

ALBA and Cooperative Development*

Lessons from the European Payments Union

Martin Hart-Landsberg**

The member nations of the Bolivarian Alliance for the Americas (ALBA) are working to create an integrated trade and monetary zone with a new currency. This paper explores the significance of their effort, highlighting potential challenges and benefits. First, it discusses the rationale for a cooperative development strategy. Next, it analyzes the history and workings of the European Payments Union (EPU), one of the most successful attempts at collective regional development. Finally, it draws upon the EPU experience to suggest a process of zone construction capable of achieving ALBA's goal of cooperative development.

Keywords: Neoliberalism, Economic Development, European Payments Union, Globalization, Socialism.

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** Department of Economics, Lewis and Clark College, marty@lclark.edu.

I. Introduction

Existing international economic institutions and relations generally work in ways detrimental to third world development. That is one reason why eight Latin American and Caribbean countries — led by Venezuela, Cuba and Bolivia — have joined together to build the Bolivarian Alliance for the Americas (ALBA), a regional initiative designed to promote new, non-market shaped structures and patterns of economic cooperation.¹⁾

ALBA does this, in part, by providing a framework for member governments to create partnerships between existing national state enterprises as well as new regional public enterprises. The resulting initiatives, although still few in number, have helped member governments strengthen planning capacities, modernize national industrial and agricultural operations, and provide essential social services to their citizens (Hart-Landsberg, 2009).

In response to worsening international economic conditions triggered by the 2008 collapse of the U.S. bubble economy, ALBA nations are working to deepen their efforts at cooperative development. In November 2008, member governments announced their support for an ALBA People's Trade Agreement “that protects our countries from the depredation of transnational capital, foments the development of our economies and constitutes a space liberated from the inoperative global financial institutions and the monopoly of the dollar as the currency for trade and reserves” (Bilbao, 2009). Although the precise terms of the agreement are still to be negotiated, official state-

1) Venezuela and Cuba signed the first ALBA exchange agreement in 2004. Bolivia joined in 2006; Nicaragua in 2007; Dominica and Honduras in 2008; and Ecuador, St. Vincent and the Grenadines, and Antigua and Barbuda in 2009. A U.S. supported coup in Honduras installed a rightwing government which withdrew the country from ALBA in 2009. In 2009, the member countries of the Bolivarian Alternative for the Americas changed the name of the organization to the Bolivarian Alliance for the Americas.

ments point to the creation of an integrated trade and monetary zone, with a regionally created currency, the Sucre.

This is a bold initiative that deserves to be taken seriously. Doing so requires grappling with some critical questions. Among the most obvious are the following three: How important/necessary is this initiative? How should the zone be structured? What are the potential challenges to/benefits from a successful outcome? These are big questions and, given that ALBA has not yet concretized its own plan for the operation of the zone, difficult to engage in a productive way.

However, we do have the benefit of history; this is not the first attempt at collective regional development. One of the most successful, and perhaps most relevant for understanding/evaluating ALBA's effort, took place in Europe shortly after the end of World War II, when the members of the Marshall Plan sponsored Organization for European Economic Cooperation (OEEC) created the European Payments Union (EPU). Studying the experience and workings of the EPU offers us a practical way to begin trying to answer the above questions and contribute to the construction of an integrated trade and monetary zone capable of achieving its intended goals.

In what follows I first discuss the rationale for a cooperative development strategy. Next, I analyze the political-economic dynamics that led European countries to commit to such a strategy. I then examine the structure and workings of the EPU as well as the dynamics leading to its eventual dissolution. I conclude with a discussion of relevant lessons for ALBA countries.

2. The Need for a Cooperative Development Strategy

Third world countries face enormous obstacles to development, the ma-

majority of which are a consequence of the nature of their forced integration into the capitalist world-system (Thomas, 1974). One of the most difficult to overcome is a historically created import dependence. Weak and distorted industrial and technological sectors (and in many cases limited agricultural and primary commodity production capabilities) mean that third world attempts to boost economic activity normally trigger, at least in the short run, a sharp rise in the demand for imports.

If third world countries remain open to global market forces, their governments must find ways to obtain the foreign exchange needed to finance the import surge. Since loans are rarely a continuing option, this means that third world governments are forced, almost from the beginning of the development effort, to give priority to the creation of a competitive export sector, which involves channeling resources into satisfying foreign rather than domestic needs.

Complications quickly multiply. One of the fastest ways to establish a competitive export sector is to attract export-oriented transnational corporations. Only these companies have the technological capacities to produce the goods desired by, as well as the marketing channels necessary to sell them to, foreign buyers (most of who reside in developed capitalist countries).

Unfortunately, because most third world governments face similar challenges, they end up competing to attract the desired foreign investment. Transnational corporations are able to take advantage of this competition to pressure these governments into granting them significant tax, labor and environmental concessions — concessions which further undermine social progress. In addition, because transnational production in the third world routinely relies on imported parts and components, most governments also find it necessary to liberalize tariff and non-tariff barriers. In fact, in order to demonstrate their commitment to liberalization, they normally find it neces-

sary to liberalize trade in goods unrelated to the targeted transnational corporate production. This, in turn, helps other developed capitalist country corporations gain access to previously protected markets, often leading to the bankruptcy of existing third world producers and even greater third world import and export dependence.

Growth is possible under such conditions, at least for a few countries. However, even the “successful” ones find it difficult to use their gains from trade to promote a domestically responsive and self-reinforcing process of technological and social development. Transnational corporations rarely transfer technology or build value-enhancing connections with their host economy (UNCTAD, 1999, 2002). Thus, continued growth comes to depend heavily on sustained wage suppression (to maintain export competitiveness) and fiscal austerity (to compensate for minimal corporate taxation).

Aware of the destructive consequences of global market imperatives, some third world governments have tried to delink their nation’s economic activity from the capitalist world-system. However, this too has generally proven an unworkable strategy. Among the most important reasons is that few governments have the planning capacity, much less power, to refashion/reorient sufficient economic activity to achieve significant delinking. Another is that few countries have the resources required to meet national needs without substantial trade.

Not surprisingly, then, there is need for an alternative to these two strategies. It is in this context that we can best appreciate ALBA’s interest in collective development as expressed by its recently approved People’s Trade Agreement. In brief, this approach represents a “middle-ground” strategy of group delinking. ALBA governments hope that delinking will provide the protection they need to engage in the (coordinated) planning and production required to overcome existing national economic distortions and weaknesses. And, by acting as a group, they hope to ensure that their re-

spective national enterprises will have access to the broader markets they need to enjoy economies of scale and obtain scarce resources and technology.

ALBA's effort is, in many ways, unprecedented, especially because ALBA is composed of countries with diverse political visions — for example, three (Venezuela, Cuba, and Bolivia) are led by governments explicitly committed to building socialism. Still, there have been other attempts at cooperative development, and their experiences can help shed light on the challenges and choices facing ALBA. This is true even if they were organized by capitalist governments to further capitalist interests.

