

appreciated in relation to the importance of Western Europe in the world trading system and the factors which have necessitated foreign aid for its rehabilitation.

Before the war, the United Kingdom and Western Continental Europe together formed by far the most important trading area - handling almost half of the world's total trade and operating as a main-spring of the whole delicate mechanism of multilateral payments. The United Kingdom and Germany played particularly important roles in this economic scheme. The former, as the single greatest trading nation, was the centre of a complex network of financial and trading relations and was a heavy net importer from the Continent as well as from countries like Canada. The Continental countries normally used the surpluses from sales to Britain to cover their dollar deficits. British coal exports to the Continent played an integral part of the Western European heavy industrial economy. On the Continent itself, Germany formed what might be called the heavy industrial backbone of Western Europe, with its vast coal and steel production and exports of machinery and highly manufactured goods, and providing in return markets for many of the products of other Western European countries.

The war upset Europe's economy and the basic structure of world trade. The obvious devastation in Europe was enormous and in many sectors industrial production was brought almost to a standstill. There was also a less obvious, but equally great devastation in the form of deterioration of capital and manpower, deterioration of agricultural equipment and soil fertility, over-cutting of forests, and such economic dislocations as monetary disorders, the upset of trade relationships, the concentration on war industries, the displacement of labour and the exhaustion of stocks. Widespread inflation was a natural result of the vast war outlays, the acute shortage of capital and consumer goods and huge requirements for reconstruction.

It was inevitable that the whole trade mechanism of which Europe was the centre should not have been re-established. Although by the middle of 1947, the total volume of world trade was almost as large as in 1938, Europe's share was only half of what it had been before the war and the area had changed from a large creditor into a heavy debtor.

Instead of supplying itself with most of its basic foods, with its fuel and iron and steel manufactures, Europe has had to seek large quantities of such commodities from the Western Hemisphere. But, while the demand for goods from the Western Hemisphere expanded enormously, rising prices in the United States increased the cost and it became more and more difficult for Europe to find the means of payment.

The enormous trade gap which developed as a result of European conditions was covered temporarily by UNRRA aid by loans and credits mainly from the United States and Canada, and by drawing on accumulated reserves of gold, dollars and other assets. The aid which the European countries had received was consumed much more rapidly than had been originally anticipated, both because of the extent of emergency requirements and the rising prices in the United States.

It was apparent by the early summer of 1947 that extraordinary measures would be needed if Europe was to recover and play an important role in the world economy. It was in these circumstances that United States Secretary of State Marshall proposed that if the European countries would draw up a plan for self-help and economic coordination, the United States would consider what assistance it might be able to offer. Sixteen nations under British and French initiative set to work in Paris on July 12 to comply with the suggestion of the United States Secretary of State and established a Committee of European Economic Cooperation.