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Domestic Growth and External Equilibrium: The Early Years of Transatlantic Economic Integration

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This contribution explores the category of international economic interdependence through the case study of the economic mobilisation within each of the infant Atlantic Alliance's member state economy, as well as the industrial and trade integration that NATO's multilateral rearmament programs stimulated in the early 1950s. Assuming a definition of economic interdependence as the ratio of transnational flows in capital and consumer goods to domestic growth, this article focuses on the transition from U.S. bilateral assistance programs to the inception of multilateral Off-shore procurement programs (OSP) launched by NATO to provide European partners with both military assistance, and balance of payments support as well as continued economic assistance to industrial production and employment after the termination of Marshall Plan economic aid. Some references are made to the case study of Italy to explore this multifaceted nature of NATO collective rearmament as then Italy both suffered from balance of payments disequilibria, and came with a real economy that, unlike many other European economies, featured both unutilised industrial capacity and a painful rate of unemployment. The allotment of military production contracts to the Italian aircraft and mechanical industry to provide the Italian and other NATO partners with military end items and products, combined with a call by Washington on the West European governments to raise defense spending, was intended to target the U.S. objective of making the Atlantic Alliance the engine to attain at the same time industrial integration, trade partnership and balance of payments equilibrium among its member nations, as well as sustained aggregate demand within each of them. Therefore, the off-shore procurements programs were a combination of these elements and became the fly-wheel to combine domestic growth and high level of transnational flows in capital and consumer goods germane to the process of economic interdependence. A set of data aimed at comparing key macroeconomic conditions affected by bilateral and multilateral aid as employment rates, balance of payments equilibrium, foreign exchange reserves, and particularly the inflow of dollar-denominated assets, as well as the terms of trade of OEEC countries with the United States and the dollar world from prior to the inception of multilateral military assistance to the full implementation of the OSP programs are offered to provide a quantitative assessment of the impact that multilateralisation of rearmament had on the European economies of NATO in a matter of a few years.

Keywords: *transatlantic economic relations, military assistance, economic integration, rearmament and balance of payments, NATO off-shore procurements, balance of payments, trade balance, employment rate, foreign exchange reserves*

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Introduction

Since the ascendancy of the United States to global economic power following World War I and the ensuing interwar years, the U.S. international economic policy had become a major factor in the process of international economic interdependence geared to the last century's international economy. Since at least as early as the economic take off that the advanced industrial democracies of Western Europe experienced during the 1960s, a number of social scientists from different disciplines and scholarly perspectives established a linkage between on the one side the process of supra-national exchange in goods and the expansion in capital flows across nations, and the wide spread upward economic growth typical of the Bretton Woods decades on the other one (Cooper 1972, Cooper 1980, Hirschman 1945, Katzenstein 1978, Keohane 1989, Kindleberger 1972, Krasner 1976, Machlup 1943, Polak 1947).

Political scientists, economic historians and political economists made an effort to compare domestic GDPs and international trade in commodities and consumer goods, as well as flows in capital goods. This number of methodologically far-ranging investigations pointed out the imbalance between the level of domestic growth within each West market economy and the process of international economic integration among all of them, with the latter by far exceeding the rate of national economic growth. The international political economy literature was on the forefront of this interdisciplinary exploration. Harvard University Professor Richard Cooper (1972, 1986) made the argument that, in the framework of this imbalance, a sustained process of international integration among the leading market oriented economies got underway against the backdrop of upward economic growth and rising living standards within each of the capitalist democracies involved in the process. In so doing, he defined the scale of economic interdependence between two economies not so much as the net rate of exchange in goods, services and commodities between them, further as a proportionate relation between the rise in net exchange and the level of internal economic growth. In other words, according to Cooper (1972, pp. 159–181, 1986, 1 ff.) and his scholarly fellow travellers, the process of economic interdependence can be defined as the proportionate impact of international integration between two economies on the net rate of domestic development in each of them.

If one keeps an eye on historical aggregate data about import of goods and services and capital flows compared to national GDP by limiting attention to the United States and a few advanced industrial economies, the aggregate data are apparently at variance with this concept and interpretation of economic interdependence and its historical development over the postwar decades. Between the years 1960 and 1970, according to WTO data, world trade values at current US $ more than doubled before surging during the following decades (WTO 2022); at the same time on aggregate world GDP at current $ nearly tripled, increasing from trillion US $ 1.38 to circa trillion $ 3 (World Bank 2022). If one limits attention to the pillar of the postwar global economy, the United States, a discrepancy between trends in domestic growth and dynamics of supra-national market integration is apparently even larger. As a matter of fact, during the same decade the GDP of the

United States in millions of $ more than doubled (U.S. Bureau of Economic Analysis 2023), whilst the U.S. capital account experienced a negative balance throughout the decade (Center for Financial Stability 2023).

