

ALBA and the Promise of Cooperative Development

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Existing international economic institutions and relations operate in ways detrimental to third world development. That is why eight Latin American and Caribbean countries—led by Venezuela, Cuba, and Bolivia—are working to build the Bolivarian Alliance for the Americas (ALBA), a regional initiative designed to promote new, nonmarket-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.²

In response to worsening international economic conditions, ALBA has recently stepped up efforts to promote a full-blown regional development process. 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."³ Although the precise terms of the agreement are still to be negotiated, official statements point to the creation of an integrated trade and monetary zone, with a new regionally created currency, the sucre.

This is a bold initiative that deserves to be taken seriously. Doing so requires grappling with some critical questions. How important/

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necessary is this initiative? How should the zone be structured? What are the potential challenges to, and benefits from, a successful outcome? These are big questions and, given that ALBA has not yet concretized its own plans, 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 attempts, and perhaps the most relevant for understanding and evaluating ALBA's effort, took place in Europe shortly after the end of the Second World War, when members of the Marshall Plan-sponsored Organization for European Economic Cooperation (OEEC) established the European Payments Union (EPU).⁴ Studying the EPU experience offers us a practical way to begin thinking about these questions and the promise of cooperative development.

In what follows, I first discuss the rationale for a cooperative development strategy. Next, I analyze the political-economic dynamics that led powerful European countries to commit to such a strategy. Then, I examine the 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.

The Need for a Cooperative Development Strategy

Third world countries face enormous obstacles to development, the majority of which are the consequence of their forced integration into the capitalist world system. 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 necessary to finance the import surge. This means that most third world governments are forced, almost from the beginning of their development effort, to give priority to the creation of a competitive export sector, which involves channeling resources into satisfying foreign rather than domestic needs.

The complications quickly multiply. One of the fastest ways to establish a competitive export sector is to attract export-oriented transnational corporations. Unfortunately, because third world countries face similar development challenges, their governments end up

competing among themselves to attract the desired foreign investment, offering ever greater labor, tax, and environmental concessions.

Growth is possible under such conditions, at least for a few countries. However, given the nature of transnational production networks, 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.

Aware of the destructive consequences of global market dynamics, some third world governments have tried to delink their respective economies 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 organizational capacity, much less power, to refashion or reorient sufficient economic activity to achieve significant delinking. Another reason is that few countries have the resources required to meet national needs without substantial trade.

Not surprisingly, then, there is need for an alternative development strategy. 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 economic distortions and weaknesses. And, by acting as a group, they hope to ensure that their respective national enterprises will have access to the broader markets they need in order 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, Bolivia, Cuba, and Venezuela, are led by governments explicitly committed to building socialism. Still, there have been other attempts at cooperative development that 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 public works and employment programs, or in the 1940s, when the Second World War forced them to promote public ownership and production—their actions can often illuminate possibilities and even 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 the Second World War offers another example. European governments at the time 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.

Background to the Formation of the EPU

For complex historical reasons, the developed capitalist countries of Europe faced economic challenges in the immediate postwar period that were remarkably similar to those faced by many third world countries today. U.S. government and business elites wanted to establish an international economic system underpinned by freely traded (convertible) currencies and liberalized trade. This posed a problem for European governments.

European 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 for liberalization, their countries would quickly run large trade deficits. Since they lacked sufficient foreign exchange, they would be forced to implement austerity measures (in order to reduce the demand for imports), leading to a downward spiral of production and employment.

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. In particular, European governments retained considerable negotiating leverage with U.S. policymakers.

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 strongly to 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.

Equally important, European governments managed economies that were already heavily regulated, which meant that they had tools in place to control trade directly if they decided to resist U.S. pressure. Controls were first introduced during the depression era; among the most effective were quantitative restrictions on imports. For example, as of 1937, almost all German and Italian imports, more than half of

those of France, Switzerland, and Austria, and approximately one-quarter of those of Belgium and the Netherlands, were subject to quota restrictions.⁵ The outbreak of the Second World War led to a further tightening of restrictions on trade. Many currencies ceased to be convertible for both residents and nonresidents.

Under these conditions, European governments found that the easiest way to organize trade was through bilateral agreements. By the end of 1947, more than two hundred such agreements were in effect, accounting for more than 60 percent of Western European trade.⁶

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 strengthened 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.