When capitalist governments are under great pressure — as they were, for example, in the 1930s when the Great Depression forced them to initiate a series of job programs, or in the 1940s when World War II forced them to engage in public production and regulation — their actions illuminate alternative possibilities and sometimes even concrete policies that can be adapted by governments with radically different aims (which is not to say that state policies are ever class-neutral). I believe that the situation in Europe following the end of World War II offers another example. Then, European governments were under great pressure from the United States to liberalize their economies. Their response, specifically their creation of the European Payments Union, offers important and positive lessons for those supportive of the ALBA initiative.

3. Background to the Formation of the EPU

For complex historical reasons, the developed capitalist countries of Europe faced economic challenges in the years following the end of World War II remarkably similar to those faced by many third world countries

today. U.S. government and business elites wanted an international economic system underpinned by convertible currencies and liberalized trade. Such an open, multilateral system would enable businesses and individuals in the rest of the world to freely exchange their national currencies for U.S. dollars and buy U.S. produced goods, boosting growth and profits in the United States. This was the system that the International Monetary Fund (IMF), established in 1944 and operational two years later, was supposed to promote and manage (Block, 1977).

The problem for European governments was that their economies had been greatly weakened by the war. As a consequence, their import needs were far greater than their export capacities. If European governments accepted U.S. demands, their countries would quickly run large trade deficits. Since they lacked sufficient foreign exchange, they would be forced to implement austerity measures, leading to a downward spiral of production, employment, and investment.

Such an outcome would be nothing new for most third world countries, whose governments have routinely been pressured into liberalizing international economic activity. However, despite its weakened position, Europe was not the third world.

Europe's importance as part of the capitalist core meant that U.S. elites could not be indifferent to the political ramifications of Europe's economic choices. European workers could be expected to strongly oppose the austerity required to restore trade balances if European governments embraced liberalization. Both U.S. and European elites feared that this opposition could dramatically strengthen the already considerable influence of the left throughout the region. Moreover, European governments managed economies that were already heavily regulated, which meant that they had tools in place to directly control trade if they decided to resist U.S. pressure. Both factors gave the governments of Europe considerable negotiating leverage

with U.S. policy makers.

European elites did not oppose a return to a fully multilateralized capitalist world system; after all, they had greatly benefited from its past operation. Their concern was that under existing conditions they were not well placed to benefit from its revival. At the same time, they were also aware that the status quo was far from satisfactory. The controls that enabled European governments to regulate economic activity made it harder to restore business confidence (and by extension growth) and bolstered left demands for a broader structural transformation of existing capitalist institutions and relations.

In short, European elites desperately needed an alternative strategy, one that would support regional economic revitalization by providing protection from U.S. competition, while simultaneously weakening obstacles to Europe's eventual participation in a renewed multilateral system. The U.S. government, for its own reasons, eventually agreed to support the search for such a strategy.

3.1 Europe's Post-War Economic Situation

The end of World War II found Europe in difficult economic straits; its industrial plant was old, its transportation system was shattered, its banks refused to lend, and its businesses were reluctant to hire. As Barry Eichengreen (1993: 10-11) explains, "These problems, not wartime destruction of industrial capacity per se, depressed industrial production in the immediate post-war months to less than 20 percent of pre-war levels in Italy and Germany and 30-40 percent in Belgium and France."

These problems were compounded by Europe's weakened international position. European countries desperately needed imported foodstuffs, raw materials, and capital goods to rebuild. Although these imports were obtain-

able in the U.S. and Latin America, European countries did not have sufficient foreign exchange to purchase them.

European foreign exchange problems were exacerbated by international developments, in particular anti-colonial national liberation struggles. Europe had previously relied heavily on its colonies for foreign exchange. Now, these colonies were becoming a foreign exchange drain, as Europe was forced to use its reserves to finance its armed opposition to their struggles. For example, France was fighting in Vietnam, the Netherlands in Indonesia, and the British in Malaysia.

European governments faced their post-war challenges with a well-developed system of controls over international transactions. Controls were first introduced during the depression; among the most effective were quantitative restrictions on imports. "In 1937, almost all the imports of Germany, Italy and Poland were subject to quotas, more than half those of France, Switzerland and Austria, about one-quarter of those of Belgium and the Netherlands, and 8 percent of British imports" (Diebold, 1952: 217).

The outbreak of World War II led to a further tightening of restrictions on trade. In particular, many currencies ceased to be convertible for both residents and non-residents. In the post war period, continuing economic challenges encouraged some European governments to boost their direct involvement in trade. In the period 1948-52, 33 percent of all French imports "went to government-controlled agencies" (Block, 1977: 237).

Given these conditions, European governments found it easiest to organize trade through bilateral agreements. By the end of 1947, more than 200 of these agreements were in effect, accounting for more than 60 percent of Western European trade (Block, 1977: 237; Diebold, 1952: 19-20). As William Deibold (1952: 19-20) explains:

Sometimes each country assured the other of certain supplies, but more often

both simply agreed to permit imports and exports of specified goods up to a certain amount. To avoid the rigidities and administrative cumber of exact balancing, each country usually agreed to hold the other's currency up to a certain amount. But to prevent the trade from becoming too one-sided, the agreements often provided that if one country's trade debts to the other exceeded a specified amount the balance was to be paid in dollars or in gold.

It was this highly regulated system of trading that the U.S. hoped to destroy in order to promote its own exports. As noted above, European governments also had their own reasons for opposing the status quo. The bilateral trade structure tended to dampen trade activity: "intra-European trade in 1947 came to only 56 percent of its prewar level ... From nearly a third of total world trade in 1938, intra-European trade had fallen to less than a fifth" (Diebold, 1952: 17). It also promoted trading patterns that were not always the most efficient. Bilateralism also made it difficult for countries to accumulate the dollars they needed to finance imports from the U.S. and Latin America.

Yet, without significant economic recovery, no European government was willing to drop its controls and freely allow its citizens to exchange domestic currency for U.S. dollars to purchase U.S. goods. Thus, beginning in 1947, European governments, with U.S. support, began exploring ways to boost their collective economic fortunes while continuing to shield their economies from global market forces, especially U.S. competition.

3.2 European Integration

European governments were generally united in the belief that they had to revitalize intra-European trade if they were to successfully rebuild their respective economies. Toward that end they sought to create a European multi-

lateral payments system. The U.S. government had reservations about allowing Europe to pursue intra-regional integration while maintaining currency and trade restrictions with the rest of the world. However, fearful of the alternatives, it agreed to support European efforts.

In 1947, five European countries signed the First Agreement on Multilateral Monetary Compensation. This limited step primarily involved boosting the credits that surplus nations offered deficit nations.

