importance lay not in commanding the reconstruction of Europe but in obliging governments to exchange information, compare programmes and negotiate the distribution of scarce resources. Cooperation entered administrative routine before it acquired constitutional grandeur. On 14 July 1947, Danish Ambassador Johan Kruse attended day two of the Paris Conference on European Economic Cooperation and praised the ongoing initiatives to rebuild European economies.[51]

[48] Marshall, G. C. (1947, June 5). *The "Marshall Plan" speech at Harvard University, 5 June 1947* [Speech transcript]. OECD. https://www.oecd.org/en/about/history/the-marshall-plan-speech-at-harvard-university-5-june-1947.html

[49] On the debate whether the Marshall Plan was crucial or not in the political and economic recovery of the European continent, see note n. 7.

[50] **B. Steil**, *The Marshall Plan: Dawn of the Cold War*, New York, London, Toronto, Sidney, New Delhi: Simon & Schuster, 2018, pp. 341-346.

[51] "*Statement by Johan Kruse (Paris, 14 July 1947)*",1947, Historical Archives of the European Union, Florence, OECD, Committee for European Economic Co-operation, CEEC 03, **CVCE.eu**, accessed July 29, 2026, https://www.cvce.eu/obj/statement_by_johan_kruse_paris_14_july_1947-en-b5f041a9-d7a1-4e96-bad3-a262c3fb05e4.html

This was one of the Marshall Plan's most durable achievements. The interwar economy had taught governments to treat trade balances, currencies and production as weapons in a struggle for national survival. The ERP made coordinated policy appear normal. It did so not by dissolving national programmes but by placing them within recurring procedures of consultation and conditional assistance. The shift was psychological as well as institutional: beggar-thy-neighbour practices came to appear not merely hostile but economically irrational.[52] After 1918 the United States had supplied loans whose withdrawal deepened collapse; after 1945 it supplied grants and public credits while encouraging Europeans to construct mechanisms that would prevent every deficit from becoming a political crisis. The new order was founded as much upon the memory of what had failed as upon confidence in what might succeed.

The European Payments Union (EPU), proposed in December 1949 and inaugurated in 1950, gave this principle an operational form. Europe's currencies were not yet convertible, and bilateral balancing threatened to restrict trade: a government short of dollars might limit imports from every country against which it ran a deficit, even if its aggregate European account was sustainable. The EPU replaced this logic with multilateral clearing. Acting as the Union's technical agent, the Bank for International Settlements collected the participating countries' bilateral balances each month and calculated each country's aggregate position vis-à-vis the Union as a whole. Members were assigned quotas that determined the extent to which cumulative deficits and surpluses would be settled through EPU credit and the extent to which settlement in gold or dollars would be required. Consequently, bilateral imbalances did not have to be settled immediately in scarce convertible currencies.[53] By the time the Union ended in 1958, it had contributed both to the growth of intra-European commerce and to an unprecedented habit of reciprocal financial cooperation.

The EPU's technical modesty was the source of its political significance. It did not create a European currency, a central bank or a common economic government. National administrations retained the power to devalue, regulate imports and manage domestic demand. But the Union altered the consequences of those powers. A deficit became a position within a shared clearing system rather than an immediate bilateral confrontation; adjustment was governed by rules and credit limits; the collective expansion of trade became an explicit objective. Monetary cooperation thus proceeded where political federation could not. The arrangement demonstrated a recurrent principle of post-war integration: institutions advanced not by confronting sovereignty in the abstract, but by changing the practical environment in which sovereign decisions were made.

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[52] **George F. Kennan**, "The Director of the Policy Planning Staff (Kennan) to the Under Secretary of State (Acheson)," May 23, 1947, in *Foreign Relations of the United States, 1947, The British Commonwealth; Europe, Volume III* (Washington, DC: Government Printing Office, 1972), 224-230, https://history.state.gov/historicaldocuments/frus1947v03/d135.

[53] **B. Tew**, *International Monetary Cooperation, 1945-52*, London and New York: Routledge, 1952 (reprinted in 2003), p. 107.

The same principle was visible in the coordinated devaluations of September 1949. The pound was reduced by 30.5 per cent against the dollar; the Netherlands followed with 30.2 per cent, France with 21.8 per cent, West Germany with 20.6 per cent, Belgium-Luxembourg with 12.3 per cent and Italy with 8 per cent. These adjustments were national acts, but they occurred within a recovery programme concerned with restoring trade rather than gaining isolated advantage. By 1950 all OEEC countries had exceeded their prewar levels of growth, and between 1945 and 1955 American loans and aid to Western Europe were estimated at $25 billion. The decisive contrast with the 1930s lay not in the disappearance of exchange-rate changes, but in the institutional context that prevented devaluation from degenerating into uncontrolled retaliation.

American power nevertheless set the boundaries of this cooperation. Marshall aid was confined to Western Europe after the Soviet withdrawal from the Paris discussions, and the ERP became part of the division of the continent. Economic recovery, political stabilisation and containment converged. By 1949 Christian Democratic governments had displaced or marginalised Communist participation in much of Western Europe, while aid administration supplied leverage over domestic policy. The United States did not dictate a uniform capitalist model: European governments retained planning, nationalisation and welfare arrangements that American officials sometimes disliked.[54] But the framework within which those policies operated – dollar finance, freer trade, multilateral payments and security dependence – was Atlantic. European regionalism emerged not as an alternative to American hegemony but as one of its organised consequences. An article of “Die Welt” of 30 September 1947, greatly illustrated the moment:

> Drittens aber: es geschieht zum erstenmal, daß die Länder Europas sich zusammenfinden und wirtschaftliche Pläne miteinander statt gegeneinander entwerfen. Es wäre verfrüht, von einer gesamteuropäischen Planung zu sprechen, aber der Keim dazu ist gelegt. Man ist großen Versprechungen gegenüber skeptisch geworden, und die Welt hat es zu oft erlebt, daß sich Blaupausen, wenn es an das praktische Bauen ging, eben nur als ein Stück Papier erwiesen. Anderseits hat es sich in diesem Jahrhundert stürmischer Veränderungen oft genug ereignet, daß die Utopie von gestern zur Realität von morgen wurde. Und wenn es einmal zu einem Zusammenschluß des heute noch zersplitterten Europas auf freiwilliger Grundlage und mit Beibehaltung der gegenwärtigen sozialen Struktur kommen sollte, dann würden die künftigen Historiker füglich feststellen müssen, daß die Einheit von Paris und im Frühjahr 1948 ausgegangen ist.[55]

[54] For instance, on the different positions within the Italian administration, sometimes in disagreement with the U.S. counterparts, see **A. Varsori**, *Dalla Rinascita al Declino: Storia Internazionale dell’Italia Repubblicana*, Bologna: Il Mulino, 2022, pp.129-138.

