

Oral History Interview
with
SIR ALEXANDER CAIRNCROSS

Director of Programmes, Ministry of Aircraft Production, 1945; Economic Advisory Panel, Berlin, 1945-46; Member of Wool Working Party, 1946; Economic Advisor to the Board of Trade, 1946-49; Economic Advisor to Organization for European Economic Cooperation, 1949-50, and Director of the Economic Division, 1950.

Oxford, England

June 9, 1970 by Theodore A. Wilson, University of Kansas

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CAIRNCROSS: May I just make clear what my own background in this was?

WILSON: Yes.

CAIRNCROSS: I went back into Government service in late autumn of 1946. I was in the Board of Trade for three years up to about November 1949, and then I went to Paris for the year 1950. By January 1951, I was back in academic life.

In the Board of Trade my responsibilities really didn't have a great deal to do with the general state of the world economy. I was advising much more on domestic economic policy. Therefore,

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I although I saw some of the negotiations at a distance and was familiar with the preparation of some of the British Government papers that were submitted to OEEC, I would not at this distance be able to say much on half the questions that you put here, the very general questions.

When you ask me about the political, economic, and social climates which we might have been able to introduce, I think you will find that much better in the documents than in anything I can say. For instance, I remember the preface to the second report of the OEEC, which was written by Sir "Otto" (R.W.B) Clarke, as you know. That gave a very good sketch of the situation when Marshall aid was first announced. A lot of the questions here are of a general kind that might be answered by a good economist but would not require particular involvement in what was happening at the time.

WILSON: We're attempting to get an impressionistic

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view on the part of persons in Europe, those who took part and those who would have seen things at a distance as well. You were involved basically with matters involving the domestic economy. Were you involved both at the time you were with the Board of Trade and at the time you were director of the Economics Division of the OEEC?

CAIRNCROSS: Yes.

WILSON: With what you called the American productivity drive, the drive for an increase in productivity?

CAIRNCROSS: Again I saw that this was happening, but I was not immediately involved in it. They were sending teams out to the United States. I did see a lot of that and was very sympathetic to what it involved, but I didn't take part in setting up any of these teams; I had no responsibility for them. Most of them reported after I left, in 1950 or later. I don't recall many reporting before 1950.

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WILSON: That's right, yes.

CAIRNCROSS: Throughout 1950 I was in Paris, and had a lot of things to worry about apart from that.

WILSON: Perhaps it might be desirable to have you comment on your service in Paris. Are there any points that you would like to make?

CAIRNCROSS: A good many things happened there in 1950. We had to reach agreement on a program to be submitted as a basis for aid, and that program was set out in the annual report of the OEEC. So, if you look through the succession of annual reports you get the product of the thinking that was going on in Paris in the period before. I got landed in this very abruptly because I was just about to go off at the end of 1949 to be a professor, and rejoin my University of Glasgow, when Stafford Cripps asked me if I would go to Paris for six weeks to see the second report through. They wanted somebody to take over from

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the then head of the economic division; that was Donald McDougall. I went for six weeks, thinking that would be all; then, in fact, I stayed for the whole year.

During the year the war in Korea broke out, and at the end of the year there was the crisis over Germany which was one of the most important events of that time, I served with Per Jacobsson on a two-man committee sent by OEEC to Germany to report back to the managing board of the European Payments Union, and our report was the basis of the assistance that was given to Germany at the end of 1950, lasting into 1951.

That was a significant phase of the history of OEEC, because it was the first occasion of successful self-help among the European countries. The U.S.A. stood back from participation in this move, and left the European countries to rescue the Germans from their balance of payments predicament. Although there were some anxieties, as

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a whole I think it was a very successful move, and stood OEEC in good stead. It enhanced the standing of the OEEC in Germany. It was a difficult operation because the Germans themselves might have taken exception to the way in which the whole enterprise was conducted and resented the questions that were put to them. In practice they didn't do that; they were long-suffering and answered our questions. In addition it became gradually clearer that they were expanding; that this was just a slight wobble on the upward path, so there was no reason for anxiety; we were backing a winner.