By definition, the concept of economic interdependence formulated by Cooper (1980) and other social scientists was premised over economic prosperity and capital account equilibrium as an essential framework to bind up two economies one's another. Recently, a renewed scholarly interest on the international economic dimension of the great slump of the early 1930s put into question this interpretative framework to argue that prior to the series of financial contagions that from the United States spread across the West European economies following the 1929 financial crash, the American and the Western economies significantly suffered from a striking imbalance between industrial growth and international trade. In particular, Boyce (2009) focused attention on the gap between physical output and flows in goods and capital prior to 1929 as a result of the deflationary impact of the Gold Standard. As a result of fixed exchange rate and a tight control on currency in circulation and money supply under the umbrella of the Gold Standard, industrial production and domestic aggregate demand lagged behind international goods and capital movements. This disequilibrium substantially contributed to set out the stage for a decline in both investment and employment eventually leading to an economic shortfall caused by supply exceeding employment and demand. Irrespective of his analysis of how this turned into the following inflationary strains, Boyce makes the late 1920s the hallmark for revising the concept of economic interdependence as tied up to international economic growth and booming domestic economies.

In the framework of this important historiographical move, a number of recent scholarly works in the field of international economic history on the post World War II process of international integration between the American economy and its European partners suggest to turn historical research back to the path-breaking turning point of the post-1945 international economy. From the early U.S. attempt to encourage closer economic integration among the West European economies and cooperation with the American markets (Healey, 2011: 229 ff.), to broader interpretations of post war americanization of Western Europe that revamped the politics of productivity argument (Ellwood 2012), through further archival evidence on the early post-1945 Anglo American initiative to set in motion a multilateral flow in currency and trade on the basis of convertibility and non-discrimination (UK Government 1949), the post war momentum deserves further attention and investigation as the historical time when the resurrection of the international trade and payments system was born out of an upward economic trend eventually leading to closer economic integration among the Atlantic bloc economies, and coupled with domestic economic recovery and successive robust expansion across the West European economies and Japan.

Before this classical economic interdependence backdrop, and considering this contrast between the theoretical argument fine-tuned in the social sciences and evidence provided by macroeconomic data on world economic integration and domestic growth rates summoned up in this introductory section, this article approaches the post war years to tackle the interplay between the restoration of international trade and payments and the recovery of national economies across the western community. Through the case study of the military assistance programs implemented since the closing down of the Marshall Plan, it argues that in reactivating international trade and by mobilising capital flows in U.S. $ the United States aimed to set in motion sustained and long-lasting domestic economic growth in each of her European partners as the basis for both continental and transatlantic economic bonds. A close attention to the so called off shore procurement program (OSP), the first multilateral military assistance program channeled to the Europeans under the aegis of NATO, helps reconstructing the twin objective underpinning American economic assistance after the end of the European Recovery Program (ERP): the restoration of balance of payments equilibrium, foreign exchange reserves and terms of trade across Washington's European partners was conducive to further internal industrial investment and mighty expansionary policies, in turn viewed as necessary conditions to keep the west European economies well locked into the sphere of influence of the United States and NATO.

In the pursuit of this scholarly objective, from the methodological point of view this article adopts a combination of archive-based qualitative reconstruction with some quantitative data on convergences and divergences between transnational flows in goods and capital and domestic growth across the United States and the West European countries touched by the OSP programs from prior to the enactment of multilateral NATO procurement contracts through their heydays and termination. The bulk period of the OSP program, from roughly 1952 to the peak year of the OSP programs, 1953, is considered.

A Blueprint for Linking Equilibrium on the Foreign Exchange Markets to the Shaping of Domestic Aggregate Demand: The United States and the Definition of Multilateral Military Assistance

By as late as 1956 the U.S. Department of Defense reckoned that "the Marshall Plan, starting in 1948, greatly assisted the expansion of Western Europe's basic industries, the development of which was fundamental to any growth in defense production." (U.S. Department of Defense 1956) However, at the same time the U.S. military was aware that the road to erect a productive capacity of the European industrial complex as high as required to fulfil any realistic plan for mutual security was far from well-accomplished. Moreover, the Marshall Plan had not fixed once and for ever the problem of hard currency scarcity across the old continent and the world economies, the so called dollar gap: the dollar balance of the world against the United States, which had improved in 1950, by the end of 1951 turned to a deficit equal to about three-quarters of the 1949 levels (Table 1).

Table 1. *Total Deficit of the World with the United States, 1946 to 1953*

Year/Period	Millions of United States Dollars at Quarterly Rates
1946	1,664
1947	2,454
1948	1,289
1949	1,310
First half, 1950	536
Second half, 1950	-287
First half, 1951	523
Second half, 1951	1,320
First half, 1952	980
Third quarter, 1952	652

According to the U.N. Economic Indicators, notwithstanding mild improvements in the dollar balance of the advanced industrial economies with the United States during 1952, "this improvement was, however, precarious", as a result of a slackening in economic activity and a fall in the rate of stock building in many non-dollar countries (United Nations, Department of Economic Affairs, 1953, p. 12).

Therefore, by the time the Marshall Plan was about to be phased out, neither the remaking of European industrial capacity nor the fixing up of dollar deficit across the non-dollar countries were but to a limited extent accomplished objectives.