The next attempt was far more substantial, largely because the U.S. agreed to support it with Marshall Plan aid dollars. In October 1948, the 18 members of the OEEC approved the Agreement for Intra-European Payments and Compensation.²⁾ In line with the agreement, bilateral negotiations first produced estimates of expected bilateral balances. “The prospective creditors then agreed to grant ‘drawing rights’ to their prospective debtors. Each creditor agreed to permit its bilateral debtor to ‘draw’ from the creditor an amount up to the size of its estimated deficit. The ECA [Economic Cooperation Administration — the U.S. administrator of the Marshall Plan] then provided the creditor with an equal amount of ‘conditional aid’ that could be used to pay for dollar imports” (Kaplan and Schleiminger, 1989: 25).

Although this injection of outside funds led to a significant increase in intra-European trade, the agreement suffered many shortcomings. The ECA established the amount of dollar aid available to compensate surplus countries before the OEEC finalized its estimates of expected bilateral balances. In addition, the bilateral estimates often proved inaccurate. As a consequence the amount of conditional aid did not match the size of the drawing

2) The members were Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, United Kingdom, Western Germany, and the Free Territory of Trieste (which was eventually returned to Italian sovereignty).

rights. Moreover, the agreement did little to end the bilateral nature of European trade; surpluses with one country still could not be used for purchases in another country, and drawing rights granted for trade with one country could not be used to cover purchases with another country except under very restrictive conditions.

These problems were recognized and efforts were made to correct them when the agreement came up for renewal in 1949. The ECA proposed that drawing rights be made transferable among countries. That way, for example, if France had drawing rights on Britain but preferred Belgian goods, it would be able to use its sterling drawing rights to purchase them. The surplus countries rejected the ECA proposal, fearing that such convertibility could lead to enormous, unplanned, and uncompensated purchases of goods and services by countries with little to offer in exchange.

A compromise was eventually reached in July. The revised agreement included a limited transferability of drawing rights. Bilateral balances were again estimated and drawing rights assigned accordingly. Seventy five percent of the drawing rights received by a deficit county could be used only in the country that granted them. The remaining 25 percent were considered transferable and could be used by the receiving country to make purchases in any member country. While the system did not work perfectly, it did support a further expansion of intra-European trade.

Despite this progress, five years after the end of World War II, European governments remained far from achieving their goal of a regional multi-lateral payments system. For example, over the 21 month life of the Agreement on Intra-European Payments and Compensation (October 1948-June 1950), only 2 percent of total OEEC trade deficits were financed by the use of offsetting compensations in which surpluses with, or special drawing rights from, one country were used to finance deficits with another (Kaplan and Schleiminger, 1989: 26). Thus, bilateral relations remained dominant.

Moreover, the agreement continued to depend on U.S. government aid to compensate surplus countries for their extension of drawing rights; this aid was unlikely to continue for long.

European governments also wanted to dismantle the region's formidable system of quantitative restrictions on trade. In June 1949, they agreed to a liberalization process. "Each member country was to submit two lists of products to the OEEC Council by October 1. The first was to be made up of goods which the country was prepared to import from other OEEC countries without quantitative restrictions. The second list was to be composed of products on which quotas would be removed, provided satisfactory reciprocal concessions could be secured in negotiations with other member countries" (Diebold, 1952: 161).

The response to the request for unilateral liberalization (first list) was modest. Participating countries agreed to remove quotas on approximately 30 percent of their 1948 private trade with each other (Diebold, 1952: 161). Generally, only non-competitive raw materials and other essential supplies were included in the list. Few quotas were removed on manufactured goods or farm products. Moreover, several countries engaged in significant state trading, which was not covered by the agreement.

The response to the second list request included more manufactured goods and farm products but, before negotiations could be completed, the OEEC Council, under growing pressure from the U.S., announced a new target. "By December 15, each member country was to remove quotas on at least 50 percent of its 1948 private imports from the rest of the group. Furthermore, the 50 percent level was to be reached in each major category of imports: food and feed, raw materials, and manufactured goods" (Diebold, 1952: 162-3). All but six countries met this quota reduction goal.

The OEEC Council continued to push for greater liberalization. It announced a new target of 60 percent of private imports in all three major cate-

gories free from quotas by the end of October 1950. Most, but not all, OEEC countries reached that goal by the end of 1950.

Despite these gains, some 40 percent of all private intra-European trade continued to be restricted by quota. Moreover, the trade liberalization process highlighted above only applied to imports from OEEC countries and their colonies. In spring 1950, quotas had been removed on only “40 percent of the total imports of Belgium, Ireland and Switzerland. For Denmark, Sweden, the Netherlands and Portugal the figure was 27 or 28 percent; Norway, 23 percent; Germany, Italy and Greece, 14-16 percent; and France and Britain, only 10 percent” (Diebold, 1952: 182).

Thus, five years after the war, the most powerful capitalist countries in the world (with the exception of the U.S.) continued to tightly regulate their international trade — even within Europe. What is more, a few governments were becoming reluctant to support further liberalization efforts, arguing that they would intensify already serious economic imbalances and employment problems. In response, some government officials sought to promote a planned (rather than market-driven) process of regional integration.

For example, in June 1950, the Dutch foreign minister Dirk Stikker (Diebold, 1952: 205) argued that:

we [must] accept in practice the consequences of the moral obligation that the burdens of national readjustments should be borne in common. This should not be on the negative basis that damaged industries should receive some sort of reimbursement. It should be constructive; that means that in those cases where as a consequence of further integration some national industries were harmed, all the partners should contribute to carrying the burdens of:

modernization of such industries
investment of other industries

re-education and re-allocation of labor.

He advocated adoption of a “Plan of Action” which called for selecting key industries and removing all restrictions on intra-European trade of the products of those industries. He singled out “the basic industries, agriculture, and those processing industries which can offer a particular contribution, by their specialization, to the viability of Europe and whose products are important for international trade, in Europe as well as inter-continentially” (Diebold, 1952: 206).

Stikker proposed that the OEEC Council, aided by a committee of experts, determine which industries to target and how best to structure and shape the process of integration. He also recommended the establishment of a European Integration Fund to provide financial support for national adjustments such as those noted above. Stikker also advocated that OEEC Council decisions on restructuring be made on the basis of three-fourths approval, rather than the unanimous vote required for other actions.

In August 1950, the French Minister of Agriculture, Pierre Pflimlin offered his plan for the creation of a European Agricultural Community. Pflimlin wanted to build a large, integrated agricultural market which would, he believed, give farmers the confidence to increase investment, leading to greater production and regional food security. His initiative was based on the following three principles:

- 1) pooled production — the participating countries would be jointly responsible for “settling the difficulties encountered in selling their merchandize and obtaining food supplies”;
- 2) a balanced market — the agricultural organization’s “main task will be to harmonize production trends, develop technological progress and improve productivity, coordinate imports and exports, organize stocks, and exert in-

fluence on the consumers by applying the principles of nutrition”;

- 3) creation of a common market — in order to remove trade barriers the participating countries will have to end practices which “distort competition ... and increase disparities in prices” and they will also have to do away with “the differences in the production conditions or in the functioning of markets between the various countries” (Diebold, 1952: 272).