So far as the Marshall plan itself was concerned, I did a little piece on OEEC some years back which is reproduced in my *Factors in Economic Development*, analyzing the experience. I think what most interested me was what this involved as an exercise in European cooperation. The Marshall plan, of course, was designed to get

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Europe out of a hole at the end of the war, an immediate predicament that we were all in. It had long-term consequences that were not foreseen at the time, consequences in making European countries work together, and building up instruments of international administration.

If you're looking at EEC, for instance, and the Schumann plan and all that followed in the fifties and early sixties, that goes back, I believe, to experiences that the countries had in the postwar period in their joint efforts in Paris to make a go of reconstruction with American help. I doubt whether it would ever have been set on foot if there had not been an injection of aid which compelled the countries to get agreement on programs and on methods of common working, compelled them because, as a practical matter, the aid could not be distributed, could not be settled, until the European countries themselves had signed a general statement of their aims and objectives. You, therefore, had a means of bringing countries

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together and of setting up the international secretariat associated with this. It's quite true that some things of that kind were known say, in Geneva, with ECE, and with the World Bank, and the International Monetary Fund; they were in business. But the International Bank only did a limited amount. Its functions were decidedly limited and the IMF was very much in the background in the early fifties. I don't think it amounted to very much until after the postwar reconstruction.

WILSON: Were you in Paris at the time the controversy arose over the attempt to strengthen the powers of the secretariat? The matter of the possible election of Paul-Henri Spaak went to the secretariat, and American pressure for the strengthening...

CAIRNCROSS: I don't think I can recall much of that. This kind of thing came up from time to time, but I don't remember that suggestion.

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There was a controversy between, if you like, the Continental approach and the British approach to the secretariat. The normal Continental reaction was to have a strong secretariat, with powers of initiative -- pushing governments to agree to certain things; whereas, the British tendency was to use the secretariat more as would be done in the British Government, as the people who kept the records and organized and ministered to the departments of ministers who sat on committees. In practice OEEC was neither the one nor the other. Robert Marjolin, as head of OEEC, was very much a public figure. Robert did command a power of initiative but he wasn't a political figure. He was an administrative figure, but with some power to urge governments to take certain course. The secretariat was perhaps more limited than you would have met on the Continental view of what was required.

When it came to carving up aid between the countries concerned, the solution that was hit on

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involved the appointment of a number of officials, four wise men, who were sent off out of Paris and had to reach agreement and come back with answers.

WILSON: Your comments bear out statements by some other persons who have been interviewed. There has been a suggestion that the United States came late to the realization that OEEC should be used to achieve some measure of economic integration, and that then, with the outbreak of the Korean war, the United States gave up almost completely this idea and turned to you, particularly in the matter of raw materials. This concerned particularly the British need for raw materials. The U.S. and Great Britain made bilateral agreements. Might you comment on this?

CAIRNCROSS: I'm a bit hazy about what was going on at that time. There were, certainly, immediately after the opening of the Korean war, all the

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discussions about the position of countries like Sweden. The setting up of NATO followed this rather promptly.

WILSON: Right.

CAIRNCROSS: Yes, but with the setting up of NATO with different membership, there was a problem about what was to be done about Switzerland, Sweden and the neutrals. Could they have the same secretariat as OEEC? That was one issue. There were long discussions in which Harry Lintott was the man principally involved. If you wanted to get anything on that, that was the period of about '50-'51 though he was there much longer, he might be your best man. He is retired now; he was the High Commissioner for Canada. I think he conducted most of these negotiations about the issue of neutrality.

On integration, my most vivid memory, I think, would be of Lincoln Gordon intervening

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in the Economic Committee around February 1950, when we were discussing the attitude of OEEC to economic integration. He suggested you could solve the problem by using the word "closer" and calling for "closer integration." This was a solution that recommended itself to everybody and stopped the debate. We volunteered "closer economic integration," but the meaning of that was very obscure.