Against this backdrop it was initiated the U.S. commitment to provide the infant Atlantic Alliance born out of the 1949 Atlantic Pact with some sort of financial support in the pursuit of continued economic assistance after the end of the ERP. This course of action began with the launch of the Mutual Defense Assistance Program (MDAP), an economic assistance program that Washington set in motion to finance a military build-up aimed to provide its West European allies with a defense posture against external military threats (Memorandum of Conversation General MacArthur-A.W.Harriman 1950). This early aid program certainly permitted the Truman Administration to speed up the process of rearmament that in the first two years after World War II had provided Western Europe with the minimum required military defense posture [1]. Furthermore, according to the Eisenhower Administration, by the end of 1952 the MDAP prompted a moderate expansion in GNP and industrial production and a modest progress toward economic integration across Europe. More importantly, the net external dollar deficit of European NATO countries and Germany dropped substantially from FY 1952 to FY 1953, plummeting from $ 3.9 billion to $ 600 million: a trend to which military procurements allotted to European countries in connection with the MDAP did certainly contribute according to the U.S. Administration (U.S. National Security Council n.d.). Notwithstanding these positive economic results, the program was considered in Washington not well-equipped to face up to the competitive economic race between East and West: "the rate of economic growth in NATO Europe is dangerously slow in relation to that of Eastern Europe and, to a lesser extent, to that of the United States" (Office of the Director for Mutual Security 1953). Furthermore, and more importantly from the research perspective of this contribution, it essentially remained a bilateral military assistance program directed to each of America's European partners. As such, it could not serve the twin U.S. objectives of making up the so called *dollar shortage* in Europe and promoting intra-European trade and monetary integration in Western Europe in one go (U.S. Office of Secretary of Defense 1955).

In contrast to the MDAP, the off-shore procurement programs implemented since 1951 under the umbrella of the Mutual Security Program, such was the name of the broader military aid initiative, effected a multilateralization of rearmament that was closely linked to the financial and monetary stabilization of intra-European trade and payments and helped Europeans to recover from dollar shortage (Office of the Director for Mutual Security 1953). The Eisenhower Administration conceived the OSP contracts as a fly-wheel to promote trade and monetary cooperation between the dollar markets and European economies.

During the two years prior to the beginning of the OSP programs, American military assistance lacked these twin features because there was both a widespread fear that rearmament might imperil economic recovery in Europe, and fierce opposition from the U.S. business community to the expansion of the European military industrial complex, as well as to the financial scope and impact of the MDAP.

In comparison to the early military assistance programs, the off-shore procurement program launched in the very beginning of the decade let the U.S. government and NATO turn bilateral military assistance into a set of multilateral programs intended to address both defense and security targets, as well as

[1]With reference to the debate on the nature and objectives of rearmament within the Truman Administration prior to the birth of the Atlantic Alliance see CU, RBMD, papers of A. Harriman, pp. 2–5.

monetary stabilisation and trade integration among the Western bloc economies. In this respect, although the MDAP was above all a first-aid program, it set out the stage to bind up the Western bloc economies one's another. As a matter of fact, from as early as 1949 up to 16 per cent of total appropriations approved under the MDAP were reserved for financing the expansion of self-sufficient industrial capacity in Europe. The American aim was to build up a European military industry that would provide European partners with self-sufficient manufacturing capacity of military spare parts, machine tools and end-items. In turn, this self-sufficiency in manufacturing would raise demand for raw material and investment goods on the international commodity markets bound to both the sterling and the dollar currency areas (ECA, Office of the U.S. Special Representative in Europe 1951). This leap in demand for raw material and investment goods was closely linked to the problem of coping with a shrinking current account in the balance of payments of European countries involved in the rearmament process. This problem arose as early as 1950, and prior to the beginning of the OSP program, as a result of the inflationary spiral that stemmed from the rise in raw material and commodity prices during the Korean War (U.S. National Advisory Council on International Monetary and Financial Problems, 1950, August 2). In reviewing the economic limits of the MDAP the Secretaries of State and Defense, Acheson and Lovett, and the Director for Mutual Security Harrimann, pointed attention to the persistent inflationary trends, heavy budget further burdened by rearmament and economic controls all contributing to hold back increases in productivity and improvements in the balance of payments of European allies. According to these top-notch personalities of U.S. diplomacy, in the aim of fixing up their balance of payments difficulties "the Western European countries and Japan need to maintain a high rate of domestic investment in order to expand their industrial base and to raise productivity"(U.S. Secretaries of State and Defense 1953). To put it another way, the balance of payments disequilibria that at the start of the new decade affected the European member states of NATO, where it coupled with an inflation-triggered current account deficit, could only be fixed by raising raw material production and through a well-developed manufacturing system across Europe capable of reducing dependence on external supply. Therefore, inflationary strains made all the more urgent to increase European industrial capacity to ameliorate both the current account balance, and the dollar deficit by increasing productivity and reducing import. The founding of the off-shore procurement programs served this twin objective of reducing dependence on foreign supplies and easing off pressure on foreign currency reserves, whilst at the same time increasing intra-European trade and payments. Available data on the structure of U.S. foreign economic commitment from 1952 to 1953 confirm the rising share of OSP program financing in total U.S. aid disbursement abroad: since the outbreak of hostilities in Korea the United States financed the purchasing of U.S. military supplies by Japan. This course of action continued with the start of the OSP programs directed to Europe. Until mid-1952 U.S. disbursement to Western Europe under this heading had been limited: however, out of total $ 683.8 million disbursed for military assistance purposes, the vast majority were appropriated to the various European countries. Thereafter the program was significantly expanded and explicitly linked to the objective of industrial and trade cooperation among the European member nations of NATO. In the third quarter of 1952 France received an advance of $ 154 million from the Export-Import Bank of the United States against orders for offshore military purchases (United Nations, Department of Economic Affairs 1953, p. 92).

