Intra-european trade, which had risen to 60%

Intra-European trade, unlike during the interwar years, is afundamental feature of post-World War Two development for market economies. Researchfrom Badinger (2005) has shown that inter-continental integration increasedEuropean incomes by 26% from 1950s to the year 2000. For the rapid growth in intra-European integrationcertain obstacles had to be overcome. Primarily, European countries had inconvertiblecurrencies that could not be exchanged without consulting the issuing governments. As a result, countries wanted to conserve their limited currency for USpurchases which reduced transactions, restricting imports from its neighboursto the value of revenues in its own currency accumulated from exporting to thatcountry. This made bilateral agreements the only possible way to arrange tradetransactions.

Eichengreen (1995) suggests that the recovery of intra-Europeantrade, which had risen to 60% of 1938 levels, was on the verge of reversing. Anobvious solution to this problem was a multilateral clearing agreement that exhibitedcurrent account convertibility, so countries did not have to solely balance theircurrent account with currencies gained just by exporting goods. The Firstagreement on Multilateral Monetary Compensation (1947) and its successor theAgreement of Intra-European Payments and Compensations (1948) ultimately faileddue to the rapid increase in US labour productivity, which increased Europeancost of production and made earning dollars tough.

The answer finally came withthe 1949 US recession. Eichengreen (1995) explains how Washington wereconcerned that Europe’s balance of payments would weaken to a point thatrequired further Marshall Plan aid. The treasury pushed for devaluation whichgreatly improved European competitiveness vis-a-vis relation to the US. Trade liberalisation and European integration speeded uptechnological transfer and increased European technological capability. Eichengreen (1995) established that globalisation was essential in developing Europeanintegration. He argued that technological advances, including high-speedmotorways and rail transport, containerisation and more later on, broadband andsatellite telephony, greatly reduced transport cost between countries. Rapid advancesin technology and capital accumulation set a path for specialisation ofproduction and allowed countries to obtain the benefits of economies of scaleon a national scale. The development of European integration went further thanthe increase in European technological competence.

It allowed for a largeproportion of an economy’s resources to be transferred into more productive, peacefuluses. This is largely down to Political relations and general confidence inEurope after the World Wars. Eichengreen (1995) points out that many stepstaken by Western European governments in the 1940s and 1950s ensured relationswere built on confidence and trust, creating many positive economic impacts. TheEuropean Coal and Steel Community, first established in 1951, coordinated coaland steel industries under multinational control. In 1958, several members of Europecreated the words first regional Customs Union-a trade agreement with a common externaltariff is enforced on all imports.