[55] “*Sanierungsplan*,” Die Welt: Überparteiliche Zeitung für die gesamte britische Zone, 2nd year, no. 115, September 30, 1947, p. 2, **CVCE.eu**, accessed July 29, 2026, https://www.cvce.eu/obj/sanierungsplan_in_die_welt_30_september_1947-de-2364c3a0-a94d-4bff-a5c3-28d75e95d345.html. My English translation of the passage: “Thirdly, however, for the first time the countries of Europe are coming together and drawing up economic plans

The material successes of reconstruction did not resolve the political dimension of European cooperation. In the ruins of the war, federalism acquired a moral force that no customs arrangement could supply. Resistance movements had seen the sovereign nation-state not simply as a victim of fascism but as one of the structures through which rivalry, militarism and dictatorship had become possible. The ideals associated before the war with Count Richard Coudenhove-Kalergi and the unrealised Stresemann-Briand initiatives were renewed in prisons, exile and clandestine networks.[56] In July 1943 resistance leaders from eight occupied countries met in Geneva to issue a manifesto for a federal union; the European Federalist Movement was launched the following month, and the Paris Conference in March 1945 attempted to mobilise support beyond national resistance organisations. Federal Europe was imagined as a political order in which citizens, rather than governments alone, would constitute the source of authority.[57]

Yet the federalist moment contained several incompatible strategies. Federalists favoured a constituent approach: a democratically legitimated European constitution, representative institutions and a genuine division of powers between the national and European levels. Monnetian functionalists – and subsequently neo-functionalists – proposed a more gradual route. Supranational institutions would first be established in sectors where cooperation was materially necessary; successful integration would then create interests, expectations and functional pressures favouring further transfers of authority. Unionists or confederalists envisaged cooperation among governments without the creation of an autonomous European sovereign. These were not merely competing constitutional blueprints. They expressed different judgments about the political resources available after the war. Federalists relied upon the moral discredit of nationalism; functionalists upon the practical pressures of interdependence; and confederalists upon the continuing authority of states. The early European settlement ultimately combined sectoral supranationalism with substantial intergovernmental control, while leaving the federalist constituent project unrealised.[58]

with one another rather than against one another. It would be premature to speak of Europe-wide planning, but the seed has been sown. People have become sceptical of grand promises, and the world has seen too often that blueprints, when the time came for actual construction, proved to be no more than pieces of paper. On the other hand, in this century of tumultuous change, it has happened often enough that yesterday's utopia became tomorrow's reality. And if the Europe that is still fragmented today should one day unite on a voluntary basis while retaining its present social structure, future historians would rightly have to conclude that European unity had its origins in Paris and in the spring of 1948."

[56] **D. Dinan**, *Europe Recast: A History of European Union*, 2nd ed., Boulder, CO: Lynne Rienner, 2014, pp. 2-5 and **W. Lipgens**, "*European Federation in the Political Thought of Resistance Movements during World War II*", Central European History, vol. 1(1), 1968, pp. 5-19.

[57] See **M. Burgess**, *Federalism and European Union: the Building of Europe, 1950-2000*, London and New York: Routledge.

[58] For a general overview, see: **B. Rosamond**, *Theories of European Integration*, Basingstoke: Palgrave Macmillan, 2000, pp. 20-73, 130-56; **A. S. Milward**, *The European Rescue of the Nation-State*, pp. 4 and 15; **A. Moravcsik**, "*The European Constitutional Compromise and the Neofunctionalist Legacy,*" Journal of European Public Policy vol. 12 (2), 2005, pp. 349-386, especially 350, 359, 377-78; **D. Mitrany**, *A Working Peace System: An Argument for the Functional Development of International Organization*, London: Royal Institute of International Affairs and Oxford

The Council of Europe revealed the limits of the constitutional approach. The Hague Congress of May 1948 gathered advocates of unity, and the Council was inaugurated in Strasbourg in 1949. But its Consultative Assembly was composed of national delegations and lacked significant legislative authority. Governments were willing to affirm a European political vocabulary; they were not willing to concede the powers required to enact it. The failure was not evidence that European cooperation lacked support. It showed that support for "Europe" was strongest when the term remained compatible with divergent national expectations. A council that symbolised common civilisation could be accepted; an assembly capable of binding governments could not. The centre of integration therefore moved away from constitutional declaration toward bounded economic functions.

This movement should not be described as the victory of economics over politics. Economic functions were selected precisely because they could carry political purposes that were too divisive to state openly. Coal and steel, payments and tariffs appeared technical; in fact, each touched the distribution of power.[59] Functional institutions succeeded when they allowed governments to solve a national political problem through a European procedure. Jean Monnet, Robert Schuman, Konrad Adenauer and Alcide De Gasperi were associated with a Catholic and Christian Democratic conception of social responsibility that made a transnational authority less alien than it appeared to many British or Scandinavian observers. Their Europe was neither a borderless market nor a fully constituted federation. It was a disciplined community in which authority could be exercised for a common good that national antagonism had repeatedly destroyed.[60]

The sociopolitical geography of this project mattered. Schuman, Adenauer and De Gasperi came from frontier regions and political traditions in which identities and boundaries had not always coincided. When leading Christian Democrats met, they could speak German as a common language. Their receptiveness to divided or pooled sovereignty was formed not by abstraction alone but by the recent experience of occupation, defeat and fractured state authority. The six countries that would create the Coal and Steel Community had all seen national sovereignty violated during the war; there was, in other words, comparatively little uncontested sovereignty left to surrender. By contrast, British and Scandinavian political cultures approached a

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University Press, 1943, pp. 25-33, 37; **E. B. Haas**, *The Uniting of Europe: Political, Social, and Economic Forces, 1950-1957*, Stanford, CA: Stanford University Press, 1958, p. 16; **A. Reinisch**, *Essential Questions in EU Law*, Cambridge: Cambridge University Press, 2009, pp. 3-4; **P. C. Schmitter**, "*Neo-Neofunctionalism*," in A. Wiener and T. Diez, eds., European Integration Theory, Oxford: Oxford University Press, 2004, pp. 45-74, especially pp. 46-48.

[59] **J. Gillingham**, *Coal, Steel, and the Rebirth of Europe, 1945-1955: The Germans and French from Ruhr Conflict to Economic Community*, Cambridge: Cambridge University Press, 1991, pp. 97-177, 228-363.

[60] **W. Kaiser**, *Christian Democracy and the Origins of European Union*, Cambridge: Cambridge University Press, 2007, pp. 163-252.

supranational High Authority with suspicion, seeing in it an unelected continental executive rather than a guarantee against renewed catastrophe.[61]

The distance between federal aspiration and institutional practice would remain a constitutive tension. European bodies acquired authority without a European electorate of equivalent power.[62] The Council of Ministers represented governments; the Commission would propose and mediate; the Court would interpret and enforce; the Parliament remained consultative. This structure made integration possible by insulating negotiation from immediate popular conflict, but it also created the "democratic deficit" that critics associated with bureaucratic government. European authority was strongest where national executives agreed to exercise it together and weakest where political consent had to be generated independently of them.[63] The emerging Community would possess legal and administrative capacities beyond those of conventional diplomacy, but its democratic legitimacy continued to flow primarily through the member states.[64]

Every plan for Western European recovery confronted the German question. France needed German coal for the steel capacity being constructed under the Monnet Plan, yet German industrial regeneration revived the strategic fear that had shaped French policy since 1870. By 1947 the United States and Britain concluded that the western zones of Germany had to be made economically self-supporting and incorporated into European recovery.[65] At the Moscow Conference of Foreign Ministers in March and April, the Western powers rejected Soviet demands that reparations continue to be extracted from the western zones. The American-British Bizone acquired an Economic Council, and occupation policy shifted from limiting German production to encouraging economic unification and self-government. Germany was ceasing to be treated solely as the defeated enemy and was becoming the indispensable engine of reconstruction.

For France this transformation was unavoidable and alarming. Post-war plans had initially contemplated control of the Ruhr, separation of the Saar and constraints upon German heavy industry. France joined its occupation zone to the western framework in April 1949, before the creation of the Federal Republic. The contradiction was stark: French security appeared to require a weak Germany, while French reconstruction required a productive one. American policy could insist that European recovery depended upon German coal and industrial output, but it could not by itself make that outcome politically acceptable in France. A European

[61] **C. Ingebritsen**, *The Nordic States and European Unity*, Ithaca, NY: Cornell University Press, 1998, pp. 3-50, 77-92, 184-197.

[62] **J. H. H. Weiler**, *The Constitution of Europe: "Do the New Clothes Have an Emperor?" and Other Essays on European Integration*, Cambridge: Cambridge University Press, 1999, pp. 10-101, 238-285.

[63] **F. W. Scharpf**, *Governing in Europe: Effective and Democratic?*, Oxford: Oxford University Press, 1999, pp. 6-42, 187-204.