The beginning of the OSP programs and these new objectives took place in the framework of a fundamental turn in the ways Washington conceived the relationship between economic assistance and military build up. As a matter of fact, from the outset of Washington's planning of the earlier military aid package, the Truman Administration was concerned about the impact that a significant involvement of the European military industrial complex in the war mobilization might have on civilian consumption and aggregate demand. This concern led some American policymakers to argue in favor of financing European imports to prevent the process of rearmament from imperilling the monetary and financial stabilization pursued through the Marshall Plan.

Notwithstanding this early stand, over the course of 1950 a growing number of policymakers within the Truman Administration became convinced that economic assistance and security policies could co-exist, and that rearmament posed no danger to the process of economic recovery. Indeed, this view gained ground within both the U.S. Administration and NATO[2]. A short time after the outbreak of war in Korea, during lengthy discussions held in Washington regarding both the need and feasibility for an expansion of industrial output in Europe, it emerged that a wide range of government agencies and policymakers shared two leading principles that would determine the implementation of military assistance programs in the future. Within the National Advisory Council on International Monetary and Financial Problems, there was widespread consensus among government members regarding two policy principles. Firstly, they argued that financial appropriations destined to the stimulation of industrial output in European economies should not be plowed back into national reserves or used to complete postwar monetary stabilization. Indeed, Dean Acheson himself, at that time U.S. Secretary of State, stubbornly insisted that both financial assistance appropriated to Western Europe under the umbrella of the MDAP, as well as the counterpart funds generated within the ERP and held at European central banks, be used to finance imports related to defense production and internal industrial investments (U.S. National Advisory Council on International Monetary and Financial Problems, 1950, August 2).

Secondly, government members stressed that military aid should help European countries "to contribute toward their own defense, and that we were not requesting

[2]In this respect the testimony by Milton Katz, between 1950 and 1951 at the head of the Defense Financial and Economic Committee of NATO should be noted: "I did not, as some people did, regard NATO as a diversion from the Marshall Plan objectives. I regarded it as a recognition that one of the requirements for achieving the Marshall Plan objective of restoring the economies, political independence and cultural vitality of a self-sustaining and self-regenerating Europe was a sense of military security." Milton Katz interview, p. 121, in Harry S. Truman Presidential Library (HSTPL), Oral History interviews.

the Congress for funds to provide aid except insofar as it was necessary to carry out rearmament without an unacceptable and excessive deterioration in their own economies" (U.S. National Advisory Council on International Monetary and Financial Problems, 1950, December 26). In the United States, during 1950, notwithstanding a fierce opposition from the business community to the feasibility of combining war mobilization and economic growth (The Journal of Commerce 1950), among high ranking experts on security-related economic policy problems, a growing number of personalities put forward the opposite argument. According to the U.S. representatives on the economic and financial bodies of NATO involved in multilateral negotiations on the OSP during the 1950s, the rearmament of Western Europe was to serve as a fly-wheel to jump-start aggregate demand for civilian consumer goods (Memorandum by T.Voorhees to G.Gray, April 10, 1950; Hammerich 2011, p. 34). In May 1950 at the Atlantic Council (the inter-ministerial Committee of NATO made up of the Foreign, Defense and Finance Ministries from the member countries) Acheson maintained that defense effort in the European economies should be coupled with an expansionary economic policy to permit a robust growth of European domestic markets and a bettering of the employment rate (U.S. Department of State 1950). It is worth stressing that one can only understand the feasibility of this predominant American view by considering it within a comparative European perspective. In fact, in 1950 the European economies varied greatly. Some of these countries had a high rate of underemployed manpower that could be usefully employed in new production lines. In fact, the Department of the Treasury stressed that Italy was just such a case: by 1950 the country experienced the lowest postwar employment rate in industrial manufacturing (Figure 1), the key economic sector involved in, and likely to be boosted by, military productions.

Figure 1. *Employment in Manufacturing in Italy 1950-2010*

Source: U.S. Bureau of Labor Statistics.

