The Political Economy of Europe since 1945  
A Kaleckian perspective*

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Working Paper No. 100  
June 2019

ABSTRACT

This paper analyzes the early stages of the formation of the Common Market. The period covered runs from the end of WW2 to 1959, which is the year in which the European Payments Union ceased to operate. The essay begins by highlighting the differences between the prewar political economy of

* I am thankful to Professor Thomas Ferguson for having prodded me over the years to develop the ideas on Europe into written papers. I should also thank him for several decades of discussions. The relentless pressure I received from Professor Giuseppe Mastruzzo, Director of the IUC of Turin, to get on with the job is not so kindly acknowledged. Yet I admit that without it I would have hardly commenced work on the project. Professor Alain Parguez is the great “Geist” behind these papers. We have been conversing on these issues - often with Professor Ferguson - since we established our long-lasting friendship and common intellectual position back in 1983. I am deeply indebted to Professors Riccardo Bellofiore (University of Bergamo, Italy) and Peter Kriesler (University of New South Wales, Sydney), both crucial companions in my research and in the overall combat about economic theory and politics. With Peter and Riccardo I have co-authored several essays on Europe’s political economy. Professor Jan Toporowski of SOAS London has enlightened me through his unsurpassed knowledge of the economics of finance admirably formulated in a Kaleckian framework. Having lived in Grenoble (France) immediately after the formation of the European Union in 1992-93 and during the two years leading up to the launching of the EMU in 1999, I am thankful to Professors Catherine Sifakis and Redouane Taouil of the University of Grenoble for the constant exchange of ideas. Finally, without the help from the excellent Staff of Fisher Library at the University of Sydney and of the Fondazione Luigi Einaudi in Turin, this research would not have seen the light of day. To both Fisher Library and the Fondazione Einaudi go therefore my heartfelt thanks. I am grateful also for financial support for this research from the Institute for New Economic Thinking.

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Europe and the new dimensions and institutions brought in by the United States after 1945. It focuses on the marginalization of Britain and on the relaunching of French great power ambitions and how the latter determined, in a very problematical way, the European complexion of France. Because of France’s imperial aspirations, France, not West Germany, emerged as the politically crisis prone country of Europe acting as a factor of instability thereby jeopardizing the process of European integration, Among the large European nations, Germany and Italy appear, for opposite economic reasons, as the countries most focused on furthering integration. Germany expressed the strongest form of neomercantilism while Italy the weakest.

**JEL Codes:** E02, F02, F5, N14, N24

**Keywords:** European Monetary System, Common Market, France, Germany, Italy, Netherlands, currency depreciation, European Monetary Union

http://doi.org/10.36687/inetwp100
I. Introduction

This is the first of two essays that will look at the political economy of Europe since 1945 from the perspective of Michal Kalecki, the great Polish economist who independently developed the approach to macroeconomics that is now commonly identified as “Keynesian.” The reason for pursuing such an interpretative strategy is that Kalecki, along with Paolo Sylos Labini, the Italian economist who also adopted this perspective, systematically analyzed how oligopolies and the principle of effective demand shape the dynamics of modern capitalism.

This is exactly the context in which Europe’s post 1945 reconstruction, development and stagnation have taken place. Large scale oligopolies established themselves in Europe well before World War II, indeed they emerged roughly at the same time as in the United States, with Bismarckian Germany at its center. Until 1945 the European pattern of oligopoly roughly followed the description given by Rudolf Hilferding in his 1910 volume Das Finanzkapital, where national cartels vie for national hegemony and then clash violently - through the military power of the respective States - in order to achieve a transnational supremacy.

Hilferding believed that a cartel system would actually stabilize the economy relative to the periods of cyclical crises which were ascribed to the unbridled forces of competition. His view was challenged strongly by Michal Kalecki in one of his very first papers (Kalecki 1932). Kalecki argued that capitalism is shaped by two components: a cartelized sector displaying constant profit margins, and a competitive one where profit margins fluctuate with prices, thereby rising in a boom and falling in a recession. Cartels compete not through prices but via the building up of productive capacity so that during a boom they engage in an investment race leading to excess capacity thus contributing to the demise of the boom itself. Given the stability of profit margins, the slowdown in demand relatively to capacity will be met by a reduction in output and employment engendering yet more unused capacity. The formation of unemployment in the cartelized sector causes a fall in the demand for consumption goods, whose industries are viewed as belonging to the competitive segment of the economy. Hence their prices and their profit margins will fall as well. It follows that the output of the competitive sector will not decline as much as that in the cartelized industries. Contrary to Hilferding’s position, the economy with a cartelized segment will show greater fluctuations than a competitive system.

I will thus define the so-called interwar period as corresponding to Kalecki’s analysis of cartelization. That phase will serve as a benchmark reference in order to grasp the differences brought about by WWII through the United States’ entrance into Europe’s politics and economy.

Preliminary observations: Interwar Europe as a “bankrupt imperialist set of estates.”

A path-breaking research project commissioned by the Congress of the United States and undertaken by the National Resource Committee with a team led by Gardiner Means (1939, 1966) depicted the links between big business and the persistence of large amounts of unused capacity in the US economy. There it emerged that industrial concentration did not stabilize the economy while it contributed to the creation of excess capacity.