[64] **P. L. Lindseth**, *Power and Legitimacy: Reconciling Europe and the Nation-State*, Oxford: Oxford University Press, 2010, pp. 1-32, 91-132, 251-282.

[65] **A. S. Milward**, *The Reconstruction of Western Europe, 1945–51*, Berkeley: University of California Press, 1984, pp. 126-167, 362-420.

solution was needed because neither continued occupation nor restored German sovereignty resolved the relationship between German productive power and French security.

The Schuman Plan of May 1950 converted this contradiction into an institutional bargain. The coal and steel resources of France and West Germany, together with those of Italy and the Benelux countries, would be placed under a common High Authority. For the Monnet Plan, the arrangement secured access to Ruhr coal and reduced the danger that German reconstruction would undermine French industrial modernisation. For Adenauer, it offered international recognition, equality and a route out of occupation controls. Pooling was therefore not an idealistic alternative to national interest. It joined interests that could not otherwise be reconciled. France accepted German recovery on condition that strategic industries were embedded in common rules; West Germany accepted supranational oversight as the price of restored sovereignty and Western legitimacy.

The timing reinforced the bargain. The West German currency reform of 1948 and the creation of the Federal Republic in 1949 accelerated economic recovery. The Petersburg Protocol of November 1949 loosened controls and opened the way toward international participation. At the same time, economically the Korean War (1950-1953), in addition to requiring a more central repositioning of Germany's role in the defence and politics of the continent, generated demand and exposed shortages in European coal and steel.[66] Germany had been compelled to import coal from the United States at approximately twice the price of domestic coal, even while Allied restrictions limited its capacity. The European Coal and Steel Community (ECSC) transformed these tensions into a managed market. The Paris Treaty was signed in April 1951 and entered into force in July 1952; internal customs barriers on coal and steel were to be removed, freight rates harmonised and discrimination limited under the supervision of the High Authority.

The ECSC's constitutional significance exceeded its immediate economic power. It created a European Assembly and a Court of Justice alongside the High Authority and Council. Its architects hoped that sectoral administration would establish a precedent for wider supranational governance. Yet the High Authority never exercised the comprehensive control Monnet had envisaged. The decartelisation of German industry was

[66] For the effects of the Korean war on Germany's role in Europe, see note n. 71 and: **D. C. Large**, *Germans to the Front: West German Rearmament in the Adenauer Era*, Chapel Hill: University of North Carolina Press, 1996, esp. pp. 62-108; **T. A. Schwartz**, *America's Germany: John J. McCloy and the Federal Republic of Germany*, Cambridge, MA: Harvard University Press, 1991, esp. pp. 113-155.; **M. Trachtenberg**, *A Constructed Peace: The Making of the European Settlement, 1945–1963*, Princeton: Princeton University Press, 1999, pp. 96-112. On the economic effects of the Korean War, the surge in demand and pressure on European supplies of raw materials, coal and inputs to steel production, see: **M. E. Spicka**, *Selling the Economic Miracle: Economic Reconstruction and Politics in West Germany, 1949-1957*, New York and Oxford: Berghahn Books, 2007, pp. 94-107; **M. J. Hogan**, *The Marshall Plan: America, Britain, and the Reconstruction of Western Europe, 1947-1952*, Cambridge: Cambridge University Press, 1987, pp. 380-426; **U.S. Department of State**, *Foreign Relations of the United States, 1951, Europe: Political and Economic Developments*, vol. IV, part 1, doc. 72, "Current Economic Developments", 10 September 1951, pp. 141-144.

incomplete: by 1954, twenty-four steel companies and twenty-three coal companies had been created, but large banks, ownership networks and industrial concentrations survived. The Community did not abolish the power of firms or governments.[67] Nor can the great acceleration of German production be attributed chiefly to it. West Germany recovered the industrial output of 1936 in the last quarter of 1949, surpassed it by one-third by the end of 1950 and, by the end of 1951, exported more than six times the 1948 volume. The Korean boom and domestic reconstruction mattered more immediately than the High Authority.[68]

Its political effect was nonetheless profound. The ECSC acted as an economic form for a diplomatic settlement. As the Head of the German Delegation in the intergovernmental negotiations on the implementation of the Schuman Plan put it on 3 July 1950: "The [German] Federal Government stands by its view that the importance of the Schuman Plan is primarily political. It is an attempt to make a start, in the coal and steel sectors, on the elimination of age-old rivalries that have plagued our continent for centuries, and to lay the foundations for a genuine European Community", where "the economic problems", however significant they may be, "take second place".[69] It allowed German industrial resurgence to occur without appearing as the simple restoration of national power and allowed France to renounce permanent coercive control without abandoning security. In that sense it was, as Judt argues, "a political vehicle in economic disguise".[70] Its achievement was not that coal and steel ceased to be national interests; it was that those interests were made subject to a procedure in which unilateral action acquired legal and diplomatic costs. The Community created a space within which Franco-German reconciliation became materially advantageous and institutionally reproducible.

The limits of spillover soon became apparent. The proposed European Defence Community (EDC) sought to extend integration from strategic industries to armed forces,[71] but the French National Assembly

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[67] **W. Diebold**, *The Schuman Plan: A Study in Economic Cooperation, 1950-1959*, New York: Frederick A. Praeger for the Council on Foreign Relations, 1959, pp. 350-398, 567-634.

[68] For a general overview, see **H. C. Wallich**, *Mainsprings of the German Revival*, New Haven: Yale University Press, 1955, pp. 35-62, 193-262, 344-387.

[69] "*Vortragsexposé des Delegationsleiters Hallstein (3. Juli 1950)*", July 3, 1950, in Daniel Kosthorst and Michael F. Feldkamp, Akten zur Auswärtigen Politik der Bundesrepublik Deutschland, 1949/50: September 1949 bis Dezember 1950 (Munich: Oldenbourg, 1997), 225-229, **CVCE.eu**, accessed July 29, 2026, https://www.cvce.eu/en/collections/unit-content/-/unit/02bb76df-d066-4c08-a58a-d4686a3e68ff/d95a479b-39e9-4e29-a368-c973fdf01c59/Resources#ea5f0115-ff5c-42ff-a64a-8676cc61cf78_en&overlay

[70] **Judt**, *Postwar*, p. 158.

[71] After the Korean War began, U.S. officials sought to use West Germany's military potential to strengthen NATO against possible Soviet pressure. However, they also wanted strict controls over any new German forces. John J. McCloy (U.S. High Commissioner for Germany), on a telegram dated August 4, 1950, opposed creating a separate German national army, fearing it might exploit tensions between East and West. Instead, he supported integrating West German units into a European army, both to defend Europe and to prevent renewed German aggression. Source: RG 59, **State Department** decimal files 1950-1954, box 3427, 840.5/8-350, also published in *Foreign Relations of the United States 1950, Volume III Western*

rejected it in August 1954. Political and military federation could not be generated automatically from the ECSC, although, as U.S. Ambassador W. Averell Harriman put it in October 1950, "the defense of Europe was an integral part of the defense of the United States".[72] The failure confirmed that governments and parliaments distinguished sharply between delegated economic administration and the core powers of the state. Yet, it also redirected integration toward the field in which cooperation had produced tangible gains. If a European army was politically impossible, a common market might align national self-interest with common rules. The defeat of the EDC did not end integration; it narrowed its pathway.

IV. **Relaunching and Deepening, 1955-1964**

The initiative after 1954 came from the Benelux countries, whose experience of cross-border economic cooperation, in particular looking at the Scandinavian "Common Nordic Labor Market" of 1954, made them receptive to a broader customs union. In Messina in June 1955, Paul-Henri Spaak and his colleagues argued that political union should be approached through economic integration. The British attended only as observers and withdrew from the negotiations by November, alarmed by the pre-federal implications of the emerging project. The Spaak Committee reported in March 1956 in favour of a Common Market. France, despite reservations, accepted. The Treaties establishing the European Economic Community and Euratom were signed in Rome on 25 March 1957 and entered into force on 1 January 1958. The six member states were the same states that had joined the ECSC: France, West Germany, Italy, Belgium, the Netherlands and Luxembourg.