The EPU

OEEC governments negotiated several agreements in the late 1940s which, supported by Marshall Plan aid, were designed to promote intra-European currency convertibility and trade liberalization. But their limited scope yielded meager gains. Frustrated by the slow pace of change, the U.S. government eventually took charge. In October 1949, after the State Department overcame Treasury Department objections, Marshall Plan director Paul Huffman called on the OEEC Council to take concrete steps toward the creation of a single integrated European market. Two months later, one of his assistants put forward a plan for achieving this outcome. Significantly, this plan served as the basis for the EPU agreement which was approved by OEEC members on July 7, 1950.⁷

The EPU broke with bilateralism by establishing a highly regulated multilateral payments system. Trade continued to be controlled as before, but now, if intra-OEEC and approved by the governments concerned, 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 central 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.⁸ In this way, EPU 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 amount depended on the value of each country's cumulative debt or surplus (since the start of the EPU), relative to its assigned quota. And its assigned quota was set equal to 15 percent of its total visible and invisible trade with other member nations and their monetary areas in 1949.

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

Surplus countries were treated somewhat 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 such cases, the “last-in, first-out” principle applied: the most recent credits to or from the EPU were erased and the most recent dollars paid to or received from the EPU were returned.

Depending on how the deficits and surpluses were allocated across countries, EPU dollar receipts from deficit countries could be, and sometimes were, less than required dollar payouts to surplus countries. Therefore, the EPU needed a capital fund; this was provided by the United States at the time of the EPU’s launch.

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 (discussed below), both of which disproportionately benefited surplus countries.

The EPU Managing Board

Key to the operation of the EPU was the Managing Board, and there were serious disagreements between U.S. and OEEC negotiators over its proposed authority. 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 did not agree, 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 from all the member governments before they could take effect.

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 disagreed, 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 rebuilding a strong, functioning global capitalist order. No doubt, this made it easier for the United States to yield to European wishes.

It was originally assumed that, because the EPU clearing system would automatically ensure regional 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 that could not be handled by normal EPU operations. As a consequence, the Managing Board, with the support of the OEEC Council, was forced to take the lead in developing responses to a series of crises.

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.

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. 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 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.⁹

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; the *ecu* functioned only as a virtual unit of account. Second, 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 large and growing trade deficit. 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.

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 to the previous system of bilateral trade arrangements.

In December 1950, determined to avoid this outcome, the Managing Board granted Germany a special credit. 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, with the support of the Managing Board, suspended its trade liberalization efforts and 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.¹⁰

Germany's situation did improve enough for the Managing Board to recommend resumption of import licensing, but only according to the terms noted above. The OEEC Council, following Mediation Group recommendations, 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, which 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. Germany was given the right to make minor adjustments to the plan and could appeal to the OEEC Council if it felt that major ones were necessary.

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 aid, it was granted a larger quota.

What is perhaps most significant about the actions described above is that they demonstrate that the Managing Board and OEEC Council were willing and able to act in defense of the collective interest as

defined by the objectives of the EPU. Said differently, member governments demonstrated an impressive willingness to yield significant power to higher-level bodies, power that enabled these bodies actually to 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 monthly trade surpluses.

Rather than compensate Belgium in dollars for its surpluses and risk exhausting the EPU's hard currency holdings, the Managing Board decided temporarily to increase Belgium's quota. This meant that future Belgium surpluses would continue to be settled on the basis of 50 percent dollars and 50 percent credit. Belgium continued to register strong surpluses into 1952, and the Managing Board successfully pressured it into five additional quota expansions.

Rather than allow this situation to continue, the OEEC Council pressed the Belgian government to change its economic policies. Eventually, the Belgian government consented; 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.

European governments had always viewed the EPU as a necessary but transitional arrangement. Perhaps not surprisingly, the United Kingdom, because of its interest in restoring the pound as an international currency, and the major creditor countries—Belgium, Switzerland, the Netherlands, and Germany (which had overcome its previous trade problems)—were the most eager to terminate the EPU. In 1955 these 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.

Finally, on December 27, 1958, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, and the United Kingdom 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 nonresident 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.

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. Over the system's roughly eight years of operation, 70 percent of all bilateral trade imbalances were settled by automatic EPU adjustments.

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 helped reduce austerity pressures on deficit countries, with beneficial consequences for the surplus countries as well. The economic gains achieved over this period are indeed striking:

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.¹¹

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 postwar period, forced to regulate international economic activity largely because of a shortage of dollars. 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 1957.¹² By the end of the decade, Western European economies had become strong enough to earn all the dollars they needed. In fact, Europeans began dumping dollars for gold, a clear indicator that dollars were no longer scarce. Significantly, 1958 marked the first year in which the United States 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 United States would soon be forced to seek European assistance to defend the existing international system.