Pflimlin suggested beginning with a few key commodities — wheat, dairy products, sugar and wine. Critically, liberalization was not central to his plan. As he noted in a presentation: “the lifting of quotas is not the only, nor perhaps the best way to arrive at a single market. At least for agriculture, the sudden unleashing of competition between economies differing in structure and production conditions, seems to us a grave danger.... The organization of agricultural markets, product by product, would permit the realization of that condition which is indispensable to the full development of agricultural production: security” (Diebold, 1952: 273).

Ultimately, OEEC governments rejected these (and other) proposals for coordinated regional planning.³⁾ This was, in large part, because European elites feared that they would strengthen new forms of public regulation and encourage a more politicized process for determining resource use. Instead, as we see next, the OEEC governments approved the creation of the European Payments Union, an institutional arrangement designed to produce

3) There was one exception. In May 1950, the French Foreign Minister Robert Schuman called for joining the coal and steel industries of France and the Federal Republic of Germany under a common authority, which other European nations might join. The plan became effective in 1952 with the formation of the European Coal and Steel Community, which also included Italy, Belgium, Holland, and Luxembourg. The European Coal and Steel Community directed the modernization and rationalization of the production and pricing of member country coal and steel products. Approval of this proposal owed much to Europe’s desire to limit Germany’s war making potential.

a protected, European multilateralism and trade liberalization — an outcome far more compatible with European elite interests.

4. The European Payments Union

There was little support among European elites for simply renewing the Agreement on Intra-European Payments and Compensation for another year. At the same time, no government felt that national economic conditions were strong enough to justify unilaterally instituting currency convertibility and/or dropping trade controls.

The U.S. government, frustrated by the slow pace of European change, was internally divided over how to respond. Top Treasury officials, largely representing U.S. financial interests, believed that Europe should be pressured into rapidly implementing currency convertibility and trade liberalization. Key officials in the ECA and State Department agreed that action was needed but, responding to broader U.S. political interests, opposed the Treasury position in favor of one that called for promoting a faster and deeper European integration. The latter side won out, and the ECA began aggressively intervening in European discussions over a successor to the Agreement on Intra-European Payments and Compensation.

In October 1949, ECA director Paul Huffman called on the OEEC Council to take concrete steps towards the creation of a single integrated European market. In December 1949, Richard M. Bissel, ECA's assistant administrator, put forward a proposal for an Intra-European Clearing Union. This U.S. intervention was generally welcomed by European governments for two reasons — it was largely in line with European thinking and it came with the promise of sizeable financial support. Significantly, Bissel's proposal served as the basis for the European Payments Union agreement,

which was approved by OEEC members on July 7, 1950 (Kaplan and Schleiminger, 1989: 31).

The EPU became operational in September 1950 and included the entire membership of the OEEC as well as all countries and territories that were part of an existing European currency area. The EPU's financial year was to run from July to June, beginning retroactively on July 1, 1950. The delay in its start date was caused by a U.S. delay in authorizing a grant of \$350 million, which was the EPU's starting capital. The initial agreement established the EPU for two years. It was then renewed annually, in some years with modifications, until its termination on December 31, 1958.

4.1 The Multilateral Clearing System

The EPU broke with bilateralism by establishing a highly regulated multilateral payments system built on intra-European currency convertibility. Trade continued to be regulated as before, but now, if intra-OEEC, it could proceed without regard to national holdings of foreign exchange. Previously, for example, if a Dutch importer was granted permission by the Dutch government to import tractors and decided to purchase German ones, the trade could be completed only if the Dutch central bank held sufficient German marks. Often that was not the case, which meant that the importer had no choice but to import tractors from another country, one whose currency was held in ample supply by the Dutch central bank.

The EPU changed this. Under the new system, the Dutch importer would simply pay its central bank in Dutch guilders, the Dutch central bank would inform the German central bank of the importer's desired purchase, and (assuming the German government approved the sale) the German central bank would itself pay its exporter in marks. The German central bank would record a surplus position in Dutch guilders in its account with the Dutch cen-

tral bank while the Dutch central bank would record a deficit in German marks in its account with the German central bank.

At the end of every month, each central bank would calculate its net position with every other central bank and convert it — using existing national exchange rates — into a balance in its own currency. Then, it would total its separate national balances and report an overall final balance in its own currency to the Bank of International Settlements (BIS) which operated as the EPU’s financial agent. The BIS would take these national balances, convert them into EPU units of account or “ecus”, and calculate final balances.⁴⁾ Thus, under the terms of the EPU system, member nations registered monthly deficits or surpluses with the EPU itself, not other member nations. Because the EPU was a closed system, the sum of all intra-EPU trade balances had to equal zero.

Finally, the BIS would determine the payment required to settle these outstanding monthly balances. The terms of settlement depended on the size of each country’s cumulative debt or surplus since the start of the EPU relative to its assigned quota. Each nation’s quota was set equal to 15 percent of its total visible and invisible trade with other member nations and their monetary areas in 1949. The sum of all quotas was \$3.950 billion; the United Kingdom had the largest quota at \$1.06 billion, while Iceland had the smallest at \$15 million (Hinshaw, 1958: 13).

A debtor country with a monthly deficit would have that deficit fully covered by EPU credit as long as its cumulative debt remained equal to or less than 20 percent of its assigned quota. As monthly trade results pushed a country’s cumulative debt above the 20 percent mark, a growing percentage of its monthly balance had to be paid in U.S. dollars or gold (see Table 1). If

4) An ecu was set equal in value to the gold content of one U.S. dollar. This exchange relationship allowed the BIS to create a set of exchange rates between each European currency and the ecu.

<TABLE 1> EPU Settlement Terms

For Cumulative Debts or Surpluses of	Deficits are covered		Surpluses are covered	
	By Dollars	By Credit	By Dollars	By Credit
0 to 20% of quota	0%	100%	0%	100%
20 to 40% of quota	20%	80%	50%	50%
40 to 60% of quota	40%	60%	50%	50%
60 to 80% of quota	60%	40%	50%	50%
80 to 100% of quota	80%	20%	50%	50%
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Cumulative Total	40%	60%	40%	60%

Source: Triffin (1952: 285)

a country's cumulative debt exceeded its quota, it was obligated to pay its entire monthly deficit in dollars.

Surplus countries were treated differently. A surplus country with a monthly surplus would have to give its full surplus in credit to the EPU if its total surplus was less than 20 percent of its assigned quota. However, rather than receive a growing percentage of its monthly surpluses in dollars as its total surplus grew beyond the 20 percent mark, its dollar share was set at a constant 50 percent. It was left up to the Managing Board to determine how the monthly surplus of a country with a cumulative surplus larger than its quota would be compensated.