The Treaty of Rome was ambitious in scope but cautious in method. It provided for the gradual removal of internal tariffs and quantitative restrictions, a common external tariff and the freer movement of goods, capital, services and labour. It envisaged coordination in transport, agriculture and commercial policy, together with harmonisation where divergent national rules obstructed the market. However, it did not create a single currency, a common fiscal authority or an autonomous European economic government. National monetary

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Europe (Washington, D.C., 1977). The next day, a telegram written by Henry A. Byroade (head of the State Department office responsible for German affairs since November 1949) to McCloy, formally transmitted under Secretary of State Dean Acheson's name, shared Byroade's paper titled "An Approach to the Formation of a 'European Army'". Source: **Office of the Historian**. Historical Document. *Foreign Relations of the United States, 1950, Western Europe*, Volume III. Doc. 118. The Secretary of State to the United States High Commissioner for Germany (McCloy), at Frankfort. Date: August, 4, 1950.

[72] Cited in a Memorandum written by the Director of the Policy Planning Staff (PPS), Paul Nitze. Source: **Office of the Historian**. Historical Document. Foreign Relations of the United States, 1950, Western Europe, Volume III. Doc. 212. Memorandum of Conversation, by the Director of the Policy Planning Staff (Nitze). Date: October, 5, 1950.

and budgetary policies remained national.[73] The Treaty's most immediate achievement was to establish procedures through which future regulations could be negotiated, enacted and enforced. Integration was constitutionalised as a process: a timetable of liberalisation joined to institutions capable of managing the conflicts that liberalisation would generate.

The institutional balance reflected the political bargain. The Council of Ministers remained the supreme legislative and executive arena, representing national governments. The Commission possessed the right of initiative and acted as mediator, formulating proposals that attempted to reconcile conflicting state interests. The Court of Justice could interpret Community law, and, through the procedure established by Article 177, national courts could submit questions for authoritative adjudication.[74] This legal mechanism attracted little attention in 1957 but later supplied the Community with a capacity to make its rules effective within domestic legal systems.[75] The European Parliament, by contrast, remained largely consultative. The Community was therefore neither a conventional international organisation nor a federal state. It was a confederal political bargain equipped with supranational administrative and judicial instruments. Similarly, in a 2006 interview, Charles Rutten, former member of the Netherlands Delegations to the negotiations on the Common Market and Euratom, recalled the atmosphere and the approach adopted in Messina and Taormina:

> In Messina they kept a very … they adopted a very, very cautious approach. Clearly there were problems. They wondered how it would work etc. They kept pushing forward the Euratom idea, which was crucial for them at the time. But it was really – how should I say – we were sounding each other out, we wanted to see what each other's reactions would be. The upshot was that it was very difficult to agree on a text, on a final text. In fact, we did manage to agree on a procedural decision. That is to say … we set up a committee that would study the proposals contained in the Benelux Memorandum and in the other memoranda. Today we would say that we decided to conduct a 'feasibility study' that tied nobody down. Everyone could later say, 'No, I'm not convinced, let's move on to something else.'[76]

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[73] For a synthetical, but efficient overview of the creation of the customs union and its effects, see **R. Pomfret**, *The Economic Integration of Europe*, Cambridge, U.S., and London: Harvard University Press, 2021, pp. 25-31.

[74] A modern, more effective similar procedure is now conceived by Article 267 of the Treaty on the Functioning of the European Union (TFEU); the so-called "preliminary ruling procedure", enabling national courts to consult the Court of Justice of the European Union (CJEU) on EU law interpretation and act validity.

[75] **J. H. H. Weiler**, "*The Transformation of Europe*", Yale Law Journal, vol. 100 (8), 1991, pp. 2403-2483.

[76] "*Interview with Charles Rutten: The Messina Conference (The Hague, 29 November 2006)*", interview conducted by Étienne Deschamps, filmed by François Fabert, video, 4 min. 51 sec., CVCE, Sanem, November 29, 2006, **CVCE.eu**, accessed July 29, 2026, https://www.cvce.eu/en/obj/interview_with_charles_rutten_the_messina_conference_the_hague_29_november_2006-en-9957ac82-033e-4d64-a46e-9e5b4a30c38c.html.

The economic philosophy of the Treaty was itself a compromise. The original Spaak approach included a more interventionist concern with structural and regional disparities and with the need to cushion the social effects of market opening. The final agreement placed greater emphasis upon competition, comparative advantage and what later came to be called negative integration: the removal of national barriers and discriminatory practices.[77] But even this market-making project depended upon active states. Every major Western European government regulated investment, subsidised sectors, planned infrastructure and pursued employment and growth. A common market did not displace national economic management; it required governments to coordinate the external effects of their management. The Treaty's liberalisation was therefore embedded in national systems of planning and welfare rather than opposed to them.

West Germany occupied the economic centre of the bargain. In 1957 it produced approximately 41 per cent of EEC industrial output, compared with 28 per cent for France and 17 per cent for Italy; its capital-goods industries accounted for roughly 55 per cent of the Community total. German exports consisted overwhelmingly of industrial and capital goods, and more than one-quarter went to European countries outside the prospective EEC. Ludwig Erhard therefore feared that a continental customs union might divert trade, raise prices and damage Germany's wider commercial relations. He preferred a broad free-trade arrangement. Adenauer, however, treated political integration with France as more important than Erhard's commercial objections. German industry accepted a market whose rules might constrain it because the Community consolidated political rehabilitation and guaranteed access to expanding continental demand.

France approached the bargain from the opposite direction. Its tradition of dirigisme and the political weight of agriculture made an unqualified free-trade settlement unattractive. French consent depended upon the possibility of exporting agricultural surpluses to protected European markets and of ensuring that German industrial access to France would be reciprocated by German support for French farmers.[78] The Common Market therefore joined unlike national economies through unlike expected gains. Germany sought outlets for manufactures; France sought markets and guarantees for agriculture; Italy expected investment, industrial expansion and opportunities for labour mobility; the Benelux countries valued access to a larger economic space. The apparent symmetry of tariff reduction concealed a negotiated distribution of advantages.[79]

[77] **A. Moravcsik**, *The Choice for Europe*, pp. 86-158.

[78] **F. M. B. Lynch**, *France and the International Economy: From Vichy to the Treaty of Rome*, London: Routledge, 1997, pp. 110-161.

[79] **W. Asbeek Brusse**, *Tariffs, Trade and European Integration, 1947-1957: From Study Group to Common Market*, Basingstoke: Macmillan, 1997, pp. 143-210.