If I can come back to the secretariat for a moment, there was at the beginning of 1950 some feeling that ECE managed to produce authoritative analyses of the economic position in Europe that were extremely readable and got to the heart of the matter. However, the manifestos, which were what they came to be, which were published by OEEC as annual reports, did not show this characteristic of penetrating economic analysis.

Of course, when you have governments represented around the table, and you are, so to speak, in a state of continuous negotiation, you could

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not have had a secretariat entrusted with the power or the task of getting out such an analysis, or if it had been done, it would not have committed governments. Anything that was done by the secretariat and issued as a document from OEEC committed the governments concerned, and was more like a legal treaty than anything else. So you learned to have an argument about an adjective, or a comma, or anything else in anything that you issued. At that time I think many of us felt this was a very laborious and boring procedure, but when you got used to what international administration had to be like if governments were involved, you accepted it. You could perfectly well set up any number of international agencies for economic research which would be subsidized as such, and in which the governments would take no further part. But OEEC was different in the sense that anything OEEC said could be cited and governments could be bound by its pronouncements. So from the secretariat

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point of view. It was a rather boring occupation at times, which would, I think, not have interested Paul-Henri Spaak.

There were during the year a number of initiatives towards closer integration. The Schumann plan came out in 1950, and met with different responses from different places. My own query was, why everybody should think iron and steel was the thing to start with if what they were dealing with was the prevention of war in 1950. It could be the European instrument industry, nuclear energy, or something of that kind, but steel seemed to me to be a very ancient, obsolete way of approaching the subject. It did touch some particularly sensitive spots.

WILSON: And perhaps it was the one industry in which there could be rather...

CARINCROSS: Could be some action.

WILSON: Yes

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CAIRNCROSS: There also was the Stikker-Pella-Petsch plan, where the Dutch, Italians and French all came forward with different schemes for intervention.

There was another thing in 1950 when Donald McDougall came back to see us and said, "Well, what progress are you making about Italy?" We were all taken aback at this. He did some papers, I think, pointing out that unemployment in Italy was enormous. Here was manpower that was not being used. Something ought to be done by the OEEC as a whole, to assist the government of Italy who were rather despondent at that time. They felt that liberalization of trade on which the organization had concentrated would hit their younger industries. They'd be exposed to

competition of a kind that they wouldn't be able to stand. This is rather odd when you look back now from the position that Italy has reached, the great expansion in Italian exports.

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WILSON: The emphasis was on the south, of course, the problems that perhaps faced southern Italians.

CAIRNCROSS: Yes, it was. I don't think anyone had visualized then the enormous movement of population that would take place within Italy and indeed within Europe. Look at the Germans. There were things being written then about Germany, which I was particularly interested in, implying that the Germans were pursuing deflationary policies and ought to expand more. The fact was that their output was expanding rapidly; their exports were expanding fast; employment was going up; unemployment remained high. Unemployment remained high because there was a lot of concealed unemployment and every time you increased the number of jobs, you got more people looking for jobs. This is quite a recognized feature of any industrial society, I guess, to a more moderate degree. But then

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it was on a very large scale because you had this big expansion of output and a big increase in employment, but yet unemployment remained obstinately at about the same high level. You even had the beginnings of labor shortage in some bits of Germany with enormous unemployment elsewhere.

Well, it wasn't very long before all that was packed away and you then had this enormous sucking-in of manpower from elsewhere in Europe. That was certainly a problem that was not, I think, foreseen.

WILSON: Not by any means.

CAIRNCROSS: Nobody was discussing European expansion in those days in terms that brought this out. There were discussions of migration of population, quite a lot in 1950 about migration, but I don't think that they were quite of this sort. They were more about what could be done about migration to South America, say, about surplus Italians. But nobody thought that Switzerland

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would be a big absorbent of Italian rural manpower.