Of course national trade balances fluctuated. Countries with cumulative surpluses sometimes ran monthly deficits while countries with cumulative deficits sometimes posted monthly surpluses. "In the case of such reversals of position, the 'last-in, first-out' principle was applied. The most recent credits to or from the Union were wiped out; gold payments most recently received from the Union or paid to it were returned" (Kaplan and Schleiminger, 1989: 93). For example, if a country had a cumulative debt

equal to 40 percent of its quota and then recorded a monthly surplus equal to half its previous debt, it would get back the gold it paid to the EPU as well as part of its debt canceled. “In other words, the quotas established in the original agreement were intended to be maximum credit limits, not margins to be exhausted periodically and then renewed” (Diebold, 1952: 95).

Depending on how the deficits and surpluses were allocated across countries, EPU dollar receipts from deficit countries could be, and sometimes were, less than its required dollar payouts to surplus countries. Therefore, the EPU needed a capital fund, which, as noted above, was provided by the U.S. “The actual liquidity of the EPU — its convertible assets — fluctuated below and above the level of this working capital. On the basis of the capital fund, the EPU could recommend that ad hoc credits be given to countries in serious payments difficulties. The capital fund also served as security for the credits extended by surplus countries and as a source of confidence in the liquidity and continuity of the Union” (Kaplan and Schleiminger, 1989: 93-94).

It is easy to imagine why deficit countries embraced this system — it provided them with credit and reduced their potential dependence on any one creditor country. But there were also benefits for surplus countries. For example, the system assured them that they would receive dollar payments for their exports regardless of the foreign exchange holdings of the importing country. The EPU clearing mechanism also promoted trade as well as trade liberalization (more below), both of which disproportionately benefited surplus countries.

4.2. Organizational Structure

The key institution underpinning the EPU was the Managing Board, and the agreement establishing the EPU “came ... only after prolonged and

sometimes heated debate and maneuvering on the part of OEEC governments and ECA” over its authority (Kaplan and Schleiminger, 1989: 31). The U.S. government wanted a “supranational” Managing Board with the power to discipline governments whose policies were viewed as a threat to the region’s achievement of currency convertibility and trade liberalization. The OEEC countries opposed such an autonomous and powerful institution and they prevailed. The Managing Board was limited to making policy recommendations (which could be carried by majority vote) to the OEEC Council, where they had to receive unanimous support before they could take effect.

Of course, that outcome did not mean that the U.S. was powerless to influence the work of the Managing Board. An ECA representative sat on the Board as an observer with the right to participate in all discussions. More importantly, the U.S. enjoyed veto power on “questions affecting the EPU capital, and the EPU Agreement provide(d) that the renewal of the Union ... must be negotiated in consultation with the United States Government” (Hinshaw, 1958: 13-14).

Struggles also took place over the composition of the Managing Board. The IMF strongly disapproved of the EPU project, fearing that it would strengthen regionalism, which was contrary to the IMF mission of promoting universal liberalization. In particular, the IMF feared that the Managing Board would become a powerful rival. At a minimum, the IMF wanted a voting seat on the Managing Board. OEEC countries opposed this and won this battle as well. In 1953, the OEEC Council did agree to allow an IMF representative to attend Managing Board meetings, but only as an observer.

These victories by OEEC governments stand as tribute to the fact that European elites continued to enjoy considerable unity and collective capacity to defend their interests. At the same time, it is important to acknowledge that European and U.S. elites shared a common commitment to rebuild-

ing a strong, functioning global capitalist order. No doubt, this made it easier for the U.S. to yield to European wishes.

The final agreement established a Managing Board with seven voting members who were to be elected by the OEEC Council. Their term of office was one financial year, but they could, and often were, re-elected. Candidates were nominated by member governments and those elected normally were those proposed by the most powerful countries.⁵⁾ Voting members were, however, charged with representing the interests of the OEEC as a whole, and not the governments that nominated them.

It was originally assumed that because the EPU clearing system would automatically ensure stability and growth, the work of the Managing Board would be routine. However, this assumption was quickly challenged by events; the enormous differences in national economic circumstances almost immediately produced significant trade imbalances which overwhelmed the normal operation of the EPU clearing system. As a consequence, the Managing Board, with the support of the OEEC Council, was forced to play the lead role in developing responses to a series of crises.

4.3. Challenges and Responses

The Achilles heel of the EPU was its asymmetrical treatment of surplus and deficit countries. Surplus countries enjoyed a structural advantage over deficit countries and there was nothing in the EPU clearing mechanism that forced surplus countries to adjust their policies. As a result, deficit countries bore the full weight of adjustment even if their deficit was exacerbated by the policies of surplus countries.

5) The Chairman of the OEEC intra-European Payments Committee attended all Managing Board meetings as a non-voting observer, serving as a liaison between the Managing Board and the governments that did not have a member on the Board.

This was an especially serious problem for the EPU system because, given its regional structure, total intra-regional surpluses had to be balanced by equivalent intra-regional deficits. Thus, if one or more member countries succeeded in recording large, continuous trade surpluses, it was likely that one or more member countries would be recording large, continuous trade deficits. If these debtor nations suffered too great a loss of reserves, they might well be forced into restoring restrictions on regional transactions, thereby threatening the EPU project.

John Maynard Keynes worried about this very same problem in the early 1940s, while working on a draft proposal for a World Bank (Block, 1977: 48). He sought to overcome it by recommending the following: all countries were to have accounts at the World Bank, which would record their deficits and surpluses with all other members. The Bank would have the authority to create its own international reserve currency, the Bancor; it would extend credit in the form of Bancors to debtor countries up to an established (but generous) quota limit. All countries with large trade imbalances relative to their assigned quotas (regardless of whether surplus or deficit) would be required to pay interest penalties to the Bank. Because penalties increased as the imbalances grew larger, both deficit and surplus countries would have a material interest in adjusting their respective policies to achieve more balanced trade.⁶⁾

The OEEC created an EPU that differed from Keynes's draft proposal for a World Bank in two important ways. First, the OEEC chose not to create a new international reserve currency, which would have competed with the British pound and the U.S. dollar. Instead, the ecu was given the limited role of serving only as a unit of account. And, more relevant to the discussion

6) The U.S. government successfully rejected this proposal in order to maintain the U.S. dollar as the leading international currency and protect the country's unchallenged trade dominance.

here, the OEEC did not create any mechanism to force surplus countries to adjust their policies in the interest of achieving balanced trade patterns. In fact, quite the opposite was true. Deficit countries were required to pay interest on the credit advanced to them by the EPU while surplus countries were paid interest on the credit they advanced to the EPU.

Not surprisingly, then, the first crisis to confront the EPU Managing Board was the result of a trade imbalance. The German government had unsuccessfully tried to control its deficit. It had sharply raised interest rates in an attempt to slow down economic activity and, by extension, imports. It had also tried more direct measures to reduce its trade deficit. For example, it required businesses seeking an import license to make a bank deposit equal to 50 percent of the cost of the goods to be imported. Import licenses were required even if the goods were not subject to quotas (Diebold, 1952: 114).