Hence, rearmament in Italy was both to expand industrial output and to open new production lines, and thus to improve the living standards of the Italian population by stimulating the re-employment of labor and by increasing the average weekly working hours of the working population. On the contrary, some other West European nations with higher rates of economic growth came into a very different category. For example, the United Kingdom, the Netherlands and Denmark already had full utilization of industrial plants and manpower at the time. Therefore, in these economies the rearmament effort would generate a severe internal economic downturn (U.S. National Advisory Council on International Monetary and Financial Problems 1950). The only way to avoid a drop in civilian demand was to raise finance and imports for consumer goods.

During 1950, the government of the United States combined these policy guidelines with a strict policy on European national defense expenditure. The United States pressured Washington's European partners to increase the ratio of the defense budget against total state expenditures. Repeated calls for broader defense appropriations were made to London from the Summer of 1950 through January 1951 (The UK Secretary of State, 1950; The UK Secretary of State and the Chancellor of the Exchequer, 1950). The Americans extended the same requests to most West European countries, including Italy (Record of a conversation Attlee-O.Franks-E.Plowden-D.Acheson, Washington, 1950, December 7: 353-354; Geiger, 2004: 7-10; Geiger, 2008: 345-347). The pressure exerted by the United States clearly shows the impact that the ongoing reorganization of rearmament had on European countries as early as 1950 and the years soon thereafter; in short, Europeans were to expand their budget appropriations both to strengthen their national armies, and to stimulate industrial output through the financing of imports and domestic industrial investments.

Therefore, between 1950 and the beginning of the off-shore procurement programs in early 1952, the rearmament programs had become a process involving both industrial integration, and trade partnership and balance of payments equilibrium, as well as budgetary and monetary stability. The multilateral production program implemented through the off-shore procurements was thus a combination of these elements.

Sharing the Burden of Rearmament: The Birth of the OSP in the Push towards OEEC Trade and Industrial Integration, Foreign Exchange Equilibrium and Internal Economic Stability

Throughout 1950, NATO and the United States government pursued the effort to engineer a multi-level coordination of the Western bloc economies that would integrate their budgetary, industrial and monetary assets. A particular commitment in this direction came from NATO: the organisation strove to set up a number of high rank coordinating committees to activate European industrial capacity required to meet the requirements of the military build-up without impairing the balance of payments of each European member country (Segreto 2005, p. 176, Geiger 2008, p. 354).

The aim of this consistent effort to coordinate the economies of NATO was setting up and improving economies of scale among the European countries (The Secretary of State Dean Acheson 1950). This process was intended to promote a continent-wide trade exchange in raw materials, instrumental goods, spare parts and end-item weapons. The final objective was a rationalization of production and the elimination of duplicates. The launch of this coordinated production program among the West European economies and the American economy led to lengthy discussions within NATO and its operating bureaus to improve the exploitation and coordination of raw material, investment goods, manpower and manufacturing capacities among all economies. These lengthy debates lasted throughout 1951 in the aim to figure out two stakes. First, the Atlantic Alliance was committed to estimate each West European economy's overall manufacturing capacity as well as its ratio to the overall national defense effort, in order to abide by NATO build-up targets. Furthermore, the objective was to pinpoint whether or not each European economy had a surplus industrial output of either manufacturing capacity or manpower that could be used on behalf of NATO and other member countries to meet the build-up objectives set at NATO level. In addition, each NATO member state was expected to estimate its financial limits for the importing of weapons and military components produced in other countries under the Atlantic Alliance procurements policy (Italian National Association of Manufacturers, 1951, April 16; id., 1951, April 19; and id., 1951, March 6).

Therefore, from as early as spring 1951, Washington and NATO were committed to identifying each European economy's manufacturing strength and the balance of payments threshold beyond which the defense effort would cause imbalances on the foreign exchange equilibrium. By the fall of 1951 it was clear that NATO aimed to link the payment of future off-shore procurements allotted to NATO member states to the funding of imports and investment required by industrial mobilization. In other words, this policy was designed to deal with the impact of war mobilization on the European balance of payments against both the U.S. dollar currency area, as well as the intra-European currency disequilibrium that rearmament might trigger (Italian Foreign Office, 1952, February 12; Rappresentanza italiana presso l'OECE-Parigi, 1951). As a matter of fact, in late 1951 NATO launched an initial program of military procurements divided among the European economies. These orders were produced in Europe and allotted to the West European NATO member states but paid off in U.S. dollars out of the United States' federal balance sheet (Italian National Association of Manufacturers, 1952). The bulk of these production programs were carried out in 1952 and 1953, when these OSP contracts reached a peak. The largest share of these contracts were placed with the ammunition and aircraft productions sectors, with the latter one stimulating a spill over on industrial productions of not only end items but also instrumental goods, spare parts and equipment, including electronics. As widely reconstructed in the historical literature, the OSP contracts led to joint production of British type fighters in Belgium and the Netherlands, production of the Marcel Dassault Mystère plane in France, and assembly of F-86 all-weather fighters in Italy (Geiger 2004, Sebesta 1991, Selva 2012).

Hence, it was the U.S. taxpayer who bore the financial burden of these rearmament programs. Right from the beginning of this multilateral production program, the Italian and German economies were considered by the United States to be the ideal manufacturing countries owing to the unutilized industrial capacity and manpower.