The Treaty was also an admission of European weakness. Spaak's report emphasised that a continent once dominant in manufacturing and imperial resources had lost influence and capacity through division.[80] The EEC depended upon the American security guarantee and developed within an Atlantic system that relieved its members of the need to create an integrated defence. It was not a strategic rival to the United States. Nor was it a simple American construction. Washington had encouraged trade liberalisation and German recovery, but the shape of the Community reflected specifically European compromises that American planners could neither dictate nor fully anticipate. The Common Market was Atlantic in its conditions of possibility and European in its distributive architecture.[81]

Britain's absence highlighted the same point. British governments did not reject freer European trade in principle. They rejected a supranational structure that threatened their freedom to manage Commonwealth preferences, the sterling area and relations with the United States. The fragility exposed by the Suez Crisis in 1956 did not immediately overcome these attachments. London instead sponsored the European Free Trade Association with Switzerland, Austria, Portugal, Sweden, Norway and Denmark in November 1959. EFTA planned a 20 per cent reduction in industrial tariffs by July 1960 and their abolition within ten years, but it did not establish the common external tariff, agricultural settlement or institutional authority of the EEC. Britain preferred liberalisation without political entanglement; the Six constructed liberalisation through a political compact.[82]

The early implementation of the Common Market proceeded faster than the Treaty's timetable. An initial reduction of 10 per cent in industrial tariffs took place in 1958. Five years later internal industrial duties had been cut by half, rather than by the 30 per cent originally envisaged. Political integration could be obstructed by conflicts over sovereignty, but trade liberalisation generated immediate constituencies among exporters, investors and consumers. In the first fifteen years of the customs union, intra-Community trade would grow at an average annual rate of 15.1 per cent, compared with 8.4 per cent for world trade. Although much of this increase belonged to the broader post-war boom and cannot be attributed mechanically to tariff removal, the market reinforced the scale, specialisation and expectations upon which growth depended. [83]

The economic environment was unusually favourable. Between 1953 and 1957 industrial production in the future Community had increased by more than 40 per cent, while intra-EEC trade expanded by about 75 per cent. Capital formation during the 1950s reached approximately 27 per cent of GDP in West Germany, 20

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[80] **Intergovernmental Committee on European Integration**, *The Brussels Report on the General Common Market,* Luxembourg: Information Service of the High Authority of the European Community for Coal and Steel, 1956, pp. 1-15.

[81] **G. Lundestad**, *"Empire" by Integration: The United States and European Integration, 1945–1997*, Oxford: Oxford University Press, 1998, pp. 13-57.

[82] **W. Kaiser**, *Using Europe, Abusing the Europeans: Britain and European Integration, 1945–63*, Basingstoke: Macmillan, 1996, pp. 28-107.

[83] **B. Balassa**, "*Trade Creation and Trade Diversion in the European Common Market*", *The Economic Journal,* vol. 77(305), 1967, pp. 1-21.

per cent in France and 16 per cent in Italy. West Germany benefited from a relatively undervalued Deutschmark, an abundant labour supply and the arrival of roughly 2.5 million refugees from the East. Across the Community, more than five million workers migrated from Mediterranean regions to the industrial centres of northern Europe. Integration did not create these resources, but it widened the markets within which they could be deployed and reduced the uncertainty surrounding investment for continental production.

The broader Western European expansion was exceptional in historical perspective. From 1950 to 1973 French growth averaged about 5 per cent annually, West German growth nearly 6 per cent and British growth more than 3 per cent. These rates far exceeded the long-run performance of the first half of the century. The "age of affluence" reversed the Malthusian assumptions of the 1930s: governments expanded budgets rather than contracting them; trade was liberalised rather than rationed; productivity growth, urbanisation and mass consumption replaced the expectation of permanent scarcity. By the early 1960s the Common Market appeared not merely to administer recovery but to embody the economic dynamism of continental Europe.[84] Yet, the causal sequence must be preserved. The boom preceded the Treaty, and Germany's recovery had already become the engine of intra-European trade. The EEC consolidated and channelled prosperity; it did not summon prosperity from institutional design alone.

Economic integration nevertheless altered political calculation. German exports and investment increasingly depended upon European markets, while neighbouring economies depended upon German demand. France held political initiative, but German industry supplied much of the Community's productive momentum. Lucarelli describes the resulting settlement as one in which Germany became "the economic power-house" while France exercised a "pre-eminent political role".[85] The arrangement prevented German economic predominance from being translated directly into a bid for political hegemony. It also gave France influence that its relative industrial position alone could not have sustained. The Community mediated an asymmetry: German power was accepted because it was institutionally Europeanised; French leadership was maintained because it supplied the political form of that Europeanisation.

Charles de Gaulle's return to power in 1958 tested whether this balance implied a federal destination. Gaullism opposed the transfer of ultimate political authority while accepting, and at times vigorously using, the Common Market. De Gaulle imagined a "European Europe" capable of acting as a third force between the United States and Soviet Union, but he understood Europe as cooperation among sovereign states under French leadership. The contradiction was more apparent than real. Economic institutions were acceptable

[84] **N. Crafts** and **G. Toniolo**, "*Postwar Growth: An Overview*", in N. Crafts and G. Toniolo (eds.), *Economic Growth in Europe since 1945*, Cambridge: Cambridge University Press, 1996, pp. 1-37.

[85] **Lucarelli**, *The Origins and Evolution of the Single Market in Europe*, p. 39.

when they strengthened France, secured agricultural markets and magnified diplomatic influence; they were unacceptable when they claimed an independent political legitimacy. Gaullism thus exposed what had been true from the beginning: integration advanced through governments whose commitment to Europe was conditional upon national purpose.[86]

The British application for membership brought this conditionality into the open. Britain had founded EFTA partly to preserve an alternative commercial framework, but continental growth and the redirection of trade weakened the credibility of remaining outside. West Germany favoured British entry because of its trading interests and Atlantic orientation; France feared that Britain would import American influence and challenge the political primacy of the continental partnership. De Gaulle vetoed the application in January 1963. The episode was not a peripheral diplomatic quarrel.[87] It concerned the geographical and political definition of Europe: whether the Community would become a broad, free-trading Atlantic association or remain a more compact continental arrangement organised around France and West Germany.

The veto also revealed that market size could not be separated from political authority. A larger Community might have increased trade, but it would have transformed the balance among its members and complicated the agricultural bargain. Britain's Commonwealth preferences and comparatively liberal food-import policy conflicted with the system France sought. De Gaulle's refusal therefore defended not simply a vision of sovereignty but a distributional settlement. The Common Market was valuable because it was governed: enlargement would have altered who governed it, whose products it protected and which external relationships it privileged. The boundary of the market was itself an instrument of policy.

No policy better demonstrated the distance between a free-trade association and a governed economic community than the Common Agricultural Policy (CAP). Post-war farming was marked by low productivity, unstable income, powerful political constituencies and extensive national protection: precisely these were the motivations of setting up the CAP. During the Stresa Conference of July 1958, the Italian Minister of Agriculture, Mario Ferrari-Aggradi, reaffirmed Italy's commitment to an agricultural common policy based on the fact that:

> [o]ggi, nell'affrontare il nuovo sforzo cui è chiamata dalla nuova forma di cooperazione economica internazionale, e nel considerarne favorevolmente le prospettive, la nostra agricoltura conta sulla possibilità di poter risolvere due problemi che consideriamo d'importanza essenziale ai fini del successo: il primo riguarda la disponibilità di mezzi finanziari per una più ampia politica di investimenti fondiari ed agrari, nonché per un concreto miglioramento della produttività, per un abbassamento cioè dei costi di

[86] **S. Hoffmann**, "*De Gaulle, Europe, and the Atlantic Alliance*", International Organization, vol. 18 (1), 1964, pp. 1-28.

[87] **N. P. Ludlow**, *Dealing with Britain: The Six and the First UK Application to the EEC*, Cambridge: Cambridge University Press, 1997, pp. 12-42, 169-230.

> produzione; il secondo concerne il contemporaneo sviluppo delle attività economiche non agricole verso cui trasferire almeno parte dell'eccessivo peso di manodopera che grava sull'agricoltura. [88]

The Treaty of Rome committed the Community to stabilising markets, increasing productivity, ensuring reasonable consumer prices and securing a fair standard of living for agricultural producers. These objectives could not be achieved by removing barriers alone. A common agricultural market required common prices, external protection, intervention purchases and a financial mechanism capable of redistributing costs among states. Agriculture therefore compelled the Community to move from negative integration – the abolition of national restrictions – to positive governance.[89]

The political bargain was centred on France and West Germany. By 1960 French authorities faced mounting agricultural surpluses and sought secure external markets. West Germany was the largest and fastest-growing market, particularly after the loss of its former eastern agricultural territories. German industry benefited from access to French and other continental markets, while German farmers required protection from more efficient producers. The Common Agricultural Policy allowed these interests to be joined.[90] France obtained the Europeanisation of its rural guarantees and preferential access to German demand; Germany accepted financial burdens and higher protection in return for the industrial advantages of the Common Market and the political consolidation of the Franco-German relationship. The CAP was not simply a Franco-German conspiracy, since agricultural lobbies across Europe supported protection, but the bilateral exchange supplied its indispensable foundation.