If you're looking at the history of the period since 1950, of course, this has been one of the means by which the southern part of Europe has been industrialized -- a movement out and then a movement back. After learning skills, they moved back into the areas where skills were needed to make any progress at all.

WILSON: Would that also apply to capital flow; is that a major item, the money sent back by laborers...

CAIRNCROSS: Yes, indeed. I remember being told some years back, in the early sixties I think, that there were larger holdings of marks by Turks working in Germany than the total of the Turkish Government's gold reserves. It was not just larger, but several times larger and the flow of money back from Germany into Turkey must have represented a very considerable addition to foreign exchange supplies.

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The Marshall plan episode was, I think, a very successful one from start to finish. Have you looked at the problem of Russian participation at all?

WILSON: Well, yes. We're trying to.

CAIRNCROSS: I don't know whether you've talked to anybody about that, but I had the impression that the Russians were seriously considering coming in.

WILSON: Yes.

CAIRNCROSS: But at a certain point they changed their minds. I only raise this because I remember the stories that I used to hear from a friend of mine, Elkin, who was assistant legal adviser at that time. Elkin was born in Russia. He went on a mission in '47 or '48 with Myrdal to Moscow, when the Marshall speech had been made. He described what he saw then with the lights on in the Kremlin after midnight at a time when they

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had not yet shown their hand. His impression was that there was a debate on whether they should or should not participate, which finally came down against participation.

WILSON: One of the stories that Dean Acheson recounts in his memoirs is that it came to the point that Molotov attended the three-power conference and that he was apparently planning to have the Soviet Union participate, and that a cable was brought in to him which then caused him to change his tack and to...

CAIRNCROSS: Well, I think this is pretty clear; I agree a lot of this is public knowledge. Their earlier moves appeared to take advantage of this.

WILSON: Would you say the impression in Great Britain was that the invitation from the United States was issued sincerely for Russian participation?

CAIRNCROSS: Yes. Of course, at the same time I think

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most people breathed a sigh of relief when they made the decision not to come in. Both because I think it must have made it easier to carry Congress along and get their votes and because any international negotiations I've been in in which the Russians participate slow down to a snail's pace, and so you really couldn't get on and get anything done. Although in Paris, with the 17 countries participating or engaged then, things moved rather slowly.

WILSON: How important would you say the issue of American concern about East-West trade became? This is something that came up again and again in the documents -- what appears to be an increasingly hard line on the part of the United States and to a lesser degree on the part of the British Commonwealth.

CAIRNCROSS: I think that all came afterwards with the setting up of NATO. I don't remember much about that in 1949-50. By that time the

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discussions were all in terms of the setting up of the European Payments Union as the main debate. That's been dealt with in quite a lot of books, as you know, in considerable detail. I don't have anything new to say on it. Then on liberalization; there was some discussion on harmonization of domestic policies.

WILSON: On that issue, what is your impression on American sincerity in...

CAIRNCROSS: Well, I didn't know that American participation in these discussions went very far. I think this was more a discussion on the possibility of cooperation between European countries. Of course, in OECD, as it now exists, all this has been carried very much further, is much more concrete, what should be the instruments of coordination of policies. The IMF, of course, has also come onto the stage and operates in the same direction. But at that time we were a bit in the dark about what we could do by way of coordination

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of domestic policies, giving up so many controls. One has to cast one's mind back and remember how these controls bit into things at that time.

I have still quite a lot of documents around here that might be of some value, but more on specific things than on the general background. I don't believe that anything I would have to say would be very valuable to you.

WILSON: What you have said has been of very great interest as a historical document in itself, and we appreciate your...

CAIRNCROSS: Could I just run through some of these questions at the end here?

WILSON: Sure.

CATRNCROSS: May I read the questions? Did antagonism towards Germany influence measures taken for economic recovery of Europe?

I'm not aware of that at all. In fact, in the year 1949-50, the Germans were members of

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this organization and this was the first international organization to include Germany, wasn't it?

WILSON: That's right.