Despite these efforts, by October 1950, Germany's cumulative debt had grown so large that it was close to exhausting its quota. If this happened, the government would have to pay dollars to finance the country's future monthly deficits, something that it could not long do because of a foreign exchange shortage. The EPU Managing Board recognized that it would have to act quickly or Germany would be forced to take even more drastic actions. And, if Germany dramatically tightened its trade regime, other countries would find their own exports affected, which would make it harder for them to keep their markets open. The likely result would be a regression back to the previous system of bilateral trade arrangements.

In December 1950, determined to avoid this outcome, the Managing Board granted Germany a special \$120 million credit. These funds could be used to cover two-thirds of the country's monthly EPU deficit after its quota was exhausted; the remaining third of each month's deficit would still have to be paid in dollars. The Managing Board also called on the other member countries to do what they could to increase their imports of German goods.

By February 1951, Germany had used most of its special credit. The German government suspended its trade liberalization efforts and, with the support of the Managing Board, stopped issuing import licenses. Even more striking, the OEEC Council, responding to a Managing Board recommendation, decided on the following:

If Germany's payments position improved enough to warrant issuance of new import licenses these were to be allocated according to principles interpreted by a Mediation Group of three independent experts appointed by the Council. Taking account of "the essential needs of the German economy," the Mediation Group was to recommend allocation of licenses "primarily in favor of Denmark, Greece, Iceland, the Netherlands, Norway and Turkey," countries which were heavily in debt to the EPU and which would suffer particularly from a cut in German imports (Diebold, 1952: 123).

Germany's situation did improve enough for the Managing Board to recommend resumption of import licensing, but only according to specific terms. The OEEC Council, with advice from the Mediation Group, set an upper limit for the total monthly value of German imports. Within that total, upper limits were then established for the value of imports for different categories of goods; the biggest division was between the imports of goods that had previously been liberalized and those that remained restricted by quota.

The countries singled out by the Mediation Group, who were themselves struggling to finance their deficits, were given preferential rights to supply Germany with goods that had previously been liberalized. Imports of goods that remained regulated were to be divided among all suppliers according to another Council determined formula based on past trade patterns. At the same time, "None of the formulas was altogether rigid; Germany could make adjustments in the interest of maintaining essential imports; supplying countries

could appeal to the OEEC if they were dissatisfied” (Diebold, 1952: 126).

Germany was not the only country to suffer large deficits. Before the end of EPU’s first year, Austria, Greece, and Iceland had also exhausted their quotas and been given additional credits. The Netherlands faced a similar problem, but rather than more aid, it was granted a larger quota.

What is perhaps most significant about the actions highlighted above is that they demonstrate that the Managing Board and OEEC Council were willing and able to act in defense of the collective interest of the member nations as defined by the objectives of the EPU. Said differently, the member governments demonstrated an impressive willingness to yield significant power to higher level bodies, power that enabled these bodies to actually shape national trade activity. Equally noteworthy, this power was used (most aggressively in the case of Germany) to impose a system of regulation that (temporarily) reversed past liberalization efforts.

New challenges arose in the second year. In response to growing trade deficits, France, in February 1952, suspended its trade liberalization and tightened its foreign exchange controls. However, the most serious threats to the system in this period came from surplus countries, in particular Belgium. At the end of July 1951, Belgium’s cumulative surplus almost equaled its quota. And, as noted previously, the EPU had no established rules specifying how countries in such a position should be compensated for their ongoing monthly trade surpluses.

Rather than compensate Belgium in dollars for its surpluses and risk exhausting the EPU’s own hard currency holdings, the Managing Board decided to temporarily increase Belgium’s quota. This meant that future Belgium surpluses “would continue to be settled on the basis of 50 percent gold and 50 percent credit, a proposal accepted by Portugal the previous February, when its creditor quota was at a similar juncture” (Kaplan and Schleiminger, 1989: 145).

Belgium continued to register strong surpluses into 1952 and the Managing Board successfully pressured it into five additional quota expansions. For the first two, Belgium agreed to accept 50 percent settlement in gold. For each of the other three, the Managing Board capped the amount of gold that Belgium would receive.

Rather than allow the situation to continue, the OEEC Council pushed the Belgian government to change its economic policies. Eventually, the Belgian government yielded. It limited the nation's exports to other member countries and restricted imports from outside Europe in order to encourage greater regional purchases.

Although the agreement creating the EPU gave the organization only a two year life, it was renewed annually seven additional times. However, these renewals were far from automatic. The negotiations were marked by growing tensions, especially between surplus and deficit countries, with the former increasingly unhappy about being forced to accept credits rather than hard currency for their surpluses.

For example, in late 1953, four creditor countries — Belgium, Switzerland, the Netherlands and Germany (which had overcome its previous trade problems) — demanded that the EPU increase dollar payments to surplus countries from 50 to 70 percent of the value of their monthly surplus. They also demanded that deficit countries repay credits granted to them by the EPU that were outstanding for more than 18 months.

The OEEC Council partially yielded to these demands. As part of the 1954-55 renewal, debtor countries were required to repay their long term debts, although in exchange they were given new, even greater credit lines. Currency payment requirements were also changed, but rather than increase the dollar payout to surplus countries, the new agreement required that all surpluses and deficits within quota limits be settled on a 50:50 dollar/credit basis for both creditors and debtors. Facing a threat of withdrawal by several

surplus countries, the 1955-56 renewal included an increase in the dollar share of trade settlements to 75 percent. This was the last major change in the EPU settlement mechanism.

European governments had always viewed the EPU as a necessary but transitional arrangement. Perhaps not surprisingly, the UK (because of its interest in restoring the pound as an international currency) and the four creditor countries cited above were the most eager to terminate the EPU; many of the other member countries continued to struggle with deficits. In 1955, these five countries succeeded in winning OEEC Council approval of the European Monetary Agreement (EMA), which called for termination of the EPU when countries holding more than half the total EPU quota requested it. The EMA did not establish a successor regime, only a financial safety net (the European Fund) to assist countries that found currency convertibility difficult to finance.

On December 27, 1958, Belgium, France, Germany, Italy, Luxembourg, the Netherlands and the UK informed the OEEC Council that they were ready to end the EPU. The next day, all member countries (except Greece, Iceland, and Turkey) restored external convertibility for non-resident holders of their currencies, which meant that those living outside the EPU area could now freely exchange any European currency they acquired through current account activity for any other European currency or dollars. The Council officially approved implementation of the EMA on December 30, 1958; the final business of the EPU was concluded on January 15, 1959.

4.4. Achievements

The EPU multilateral clearing system proved remarkably successful in promoting intra-regional trade and national growth. In particular, it encouraged trade by greatly reducing Europe's need for scarce foreign exchange.