The policy's mechanism converted national support into Community regulation. Variable import levies raised the price of foreign produce to the agreed European level. Target prices were established for commodities, and an agricultural fund would purchase surplus output when market prices fell. National governments retained some discretion, but divergent support levels had to be harmonised if internal trade was

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[88] "*Statement by Mario Ferrari-Aggradi at the Agriculture Conference of the EEC Member States (Stresa, 3–12 July 1958)*", in Comunità Economica Europea, ed., *Raccolta dei documenti della Conferenza agricola degli Stati membri della Comunità Economica Europea, a Stresa dal 3 al 12 luglio 1958* ([s.l.]: Comunità europee, 1959), **CVCE.eu**, accessed July 29, 2026, https://www.cvce.eu/en/collections/unit-content/-/unit/02bb76df-d066-4c08-a58a-d4686a3e68ff/69bdb43a-8750-44f7-9c94-ee1c10b7b3b9/Resources#a06a766b-3e1c-4561-a485-c08fa1c117f2_en&overlay. My English translation of the passage: "[t]oday, as it faces the new effort required of it by this new form of international economic cooperation, and as it looks favourably upon the prospects it offers, our agriculture is counting on the possibility of resolving two problems that we regard as essential to success: the first concerns the availability of financial resources for a broader policy of investment in land and agriculture, as well as for a tangible improvement in productivity – that is, a reduction in production costs; the second concerns the simultaneous development of non-agricultural economic activities, to which at least part of the excessive labour force burdening agriculture can be transferred".

[89] **R. Fennell**, *The Common Agricultural Policy: Continuity and Change*, Oxford: Clarendon Press, 1997, pp. 1–49, 133–205.

[90] **A.-C. L. Knudsen**, *Farmers on Welfare: The Making of Europe's Common Agricultural Policy*, Ithaca: Cornell University Press, 2009, pp. 122–265.

to proceed without distortion. Countries such as Germany, Belgium and Italy, where prices were relatively high, faced downward pressure upon support; more efficient producers such as France and the Netherlands sought higher Community prices and wider outlets. Price-setting was therefore a distributive conflict disguised as technical calculation. Every common price transferred income among consumers, taxpayers, farmers and member states.

The administrative scale expanded rapidly. By the end of 1963 the Council had adopted more than three hundred agricultural regulations covering grains, rice, poultry, eggs, pork, beef, dairy products, wine, fruit and vegetables – approximately 85 per cent of total Community agricultural output, valued at about $20 billion. This body of regulation was an institutional achievement of a different order from tariff reduction. It required continuous information, negotiation and enforcement. The Community was no longer merely opening markets; it was defining the conditions under which production would be remunerated and trade conducted. The technical density of the CAP gave European institutions a routine presence within domestic economic life.

By July 1964 the first Mansholt Plan produced agreement on common prices for several major commodities. Within two years the single market in agriculture would be extended further, but the 1964 settlement already marked the essential transition. The Community possessed a policy whose operation depended upon common finance and whose consequences reached deeply into national political coalitions.[91] In France, agriculture remained crucial to Gaullist support; in West Germany, rural constituencies were important to Christian Democratic power. European governance succeeded because it protected these national political structures while transforming the level at which their costs were allocated. The CAP did not weaken the nation-state by exposing it to an unregulated market. It strengthened governments by allowing them to sustain politically important sectors through collective rules and resources and to structurally transform and modernize their agricultural systems.[92]

The price, or the gain, of this success was embedded conflict. A protected common price made European production expensive relative to the world market and encouraged surpluses. The financial burden fell unevenly, and the institutions responsible for proposing, financing and supervising policy acquired influence without an equivalent fiscal sovereignty of their own. Agriculture thus anticipated the central dilemma of

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[91] **N. P. Ludlow**, "*The Making of the CAP: Towards a Historical Analysis of the EU's First Major Policy*", Contemporary European History, vol. 14 (3), 2005, pp. 347–371.

[92] Commission of the European Communities, "*Lignes directrices de la politique de structure agricole menée dans les États membres (1968)*", in *Rapport concernant les politiques nationales de structure agricole dans la Communauté*, COM(68) 1000, Part F (Brussels: Commission of the European Communities, 1968), **CVCE.eu**, accessed July 29, 2026, https://www.cvce.eu/obj/lignes_directrices_de_la_politique_de_structure_agricole_menee_dans_les_etats_membres_1968-fr-b10394b8-0f10-430b-8845-815e99838d8c.html.

European economic governance: common policies could create solidarities, but solidarity was never abstract. It was a distribution of money, markets and adjustment costs that governments had to defend before national electorates. The more effective the policy became, the more intensely its authority would be contested.

V. **Conclusions: Aligning Systems and Structures**

Read across the half-century separating the outbreak of the First World War from the institutional consolidation of the EEC, the history reconstructed in this study does not reveal an inevitable movement from national fragmentation toward European unity. Nor does it support an interpretation of the 1914-1945 period as an undifferentiated European civil war whose internal logic led almost mechanically from Sarajevo to September 1939 and finally to the destruction of 1945. Continuities undoubtedly connected the two world wars, and many of the problems generated or intensified by the first – territorial revision, German power, international indebtedness, political radicalisation, economic nationalism, and the transformation of mass politics – remained unresolved when the second began. Yet, continuity should not be confused with causality, still less with inevitability. Between the two conflicts there existed a historically specific period in which new political, social, economic, and institutional structures emerged, interacted with inherited ones, and generated trajectories of their own. What followed 1918 was therefore neither peace in any uncomplicated sense nor merely another phase of war. It was a prolonged experiment in reconstructing an international order whose mechanisms of political regulation had ceased to correspond adequately to the societies and economies they were expected to govern.

Seen in this light, the decisive distinction between the settlements after 1918 and 1945 lies less in the existence or absence of economic interdependence than in the relationship between interdependence and the structures designed to regulate it. European economies had already become deeply connected before the First World War, and the conflict itself intensified rather than eliminated many of those connections. Debt, industrial production, access to raw materials, financial markets, trade, and monetary relations crossed political frontiers even while governments attempted to reaffirm national control. After 1918, however, political regulation remained to a striking degree attached to structures inherited from the nineteenth-century international order. Diplomacy remained overwhelmingly interstate and frequently secretive; monetary reconstruction sought to restore a gold-standard logic conceived under very different political circumstances; adjustment continued to rely heavily upon the willingness of governments to accept domestic deflation; and the settlement of international obligations depended upon bilateral claims and creditor-debtor relations for which no sufficiently powerful political authority assumed collective responsibility. Political and economic systems had changed more rapidly than the mechanisms through which they were governed.

This temporal disjunction is central to explaining the weakness of the post-1918 order. Mass electorates, organised labour, enlarged state administrations, industrial concentration, wartime mobilisation, new national claims, American creditor power, and unprecedented public expectations had fundamentally altered the political economy within which governments operated. Yet many of the mechanisms expected to preserve international stability presupposed a world in which adjustment could still be imposed with comparatively limited political consequences. Restoring monetary orthodoxy therefore meant placing new social and democratic systems under old disciplines. Reparations and war debts internationalised obligations without creating an equivalent internationalisation of political responsibility; American private lending temporarily concealed this contradiction but could not resolve it. Once capital flows contracted, the attempt to preserve external equilibrium through domestic contraction exposed the fragility of the settlement. Deflation, tariffs, exchange controls, bilateral clearing, and competitive restrictions were not simply manifestations of irrational nationalism. They were also responses by governments confronted with institutions increasingly incapable of reconciling external commitments with domestic political survival.