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 the EPU 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 that committed them to reducing their quantitative restrictions on intra-OEEC trade.

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).¹³ European trade liberalization proceeded slowly but steadily over the decade. By the end of 1956, 89 percent of private intra-European trade had been liberalized. 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."¹⁴

For years, liberalization was strictly a European affair. For example, "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."¹⁵

While OEEC governments had made great strides toward their goal of trade liberalization, it is important to recognize that, at the close of 1958, some thirteen years after the end of the Second World War, approximately 10 percent of intra-European trade and 30 percent of European trade with the United States and Canada remained restricted by quota. Moreover, tariff levels stayed high. It was not until 1961 that the leading OEEC countries fully liberalized their trade with the dollar area.

Lessons

I believe that the EPU experience offers many valuable lessons for third world countries pursuing development, especially those in ALBA that seek to create their own regionally protected, integrated currency and trade zones. One lesson is that states can effectively impose strong regulations over international economic activity 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 lesson is that it is possible to construct a cooperative development process that does promote the collective interests of its participants. As highlighted above, European governments did 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 community, 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 countries in the world, faced enormous rebuilding challenges at the close of the Second World War. Rather than go it alone, they coalesced around a plan for a long-term, protected cooperative development process that was anchored by the EPU.

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 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.¹⁶

The postwar 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 today'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, along with 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. 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 continue, ALBA appears close to establishing a sucre system with a Regional Monetary Council, a Central Clearing House, a regional reserve and emergency fund, and the sucre itself.

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. At this point, the sucre exists only as a virtual unit of account, with an exchange value of \$1.25, 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 its 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 capacities 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, have the ability to make meaningful strides toward 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 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.¹⁷

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 under way in Bolivia, Cuba, and Venezuela to define and shape a

socialist political economy appropriate for the twenty-first century. Significantly, the operation and evolution of ALBA could prove pivotal in tipping the balance of forces toward a favorable outcome. 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 effect on the direction of the ALBA project itself, as well as development 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.

Notes

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 United States-supported coup in Honduras installed a right-wing government that withdrew the country from ALBA in 2010. 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.

2. For a discussion of ALBA structures and initiatives, see Martin Hart-Landsberg, "Learning from ALBA and the Bank of the South: Challenges and Possibilities," *Monthly Review* 61, no. 4 (September 2009): 1-18.

3. Louis Bilbao, "Two Paths in the Face of Capitalism's Global Fracture" (translated by Federico Fuentes). *LINKS, International Journal of Socialist Renewal*, 2009, <http://links.org.au/node/817>.

4. EPU membership included Austria, Belgium, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Trieste, Turkey, and the United Kingdom, as well as all countries and territories that were part of an existing European currency area.

5. William Diebold, *Trade and Payments in Western Europe: A Study in Economic*

Cooperation, 1947-51 (New York: Published for the Council on Foreign Relations by Harper, 1952), 217.

6. Fred L. Block, *The Origins of International Economic Disorder: A Study of United States International Monetary Policy From World War II to the Present* (Berkeley and Los Angeles: University of California Press, 1977), 237; Diebold, *Trade and Payments in Western Europe*, 19-20.

7. Jacob J. Kaplan and Guenther Schleiminger, *The European Payments Union, Financial Diplomacy in the 1950s* (Oxford: Clarendon Press, 1989), 31.

8. 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.

9. The U.S. government successfully defeated this proposal. U.S. elites opposed it because it threatened the status of the U.S. dollar as the leading international currency and would have forced the United States, as a leading surplus country, into significant policy changes.

10. Diebold, *Trade and Payments in Western Europe*, 123.

11. Kaplan and Schleiminger, *The European Payments Union*, 346.

12. Randal Hinshaw, "Toward European Convertibility," *Essays in International Finance*, International Finance Section, Department of Economics and Sociology,

Princeton University, Princeton, New Jersey, November 1958, No. 31, 17.

13. 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.

14. Hinshaw, "Towards European Convertibility," 16.

15. *Ibid.*, 17.

16. NAFTA is the North American Free Trade Agreement. 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. See Martin Hart-Landsberg, "The U.S. Economy and China: Capitalism, Class and Crisis," *Monthly Review* 61, no. 9 (February 2010): 14-31.

17. 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.