<TABLE 2> EPU Settlement of Bilateral Trade Deficits and Surpluses,
in percent

Year	Multilateral Offsetting Compensation	Compensation Through Time	Dollars/Gold	Credit
1950-51	47	16	7	19
1951-52	40	34	16	10
1952-53	54	37	7	2
1953-54	49	22	33	-4
1954-55	47	39	17	-3
1955-56	37	28	39	-3
1956-57	35	16	41	8
1957-58	39	32	27	2
7/1958-12/1958	40	12	38	12
7/1950-12/1958	43	27	23	6

Source: OEEC (1959: 47)

As Table 2 illustrates, over the system's roughly 8 years of operation, 70 percent of all bilateral trade imbalances were settled by EPU adjustments (as measured by the sum of balances cleared by multilateral offsetting compensation and compensation through time).⁷⁾ This record is especially impressive in light of the performance of the previous monetary agreement, which (as noted above) offset only 2 percent of total trade during its 21 months of operation.

More generally, by structuring balance of payments accounts around the EPU rather than individual nations, and providing a number of mechanisms for harmonizing trade between surplus and deficit countries, the system also

7) The rise in the use of dollars/gold beginning in the mid-1950s was the result of the changes made in the EPU settlement system in response to surplus country demands.

helped reduce austerity pressures on deficit countries, with beneficial consequences for the surplus countries as well. Jacob J. Kaplan and Guenther Schleiminger (1989: 346) summarize the resulting gains for the region as follows:

In the OEEC area as a whole, gross national product grew, in real terms, by 48 percent and industrial output by 65 percent during the EPU period. This corresponded to annual compound rates of growth of about 5 and 7 percent respectively. No precedent exists in the records of market economies for such intense growth in so many countries over so long a period of years. The United States did not quite reach that rate even in the years from 1940 to 1949, when it mobilized a depressed economy for war and postwar reconstruction.

For European elites, perhaps the most meaningful measure of the EPU's success was the region's return to a position of relative dominance in a renewed liberalized international economic order. European countries began the post World War II period forced to regulate international economic activity largely because of a dollar shortage. The EPU supported European recovery in part by shielding European producers from U.S. imports. European exports to the dollar area were not, however, similarly restricted.

As Europe recovered, so did its dollar exports and dollar reserves. Europe's reserves, which totaled \$10.5 billion at the end of 1945 and \$10.1 billion at the end of 1951, were \$17.7 billion by the end of 1957 (Hinshaw, 1958: 17). By the end of the decade "Western European economies had become strong enough to earn all the dollars that they needed to cover their transactions with the United States" (Block, 1977: 130). In fact, Europeans began dumping dollars for gold in the latter half of the decade, a clear indicator that dollars were no longer scarce. Significantly, 1958 — the year that Europe ended the EPU — was the first year in which the U.S. suffered a

major decline in its gold stock, raising international concerns about whether the U.S. government would be able to defend the existing dollar-gold exchange rate. The U.S. would soon be forced to seek European assistance to defend the existing international system (Block, 1977).

5. The EPU and Trade Liberalization

The establishment of the EPU reflected the priority OEEC governments gave to achieving intra-European currency convertibility. Although important in its own right, OEEC governments also saw it as a critical precondition to the achievement of another goal, trade liberalization. In other words, OEEC governments sought the creation of a regionally protected, integrated monetary and trade zone. Thus, shortly after approving the formation of the EPU, they signed another agreement which committed them to reducing their quantitative restrictions on intra-OEEC trade.

Prior to the establishment of the EPU, the OEEC Council had called upon member governments to remove quantitative restrictions on 60 percent of their private imports of food and feed, raw materials, and manufactured goods from other OEEC countries by October 1950. The OEEC Council then called for increasing the liberalization rate to 75 percent by February 1951. However, since many governments opposed further quota reductions in agriculture, this higher rate was applied only to total private imports. Most but not all countries met the deadline.

In April 1951, the OEEC Council made yet another proposal, this time for the removal of quotas on a “common list” of approximately 70 goods. Up to that point, “no single commodity had appeared on the liberalization list of every OEEC country. Hence Western Europe was not a ‘single market’ for any commodity, even in the limited sense in which complete abolition of

quotas would create a single market while tariffs and other restrictions continued to exist” (Diebold, 1952: 177). After resolving a number of disputes, the Council eventually approved a list of products and set August 1951 as the target date for their liberalization.

In 1952, a Steering Board for Trade, comparable to the EPU Managing Board, was established to oversee the implementation of trade initiatives and promote further liberalization (which referred only to reducing quantitative restrictions on trade, not tariff reductions).⁸⁾ European trade liberalization proceeded slowly but steadily over the decade. “By the end of 1956, 89 percent of intra-European [private] trade had been liberalized; eleven of the sixteen countries were above the 90 percent level” (Kaplan and Schleiminger, 1989: 234). The combined effect of the EPU settlement system and intra-regional quota liberalization “contributed to a spectacular increase in intra-European trade. With 1949 equal to 100, the volume of intra-European imports rose to 141 in 1950, to 151 in 1951, and by 1956 had climbed to 226” (Hinshaw, 1958: 16).

For years, liberalization was strictly a European affair. As Randall Hinshaw (1958: 17) points out, “At the beginning of 1953, only 11 percent of Western European (OEEC) imports from the United States and Canada were free from quantitative restrictions. By the beginning of 1954, this figure had been raised to 32 percent, by April 1, 1955 to 47 percent, and by June 30, 1956 to 59 percent. In 1957, almost two thirds of Western European imports from the United States and Canada were free from quantitative restrictions.”

8) At this time, there was little support within Europe for reductions in tariffs. The reason was that as members of the General Agreement on Trade and Tariffs, European countries could not discriminate in their use of tariffs. In other words, if they offered tariff reductions to other OEEC countries, they would have been forced to extend the same reductions to countries outside the region.

While OEEC governments had made great strides towards their goal of trade liberalization, it is important to recognize that at the close of 1958, some 13 years after the end of World War II, approximately 10 percent of all intra-European trade and 30 percent of all European trade with the U.S. and Canada still remained restricted by quota. Moreover, tariff levels remained high. Finally, in February 1961, the nine leading OEEC countries informed the IMF that they would accept their obligations under Article VIII of the IMF charter, which forbade payments restrictions and discriminatory currency arrangements. Within months, these countries fully liberalized their trade.

6. LESSONS

I believe that the EPU experience offers many valuable lessons for third world countries pursuing development, especially those in ALBA who seek to create their own regionally protected, integrated currency and trade zone. One lesson is that states can effectively impose strong regulations over international economic activity and for an extended period of time. Mainstream economists strongly criticize third world countries for trying to implement tough quantitative controls when faced with serious balance of payments problems. Yet, as we have seen, European governments resisted opening their economies to market competition, choosing instead to rely on an ever expanding system of state controls.

Another is that it is possible to construct a cooperative development process that does promote the collective interests of its participants. As discussed above, European governments were able to join together to create mechanisms that promoted regional integration and economic rebuilding, most importantly the EPU. During periods of crisis, EPU governing institutions proved willing and able to make decisions in the broader interest of the com-

munity, even when that meant implementing policies that discriminated against the stronger economies.