This military production program implemented in the second half of 1951 charged NATO and its operating bureaus with fixing production capacities and defense requirements in each West European member state of the Atlantic Alliance. In this respect, NATO was to serve as a sort of filter between the producing economies, the importing countries, and the United States government (ISAC 1951). Although this program marked a step forward for the enforcement of production coordination and financial equilibrium within the Western bloc, the payments for military procurements were still an issue. Provisionally, this program could finance them in U.S. dollars because the United States government registered them as U.S. military end items transferred to West European national armies. Several high ranking policy makers within the Truman Administration focused attention on this problem. Bissell, pro-tempore director of ECA, tackled the problem of how the multilateral military production programs would be financed and paid for in the future. He suggested that each member state of NATO should share this financial burden as far as possible. In calling for this approach, he anticipated what would become the so-called "burden-sharing" principle (Magistrati 1951). The French Prime minister, Pleven, adopted the same approach. During 1950 he recommended that a sort of common financial fund be established among the NATO member states. He believed that each state should contribute to this fund in proportion to their annual national income (U.S. Department of State, 1950: regarding the liquidity contribution of Italy to the common budget fund of NATO see: Ministero del Tesoro, 1952). During winter 1950 many hypotheses were elaborated within the Atlantic community regarding which institution should administer this common fund (U.S. National Advisory Council on International Monetary and Financial Problems, 1952, March 13; L.Targiani, 1952, January 7). Eventually, in early 1952, a common budgetary fund was set up within the Atlantic Alliance. Each member state was called on to share its budget appropriations in proportion to its national income. This principle meant that the United States should pay the largest amount into this common fund. The government of the United States took the lead because of its twofold aim to finance the European public finances on the one side, and the balance of payments of both the Sterling area and the member countries of the European Payments Union currency areas on the other. The Department of State maintained that sharing out the financial burden of rearmament called for the United States to drive for "cutting the Gordian Knot which had prevented real progress in military planning." (Department of State 1952).

The establishment of a NATO common fund and a collective defense budget of the Atlantic Alliance aimed to resolve not only the need to provide the European countries' balance-sheets with monetary liquidity to finance their defense effort, but also to stabilize their balance of payments: it was considered a priority to offset the strain of rearmament-induced industrial mobilization and the aforementioned inflation spirals (Italian Foreign Office, 1952, February 12).

The early military assistance program was negotiated against the backdrop of this multilateral evolution of rearmament programs. When it got underway, in the course of 1951, it was a first step towards integration of the manufacturing capacities and resources of the European nations in the Atlantic Alliance, and it bound this industrial interdependence to a truly intra-European trade area. This was the most distinctive feature of the off-shore procurement programs that Washington implemented through the end of the first Eisenhower Administration. In the years following the end of the OSP programs, the Pentagon played an ever-increasing role in this mechanism as it paid for investment goods and military end items produced and traded among the West European countries of NATO. In this respect, the Aeronautical sector, which has been the focus of specific studies aimed at supporting this interpretation, was an exemplary case (Sebesta 1991, Selva 2012). The case of the F86D all-weather fighters, produced in 1953 by Fiat to supply either the Italian air force or other NATO member countries, is revealing. The U.S. Air Force financed the Italian plants and paid for the end items that Fiat was to sell (Shuff 1953, May 15, Kindleberger 1953, May 16, Italian Government 1953, May 13). By the mid-1950s the U.S. dollar was still the currency of rearmament. In fact, the off-shore procurement programs were endorsed by the U.S. Congress and NATO every year throughout the mid-1950s: the corollary of such U.S. financed program was a system of trade and payments among the European members of NATO centered on military productions mostly rewarded in U.S. currency.

The Linkage between OSP Military Productions, Intra OEEC Trade, European Domestic Growth and Foreign Monetary and Balance of Payments Stability: The Peak Year of 1953