Such an interpretation helps explain why the interwar experience should not be reduced to the prehistory of a war supposedly latent since 1914. Failure itself produced institutional experimentation: the Dawes and Young Plans, the BIS, the economic work of the LoN, international conferences, monetary proposals, and repeated attempts to reconstruct multilateral cooperation. Their limited success demonstrates that European governments were not unaware of interdependence. Rather, recognition of interdependence repeatedly exceeded their ability to create political mechanisms capable of governing its distributive consequences. Crisis resulted not from the absence of cooperation as an idea, but from the insufficient correspondence between transformed economic and political systems and the structures through which cooperation was organised. In this sense, the 1918-1939 period possessed its own historical specificity. It connected the two wars without collapsing them into one.

After 1945, that relationship was substantially reversed. Reconstruction did not restore the institutions of the nineteenth century; it produced new structures of political regulation for political and economic systems that had themselves been transformed by depression, dictatorship, total war, occupation, social mobilisation, and the expansion of state responsibility. Governments emerging from the Second World War could no longer regard employment, welfare, investment, production, and social security as matters lying largely outside public responsibility. Wartime mobilisation had enlarged administrative capacities, while memories of the 1930s made a return to prolonged deflation politically dangerous. The resulting mixed economies differed substantially from country to country, yet they shared an acceptance that markets would operate within structures of public regulation and that democratic legitimacy increasingly depended upon growth, employment, welfare, and material security.

Durability after 1945 consequently derived, first, from a greater correspondence between the new political economy and the institutions created to regulate it. Bretton Woods did not attempt simply to reproduce the classical gold standard. Fixed but adjustable exchange rates, international credit, and controls compatible with domestic economic management acknowledged that external stability could no longer require the indefinite sacrifice of internal political stability. Marshall aid likewise differed fundamentally from the financial mechanisms of the 1920s. American assistance was not merely another flow of capital to indebted European economies: grants, public credits, counterpart funds, and multilateral planning placed reconstruction within an explicitly political framework. The OEEC institutionalised consultation; the EPU prevented every payment imbalance from immediately becoming a bilateral political conflict; and American security guarantees reduced the strategic uncertainty within which Western European reconstruction proceeded. In each case, institutions were designed not to eliminate national political objectives but to make their coexistence less destructive.

Success, however, should not be equated with the disappearance of conflict. One of the principal conclusions of this study is precisely that durable governance emerged when conflict could be internalised rather than denied. The EPU did not remove deficits and surpluses; it transformed their political meaning. A deficit became a position inside a multilateral system governed by quotas, credit, and agreed procedures rather than an immediate confrontation between two governments. Coordinated exchange-rate adjustments similarly remained national decisions but took place within a framework whose objective was the recovery of trade rather than competitive advantage. Later, the CAP would perform a comparable function in a much more explicitly distributive field: disagreements over prices, agricultural protection, national contributions, and access to markets persisted, but were converted into recurrent negotiations conducted within Community institutions. Post-war stability was therefore not produced by consensus in the strong sense. It rested upon the creation of procedures capable of making disagreement governable.

No single political force produced this transformation. American predominance provided the external monetary, financial, commercial, and strategic framework without which Western European recovery would have been far more difficult, yet European integration cannot be understood as the passive regional execution of an American design. Washington encouraged liberalisation, German recovery, convertibility, and European cooperation; European governments determined the distributive architecture through which those objectives became politically acceptable. French policy sought simultaneously to modernise the national economy, secure agricultural interests, and control the consequences of German industrial recovery. West Germany sought rehabilitation, sovereignty, export markets, and the normalisation of its economic power. Italy combined expectations of industrial development, investment, agricultural transformation, and labour mobility. Benelux governments depended heavily upon access to larger markets. What appeared institutionally as a common European interest was repeatedly constructed from national interests that were neither identical nor naturally harmonious.

Franco-German relations provide the clearest illustration. German productive recovery was indispensable to European reconstruction but politically difficult to reconcile with French security. The ECSC did not solve this contradiction by making national interests disappear. It made their coexistence institutionally reproducible. German industrial strength could recover within common rules; France could abandon permanent coercive control without simply accepting the unrestricted restoration of German power. Supranationalism therefore acquired authority not primarily because governments abandoned national purposes, but because specific European procedures made those purposes mutually compatible. This conclusion develops Milward's insight concerning the "rescue" of the nation-state: integration represented not the obsolescence of national government but one of the means through which national governments recovered capacities that unilateral sovereignty could no longer reliably provide.

Institutional development after 1950 strengthened this logic through accumulation rather than through any automatic federal "spillover". The failure of the EDC in 1954 is particularly revealing. Economic cooperation did not naturally produce a political or military federation, and governments continued to distinguish sharply between delegating authority over bounded economic functions and surrendering the core powers of the state. Messina and the subsequent negotiations therefore constituted a relaunch not because an inevitable integration process briefly stalled and then resumed, but because governments deliberately returned to the field in which common procedures had demonstrated their political usefulness. Economic integration advanced where bargains could be divided, compensated, revised, and administered.

By the time of the Treaties of Rome, this method had acquired a more permanent institutional form. Liberalisation was joined to procedures through which its consequences could be negotiated, regulated, and enforced. Monetary policy and public budgets remained overwhelmingly national; no autonomous European economic governance emerged. Yet, the Common Market was more than a free-trade agreement. Commission initiative, Council bargaining, judicial interpretation, common commercial rules, and gradually expanding sectoral policies created a structure situated between conventional international cooperation and a federal government. Britain's preference for liberalisation without comparable political entanglement, embodied in EFTA, helps reveal what was distinctive about the Six: their market was constructed through a political compact and was consequently inseparable from the institutions governing it.

From the perspective of economic history, the period between 1914 and 1964 can therefore be understood as a movement through three substantially different configurations. Between 1914 and 1945, the

European economy was characterised by the disruption of the pre-war monetary order, unstable attempts at reconstruction, international indebtedness, recurrent currency crises, increasingly politicised trade, and finally, fragmentation into controls and blocs. State intervention expanded, but international regulation remained too weak or too poorly adapted to prevent national responses from producing collective instability. Between 1945 and the mid-1950s, reconstruction occurred within a different model: mixed economies, welfare commitments, public investment, planning, American financial support, multilateral payments, and a managed international monetary system combined domestic state activism with increasing external openness. From 1955 to 1964, rapid growth, German industrial centrality, expanding intra-European trade, and the Common Market transformed cooperation into a denser system of regional economic governance.

Growth itself must nevertheless be kept analytically separate from institutional triumphalism. Much of Western Europe's extraordinary post-war expansion preceded the full operation of the EEC and derived from reconstruction, productivity catch-up, investment, labour mobility, technological diffusion, and favourable international conditions. Integration consolidated, channelled, and enlarged these developments rather than creating prosperity *ex nihilo*. Yet, prosperity also altered the politics of integration. Expanding markets generated constituencies for openness, while common rules reduced uncertainty and permitted national governments to pursue domestic objectives within a larger economic space. Liberalisation and state intervention were therefore not mutually exclusive processes; post-war European capitalism was characterised precisely by their coexistence.

Agriculture reveals the mature form of this settlement more clearly than tariff reduction alone. Once common agricultural prices, external protection, intervention mechanisms, and collective financing became necessary, the Community moved from removing barriers to governing distribution. By 1964, European institutions were no longer concerned solely with facilitating exchange; they were increasingly involved in determining the conditions under which production was remunerated, losses were socialised, and politically important constituencies were protected. Such policies strengthened rather than simply constrained national governments, since European rules enabled them to maintain domestic political coalitions while transferring part of the financial and political burden of adjustment to the Community level. At the same time, the conflicts generated by redistribution did not disappear. They became embedded within the institutional system itself.