Finally, the EPU experience strongly suggests that it may be a mistake to conceive of development solely as a national project. European countries, among the most powerful in the world, faced enormous rebuilding challenges at the close of World War II. Rather than go it alone, they coalesced around a plan for a protected cooperative development process that was anchored by the EPU and remained in place for over eight years.

Significantly, many third world countries are already enmeshed in a form of economic integration, some by choice and others by compulsion. It is a neoliberal integration designed to promote greater trade liberalization, deregulation, privatization and capital mobility. As a consequence, its achievements are best measured by exports, inflows of foreign direct investment, and corporate profitability, not social gains. In some cases this process of integration has been formalized; examples include NAFTA, AFTA, and Mercosur.⁹⁾

The post-war European approach to integration, although still shaped by capitalist imperatives, was very different — more protected and cooperative, and thus development oriented. No doubt, its embrace by European governments is best explained by the historically specific conditions of the time. Regardless, the operation of the EPU offers a productive starting point for thinking about the structures and mechanisms required to anchor an alternative, progressive integration project.

The EPU experience, however, does not offer a precise blueprint for to-

9) NAFTA is the North American Free Trade Area. AFTA is the ASEAN Free Trade Area. Mercosur is a South American free trade agreement. Neoliberal integration does not require a formal structure for its operation. For example, transnational corporations have created a China centered, East Asian regional production system (Hart-Landsberg, 2010).

day's third world countries. For example, while European governments sought to structure a slow, sustained regional liberalization process, third world governments will need to structure a regionalization process that enhances their respective planning and regulatory capacities. And, while the OEEC Council rejected any overall regional planning (such as was proposed by the Dutch and French ministers) as well as any mechanism to promote regional balance by forcing adjustment of surplus as well as deficit country trade patterns, these decisions are the opposite of what a successful third world effort would require.

At present, ALBA offers the most promising, if not the only meaningful, attempt at cooperative development anywhere in the world. Consistent with the organization's state-centered orientation, most ALBA activities have, to this point, involved bilaterally negotiated agreements between state enterprises in which one country provides the other with goods, technical or financial support for investments in core industries, affordable energy resources, and/or assistance in delivering critical social services (Hart-Landsberg, 2009). However, ALBA's declaration of intent to create an integrated trade and currency zone, backed by a new regional currency, appears to signal a serious commitment by member countries to move beyond existing bilateral efforts to foster a regional development process.

Significantly, ALBA's early steps to concretize its People's Trade Agreement contain echoes of the EPU experience. Although negotiations on zone operating principles remain at an early stage, ALBA governments appear close to establishing a Sucre system with four branches, "the Regional Monetary Council, the Sucre currency itself, the Central Clearing House, and a regional reserve and emergency fund" (Fox, 2009). Several countries have already deposited agreed upon amounts of their respective national currencies into a special Sucre fund. These monies are then converted into Sucre, which has an exchange value of \$1.25.

At this point, the Sucre exists only as a unit of account, and is being used only for targeted trade of specific commodities. The first Sucre denominated transaction, involving Venezuelan rice exports to Cuba, occurred in January 2010. Bolivia, Nicaragua, and Ecuador also have plans to engage in Sucre denominated trade. ALBA's long-term goal is for the Sucre to become an international reserve currency much like the Euro.

Drawing further on the EPU experience, one could imagine the ALBA cooperative development process unfolding as follows: the ALBA Council would first select several key development drivers — perhaps health care, education, energy, and food production — to serve as focal points for protected regional activity. Then, it would encourage the adoption of many of the same currency and trade policies employed by EPU countries to further the creation of regionally anchored health, education, energy and food production systems. If structured properly these systems would provide benefits to every member country (for example, offering access to affordable medicine and sustainably produced agricultural goods) and ensure that every member country had a role to play in their operation through an assigned area of specialization.

Although in an ideal world, each driver would be anchored by a different country, in reality, most ALBA members do not yet have the research-production-service core capacity necessary to play such a role. However, Cuba is well placed to advance regional efforts in health care and basic education and Venezuela is capable of doing the same with energy. ALBA countries as a group likely have the ability to make meaningful strides towards the achievement of regional food sovereignty.

The aim of such an effort would not be the creation of identical systems in each country, which would be impossible even if desired, but rather a collective effort to ensure that critical goods and services are sustainably produced and shared within the ALBA community. For example, in the case of health

care, structured trade could promote the development and regional distribution of Cuban pharmaceuticals. At the same time, other member countries could support the strengthening of the Cuban health system by providing Cuba with difficult to obtain inputs (such as lab equipment, specialty vehicles, and computer systems and services). Similarly, ALBA governments could increase their capital contributions to the existing ALBA bank and direct it to fund the sustainable production of basic food items in member countries, transportation networks to distribute them, and state owned marketing outlets in each country to sell them at affordable prices.¹⁰⁾

While successful national development ultimately depends on choices made by the citizens of the nation itself, collective projects (like the EPU or ALBA) do have a critical role to play. Complex struggles are underway in Venezuela, Cuba, and Bolivia to define and shape a socialist political economy appropriate for the 21st century. Significantly, the operation and evolution of ALBA could prove pivotal in tipping the balance of forces towards a favorable outcome. One reason is that ALBA initiatives, such as the People's Trade Agreement, have the potential to offer these countries an important degree of economic assistance and political protection, both of which are absolutely necessary to help counter U.S. opposition. Advances in these countries would, in turn, likely have a powerful and positive affect on the direction of the ALBA project itself as well developments in the other member countries.

Economic development is a multifaceted and difficult process. Yet, there is much we can learn from both the EPU experience and the ALBA project, and good reason to be optimistic about the future.

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10) ALBA governments have already announced their intention to create a supra-national food enterprise ('ALBA Alimentos') with the aim of boosting regional technological cooperation and training, rural infrastructure investment, and integrated food distribution (Suggett, 2009).

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□ 국문초록

볼리바르동맹(ALBA)과 협력적 발전: 유럽결제동맹(EPU)의 교훈

마틴 하트-랜스버그

아메리카를 위한 볼리바르 동맹(ALBA)의 회원국들은 새로운 통화로 무역과 통화 구역을 결합하려 시도하고 있다. 이 논문은 그들 노력의 중요성, 특히 잠재적 도전과 편익에 주목하여 탐구한다. 첫째, 협력적 발전 전략의 타당성을 논의한다. 다음으로, 협력적 지역 발전의 가장 훌륭한 시도인 유럽결제동맹(EPU)의 역사와 운용 방식을 분석한다. 마지막으로, ALBA의 협력적 발전의 목표를 가능케 하는 구역설정 과정에서 시사할 만한 EPU의 경험을 설명한다.

주요 용어: 신자유주의, 경제 발전, 유럽결제동맹, 세계화, 사회주의.