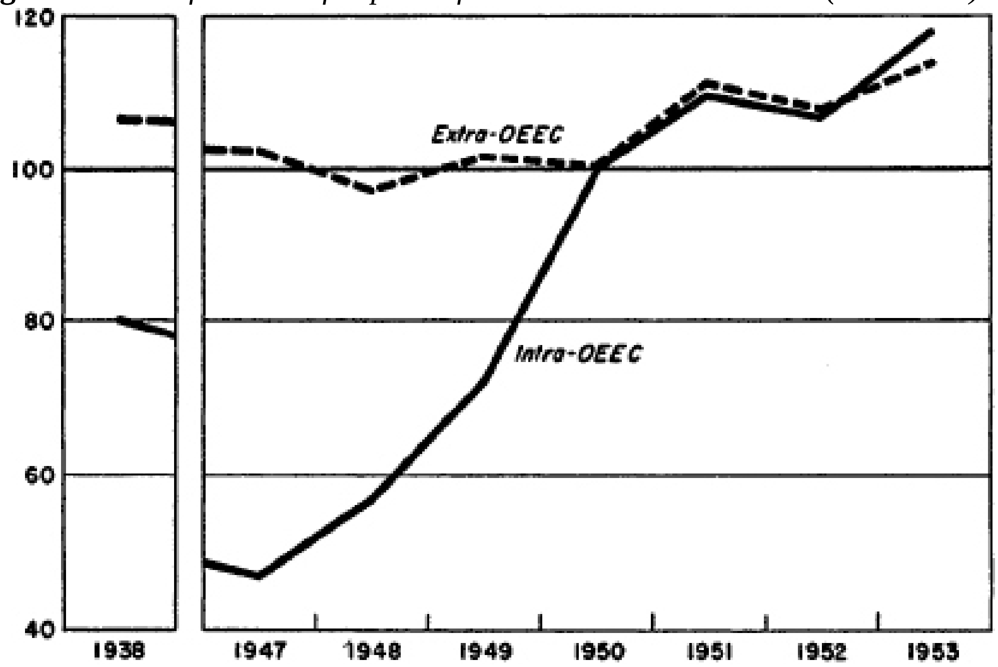
Though they run throughout the first half of the decade, U.S. appropriations to finance OSP contracts reached their peak in 1953, then declined: "Each year since FY 1953 the volume of OSP contract placements has declined. In FY 1956 it amounted to only $62 million, compared with $160 million in 1955 and $1,600 million in FY 1953" (U.S. Office of Secretary of Defense 1956).

Therefore, in order to make a quantitative assessment of the impact that this specific military assistance program had on the three main economic objectives it was devised to target (stimulating domestic economic growth in each European country and intra-European trade through the reactivation of unutilized industrial capacity, the establishment of new production lines and the absorption of unemployed manpower, whilst at the same time fixing up the current and capital account disequilibria, and particularly the dollar deficit that strained the West European countries), the program had a positive impact. In fact, if one focuses attention on the OSP program peak year, 1953, it was exactly by this time that European economies registered a significant macroeconomic performance and a leap forward in their market integration: in 1953, Western Europe's GNP rose about 4%, a rate faster than the 2% increase of 1952; industrial production increased an estimated 5%, with a main rise in production occurring in the last three-quarters of 1953, when the implementation of the largest amount of the OSP program across Western Europe took stage. At the same time unemployment fell slightly in Western Europe as a whole during 1953. Besides, in the European member states of NATO, as noticed by the Foreign Operations Administration

(FOA), the U.S. federal agency charged with coordinating foreign assistance aid under Eisenhower, "inflationary pressures were in general contained during 1953 and prices stabilized; despite the fact that consumer demand expanded appreciably, along with increased defense expenditures and higher investments. With the generally improved economic situation, some countries were able to take additional steps to encourage investments without creating new inflationary pressures" (Foreign Operations Administration 1954).

Concerning trade integration and trade exchange with the world, to the OEEC nations the year 1953 marked a leap forward as well: as shown in Figure 1, the volume of imports of OEEC countries combined, on an upward trend since 1947, peaked in 1953, whereas total import, total exports and intra-OEEC trade peaked from 1952 to 1953 (Boyer and Sallé 1955).

Figure 1. *Index of Volume of Imports of OEEC Countries Combined (1950 - 100)*



Source: IMF Staff paper 1955, 001, and *OEEC Statistical Bulletins.*

Finally the year 1953 marked a tellingly significant improvement in the foreign exchange reserves, balance of payment equilibrium, and dollar balance of most West European countries: according to the Bank for International Settlements (BIS) "there was an improvement in the course of 1952 and a still greater improvement in the early months of 1953 in the balance-of-payments position of the non-dollar world"; at the same time the aggregate amount of the net deficits in the settlements of the European Payments Union, which in 1951 reached an average monthly figure equivalent to $207 million, in the last quarter of 1952 and the first quarter of 1953 averaged only $102 million: another indication, did the BIS argue, "of a closer approach to equilibrium in the relationship between the various economies" (Bank for International Settlements 1953).

In its *Annual Report* for the year 1953 the IMF stressed this positive trend in the balance of payments of European countries: in the course of 1952 the West European countries achieved a balance of payments adjustment whereby a deficit in relation to the United States of some $480 million in the first half of the year was followed by a surplus of $260 million in the second half: "This improvement continued in 1953, and Continental Europe not only increased its surplus with the United States but achieved a substantial surplus with the rest of the non-European world" (IMF 1955, p. 29). Moreover, according to the IMF, during 1953 U.S. nonmilitary expenditures abroad in the form of grants had declined, while at the same time U.S. government expenditures, included off-shores purchases, which rose from $75 million in 1952 to $200 million that year, began exceeding nonmilitary aid, thus setting conditions (Table 2) for the disappearance of the dollar gap by the end of 1953 (IMF 1955, pp. 28–29). As for the foreign exchange reserves of European countries, since 1953 throughout the duration of financial assistance provided by the United States to Western Europe and other OEEC countries in the framework of coordinated military production programs, most European economies enjoyed a steady improvement of their reserves (Southhard 1958, p. 457, Table 5), while at the same time reversing the historical dollar deficit with the United States that plagued Western Europe since the end of WWII. According to data elaborated by the United Nations "in 1953, Western Europe and its dependencies had had an overall payments surplus of 1,000 million dollars in respect of the United States of America. That surplus, combined with United States Government credits and grants, had boosted the monetary reserves of Western Europe by more than 2,000 million dollars in the same year" (United Nations Economic and Social Council 1954, p. 71).