By 1964, then, the defining characteristic of European economic governance was neither supranational sovereignty nor traditional interstate diplomacy. It was a layered system in which national governments retained the principal sources of fiscal, monetary, and democratic authority while increasingly exercising economic power through common rules, permanent institutions, technical expertise, legal procedures, and negotiated redistribution. American power remained an essential external condition; national interests remained the principal political motors; economic interdependence supplied recurring pressures for cooperation; and institutional learning provided methods through which those pressures could be transformed into durable arrangements. European governance emerged from their interaction rather than from the victory of any single principle.

This answers the three questions posed at the outset. Post-1945 arrangements proved more durable because institutions and political-economic structures were more closely aligned than they had been after 1918: new systems of mass democracy, welfare, public economic management, American predominance, and deep interdependence were accompanied by new mechanisms capable of mediating adjustment rather than by an attempted restoration of an earlier order. European interdependence became formal governance through the combined action of American power, national strategy, German recovery, Franco-German bargaining, domestic distributive politics, technical expertise, institutional experimentation, and the accumulated memory of previous failure. Finally, the European economy between 1914 and 1964 was defined not by a linear movement from nationalism to integration but by a profound transformation in the relationship between states and markets: from an unstable international economy governed through inherited mechanisms, through fragmentation and expanded national intervention, toward a managed regional order in which open markets increasingly coexisted with strong states and common institutions.

What had been achieved by 1964 was therefore neither federation nor the restoration of the world lost in 1914. It was something historically more peculiar. European states had discovered that sovereignty could sometimes be made more effective through its organised exercise with others; that interdependence did not cease to produce conflict merely because institutions existed; and that durable cooperation depended less upon eliminating conflicting interests than upon constructing political forms capable of containing, compensating, and reproducing them. If the post-1918 order failed because transformed societies were governed through structures no longer adequate to them, the post-1945 settlement endured because political regulation itself became an object of reconstruction. Europe's *Sanierungsplan*, in this sense, was not simply the reconstruction of economies devastated by war. It was the reconstruction of the relationship between the capacity of political structures to govern and regulate authority and power and a renewed socio-economic interdependence.

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VIII. Chronology

Date / period	What happened
December 1865	The Latin Monetary Union was established by France, Belgium, Switzerland, and Italy, standardizing their coinage and permitting equivalent francs and lire to circulate across borders.
1867	The World Monetary Conference in Paris attempted to extend monetary standardization by aligning the franc, dollar, and pound, but the project failed after Britain rejected the required adjustment.
1914	The First World War disrupted the pre-war European economic and monetary order and the functioning of the classical gold standard.
July 1920	The Spa Conference established the percentage distribution of German reparations among the Allied powers.
1921	The Paris Conference calculated Germany's financial liabilities on the basis of the reparations framework.
April-May 1921	The London Conference formally fixed Germany's reparations debt at 132 billion gold marks.
1922	The Cannes Conference attempted to ease the reparations problem through temporary payment moratoriums but was aborted.
1923	The Ruhr crisis intensified the political and economic conflict surrounding German reparations.
1924	The Dawes Plan reorganised German reparations according to Germany's economic capacity and relied heavily on U.S. commercial lending.
1929	The Young Plan reduced Germany's reparations burden and established a longer repayment schedule.
1929-1930	The Hague Conferences ratified the Young Plan and contributed to the institutionalization of international financial cooperation through the creation of the BIS.
1930	The Bank for International Settlements was established in Basel.

1930	The United States adopted the Smoot-Hawley tariff; retaliatory trade restrictions contributed to the contraction of international trade.
1931	A major European financial crisis contributed to the collapse of the interwar gold standard.
1931	The Hoover Moratorium imposed a one-year suspension of intergovernmental debt payments.
1932	The Lausanne Conference effectively liquidated around 90 per cent of Germany's remaining reparations.
Summer 1932	Hans Fürstenberg called for a European currency union supported by a European central bank.
1933	The London Economic Conference failed, marking the collapse of the attempt to restore international currency stabilization.
1931-1933	The breakdown of the gold-standard system led increasingly to exchange controls, bilateral clearing arrangements, competitive restrictions, and national economic blocs.
July 1944	The Bretton Woods settlement created the post-war international monetary framework based on fixed but adjustable exchange rates, the IMF, the World Bank, and the dollar-centred system.
1945 onward	Western European reconstruction developed around welfare states, public investment, planning, full-employment policies, and an increasingly managed international economic order.
5 June 1947	George Marshall announced the principles of the European recovery programme in his Harvard speech.
July 1947	The Committee of European Economic Co-operation was created, bringing together sixteen European states to formulate a collective recovery programme.
1948	The Organisation for European Economic Co-operation was established to administer Marshall Plan funds and institutionalize European economic consultation.
1948	West Germany implemented its currency reform, an important step in German economic recovery.

September 1949	Several Western European currencies were devalued in a coordinated adjustment against the dollar.
December 1949	The European Payments Union was proposed as a mechanism for multilateral European clearing.
1950	The European Payments Union became operational, replacing bilateral balancing with multilateral clearing and credit arrangements.
May 1950	The Schuman Plan proposed placing French and West German coal and steel production under a common supranational authority.
April 1951	The Treaty of Paris establishing the European Coal and Steel Community was signed.
July 1952	The ECSC Treaty entered into force.
August 1954	The French National Assembly rejected the proposed European Defence Community, redirecting European integration toward economic rather than military federation.
June 1955	The Messina Conference relaunched European integration through the objective of broader economic integration.
March 1956	The Spaak Committee reported in favour of establishing a Common Market.
25 March 1957	The Treaties of Rome establishing the European Economic Community and Euratom were signed.
1 January 1958	The EEC and Euratom Treaties entered into force.
July 1958	The Stresa Conference developed the foundations of the Common Agricultural Policy.
1958-1960	External currency convertibility was progressively restored: the franc in 1958, the pound and Deutschmark in 1959, and the lira in January 1960.
November 1959	Britain and six other states established the European Free Trade Association as an alternative model of European trade liberalization.
January 1963	Charles de Gaulle vetoed Britain's first application for EEC membership.
1964	The Committee of Governors of the central banks of the EEC Member States was created through Decision 64/300/EEC.

6 July 1964	The Committee of Governors held its first meeting; BIS President Marius Holtrop emphasized the connection between European cooperation and the wider international monetary framework.
July 1964	The first Mansholt Plan produced agreement on common agricultural prices for several major commodities.

IX. Acronyms

Acronym	**Full form**
BIS	Bank for International Settlements
CAP	Common Agricultural Policy
CEEC	Committee of European Economic Co-operation
CJEU	Court of Justice of the European Union
CoG	Committee of Governors of the Central Banks of the Member States of the European Economic Community
EDC	European Defence Community
EEC	European Economic Community
EEG	European Economic Governance
ECSC	European Coal and Steel Community
EFTA	European Free Trade Association
EMU	European Monetary Union
EPU	European Payments Union
ERP	European Recovery Program
EU	European Union
F.E.P.C.	Fair Employment Practices Committee
GATT	General Agreement on Tariffs and Trade

GDP	Gross Domestic Product
GNP	Gross National Product
IFP	Italian Foreign Policy
IMF	International Monetary Fund
IRI	Istituto per la Ricostruzione Industriale
LoN	League of Nations
NATO	North Atlantic Treaty Organization
NEP	New Economic Policy
NHS	National Health Service
OCA	Optimum Currency Area
OEEC	Organisation for European Economic Co-operation
PPS	Policy Planning Staff
SGP	Stability and Growth Pact
TFEU	Treaty on the Functioning of the European Union