CAIRNCROSS: There never seemed to be any embarrassment in allowing Germany to take part in the discussions or in taking account of German reactions. Germany was a useful member of the Economic Committee, with which I had much to do in 1949 and '50 when I was serving as secretary of the committee. They held themselves in and spoke less freely, but there wasn't a disposition on the part of other countries to treat the Germans differently from others.

Did Marshall's speech come as a surprise? It's been said to me that it came after Bevin had made a speech in Britain intended to provide a cue.

On evidence of European initiative, speaking as an outsider (and I was as an outsider), yes,

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I would say there was.

The greatest need for the Marshall plan? Well, I think what we all needed was mutual support as much as anything. The thing that would strike anybody looking at 1947 was the rundown in foreign exchange reserves, the absence of anything to lean on, the fear that foreign markets were going to go on dropping, and that the recovery would be completely arrested. There had been quite a perceptible recovery up to '47. The harvest failures then had a particularly disastrous effect. I don't know that there was any particular thing that you could point to in Britain for instance as the greatest need, except for foreign exchange. That was all. Not foreign exchange, but markets, which is another way of paying for your goods.

Well, I've told you about the invitation to the Soviet Union.

Efforts at cooperation in Europe before Secretary of State Marshall's speech?

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Yes, there were a lot of bilateral negotiations which got pretty complicated and these did involve the Board of Trade, but I didn't take very much interest in that side of things. Dennis Rickett could tell you quite a bit about that.

WILSON: Yes, we're to interview him.

CAIRNCROSS: He was much more involved in this thing during that period and has some fascinating stories to tell about this particular thing.

How critical was the food situation?

I thought that it was particularly so. I believe that the food rationing in Britain in '47 was about as low as it was in '45, if not lower.

WILSON: I think a bit lower; from statistics that I've seen.

CAIRNCROSS: Were efforts to achieve nondiscrimination taken seriously? I think they were. I think there

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was some tendency at times to believe that nondiscrimination became bit of a fetish and it was pushed so far, but it couldn't...

The unexpected rapid recovery -- I think it was fairly continuous. I think a fair amount had proceeded up to '47. It was the danger of relapse that I think was dominant in our minds. The continuous expansion was most striking in the case of Germany, naturally, and I suppose it just was a resumption of the money economy, change from a barter economy, which tightened things up. In the other cases surely, there was plenty of capital intact, the manpower was all there, or what you needed were raw materials and the market possibilities, and the thing would go. But the missing element was foreign exchange and in that sense there was a real dollar shortage. In the fifties you could spread it, but at that point in time, absence of hard currency was critical.

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The aid was concentrated in a short period of time. It was given when it was needed, and given very effectively. As you notice in the British case, we were able to do without some.

WILSON: Yes, right.

CAIRNCROSS: But if we hadn't had any in '47 and '48, we could have been in serious trouble. We didn't see how we could cut down any further. But once you get above a certain minimum, then you're not so troubled. We were really down to the minimum.

You ask about other American leaders; well Hoffman was very much involved in this. He came to Paris when I was there and made speeches. And I suppose Harriman also was involved.

WILSON: With what Americans did you work most closely?

CAIRNCROSS: With no Americans on the secretariat, the people I saw were the people in the American delegation. I must have seen Triffin a bit from time to time. The main American that I would have

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seen was a member of the Economic Committee, Lincoln Gordon.

WILSON: Now president of Johns Hopkins.

CAIRNCROSS: Now president of Johns Hopkins, yes. There were two or three others; one of the Cleverlands was there.

WILSON: Harlan Cleveland.

CAIRNCROSS: There was that tall chap. Dick Bissell came over again. But some of the people further down; their names escape me at the moment. Linc [Lincoln Gordon] was the chief man.

WILSON: He was on Harriman's staff. So, you saw primarily the ECA people rather than the...

CAIRNCROSS: ECA yes.

WILSON: And had almost no dealings with the Embassy staff in Paris.

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