Table 2. *U.S. Government Transactions, 1952 to 1953. Summary of U.S. Balance of Payments 1952-1954 in Millions of U.S Dollars*

	First half of 1952	Second half of 1952	First half of 1953	Second half of 1953
Current expenditures abroad	-0.8	-0.9	-1.1	-1.3
Nonmilitary aid (grants and loans)	-1.4	-1.1	-1.1	-1.0
Net acquisition abroad of gold and dollar assets	-0.1	1.1	1.2	1.2

Source: IMF Annual Report for the Year 1954, and U.S. Department of Commerce, *Survey of Current Business,* June 1954.

Conclusion

The wave of scholarship on the post-WWII reconstruction of Western Europe that developed from the 1970s to the 1980s registered a wide-ranging and long-lasting debate among historians and economists regarding the economic impact of the Marshall Plan on post-war recovery. That debate revolved around a couple of diverging interpretations about the effect of American economic assistance on the postwar economic reconstruction of Western Europe and the onset of macroeconomic conditions conducive to European economic miracles at the turn-of-the-1950s. On the one side a string of European historians as Abelshauser (1983) and Milward (1984) made the argument that wartime European economies lie at the origins of postwar recovery; on the other, Maier (1977), Hogan (1987) and a few more prominent American economists and historians contended that the Marshall Plan was essential to overcome the wartime collapse of European industrial production capacity, employment, and aggregate demand. With rare few exceptions, this scholarly debate, as well as the most recent studies on the Marshall Plan as Steil (2018), missed to established a linkage between American strategies to resurrect west European manufacturing and the living condition of Europeans in the light of a mounting Cold War confrontation, and the continuation of this economic relief strategy under the aegis of the Atlantic Alliance soon thereafter in the context of the early steps of the process of European economic and financial integration.

This article situates the multilateral rearmament programs of NATO in the early 1950s against the backdrop of a multiple tangle of economic targets pursued at the time by Washington across Western Europe: in the first instance a pressing urgency to strike a balance between NATO's defence build up target in each of the Alliance's member state; secondly, the painful balance of payments disequilibria and inflation spirals that some West European economies suffered from by the time the Korean War broke out; thirdly, a need to provide Western Europe with continued monetary assistance premised over the unfinished problem of dollar deficit with the U.S. currency area by the end of the ERP; and finally American pressing need to foster the beginning of the process of European economic integration as a follow up to the Marshall Plan objective to bring reconstructed Europe under the sphere of influence of the United States.

The multilateralisation of rearmament through full utilisation of raw material, manufacturing capacity and unemployed manpower served at the same time this set of multiple objectives. The OSP programs became a powerful engine to exploit European industrial capacity and manpower to the full and to stabilize European currencies on the foreign exchange markets as well as aiding European countries to achieve internal monetary stability and to prompt rising domestic demand through the furthering of industrial investments, thus tackling a number of issues in one go. Macroeconomic conditions in the OEEC countries by the year the volume of OSP contracts to European industries peaked in 1953 have demonstrate the linkage between U.S. military assistance to Western Europe after the outbreak of Korean War and steady improvements enjoyed by that year by Europeans in terms of GNP, employment rate, industrial production, export and intra-OEEC trade, as well as balance of payments and foreign exchange reserves. Therefore, this collective military rearmament program became the fly-wheel to link a staggering growth in exchanges in goods and flows in capital among the transatlantic allied nations to a robust and lasting process of improvement in domestic living standards and aggregate demand. This dynamic made post war economic mobilisation for rearmament across the Atlantic Ocean a turning point in the history of economic interdependence as defined in this article.

At the same time, in so far as the off-shore procurement contracts were paid for in U.S. dollars or through the NATO common fund for transfer of raw material, instrumental and consumer goods from a manufacturing member country to any importing ally, it helped Washington strengthen the powerful dominance of U.S. currency on world trade and payments and to make the dollar the pillar of postwar international economic interdependence.

Finally but not less importantly to this article, improvements in domestic growth and external equilibrium achieved by the West European countries during the peak year of OSP programs are also an exemplary case study to test the theoretical category of international economic interdependence which this contribution aimed at: in so far as coordinated military productions increased GNP, industrial production, export and intra-OEEC trade in the framework of expanded dollar-denominated capital flows across Europe through the mechanics of payments in dollar for military productions in the European member states of NATO for transfer to other member countries of the Atlantic Alliance, the classical theory on economic interdependence elaborated in the Social Sciences aimed at establishing a correlation between transnational capital flows, domestic economic growth and international monetary and financial stability finds full confirmation.

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