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1 See the quotation from Adolph Lowe in footnote 7 to understand why Europe is defined as a bankrupt set of estates.
of long-term unused capacity due to the weakening of the endogenous formation of investment demand. Germany fitted perfectly into the Kalecki-Means framework. It was the European country most affected by the Depression until 1934-1935, because of the size and concentration of its industry. World War I had deprived it of its old empire; unlike France and Britain, it thus had no economic hinterland to rely upon both as a market outlet in the sense of Rosa Luxemburg and as a source of raw materials. Great Britain, by contrast, ensconced itself within the system of imperial preferences that London devised in its favor at the Ottawa Conference in 1932.²

France may be viewed as being in the same mode of Britain but at a much lower level in terms of its imperial economic rear. Thus, in matters of trade and current account balances, French imperialism could not provide the same degree of protection as the Empire did for Britain. Unlike Britain which, with the onset of the Depression got off the gold parity, French authorities tried to combine an increasing reliance on their colonial system while clinging until 1936 to their new gold parity established in 1928 with the Franc Poincaré (Mouré 1991). The iron clad monetary ultra-orthodoxy of the French authorities condemned the country’s economy to a state of deflation while turning its financial system into a major accumulator of gold. This fact enabled French banks to lend internationally, especially to Nazi Germany, thereby contributing to the latter’s rearmament (Lacroix-Riz 2006).³ France’s financial orthodoxy - far worse than the Treasury’s view lambasted by Keynes - fenced in the whole of the French economy as if it were run by a static cartel. The economy did not respond positively to the sizable wage increases won by labor during the Leon Blum Popular Front government of 1936-38. Instead of an expansion in the demand for consumption goods, the 60% rise in money wages was erased by an equivalent increase in prices (Kalecki 1938).⁴ The failure of the Popular Front led to its disintegration by 1939, followed by the open emergence within the bourgeois and catholic French elites of an attitude highly favorable to the dominance of Nazi Germany, seen as the most reliable guarantor of France’s class relations (Lacroix-Riz 2006).

The new Europe in the Grand Area framework: the British demise and the US acceptance of the return of France’s imperialism.

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² Since the third quarter of the 19th Century, Britain used the Empire as a tool to clear the trade deficit with the areas outside the Empire where it was losing to the exports of the United States and Germany (see the masterpiece by Marcello De Cecco (1974)). As time passed and as the relative industrial position of Britain vis a vis the USA and Imperial Germany declined further, the Empire and the Gold Standard, aptly called by Marcello De Cecco ‘the Pound Sterling Standard’, became the source for the attraction of capital inflows enabling both the clearing of the British current account deficits as well the moneys with which British capital organized its international investments. After World War 1 the imperial system could no longer function to cover Britain from the loss of markets (in the East to Japan) and sustain its war debts towards the USA. Just the same the preferential rules established by Britain at the Ottawa conference in 1932 did provide a quite substantial cushion to the balance of payments.

³ On the highly deflationary impact of the Franc Poincaré see the study by Kenneth Mouré (1991). On the implications for the financing of Nazi Germany, see Annie Lacroix-Riz (2006).

⁴ In 1938 Michal Kalecki published a systematic study on the economics of the ongoing Blum government in France. Kalecki’s thesis was that France was then a closed economy. Firms could therefore easily respond to generalized wage increases by raising prices. The study had a profound influence on Keynes. As Keynes himself acknowledged, Kalecki’s analysis convinced him that prices are cost determined via a mark-up rather than the expression of the traditional rising marginal costs. In France this crucial essay is ignored out of ignorance.
Europe, as a set of countries relying on imperialism and the nexus between cartelization and depression on one hand, and the drive for a new imperialist German formation based on advanced heavy and chemical industries on the other, produced such a catastrophic landscape that when, at Stalingrad, the war turned against the Third Reich, a group of most prominent German émigrés living in the United States asked to meet President Roosevelt in order to put before him a proposal regarding the future of Europe. The event is recounted by Countess Marion Dönhoff (1998) - editor of the Hamburg newspaper *Die Zeit* - in an essay published in the memory of Adolph Lowe (originally Adolf Löwe), one of the most distinguished members of the émigrés group who met with the President. Citing at length an earlier interview given by Lowe to *Die Zeit*, Dr Dönhoff relates how Lowe and his colleagues came to the conclusion that the US should take the lead in capitalizing on the one thing that the Nazi conquest of the Continent had produced: the disintegration of the national European States. To this effect Adolph Lowe and his group suggested to Roosevelt that he do away “with that bankrupt estate,” that is that the President move in favor of a federal European entity. In the interview Lowe recalled that Roosevelt outright rejected the idea, stating that he had already promised to the leaders of the governments in exile of the occupied countries the full restoration of their national sovereignty. Lowe’s testimony is crucial because it shows that the federal route was never an option for Western Europe. Nor was it in the minds of US policy makers whose thinking was heavily influenced by the idea of the *Grand Area* put forward by the State Department and the Council of Foreign Relations during the war itself.

The notion of the *Grand Area* - systematically dissected by Noam Chomsky (1993) and Gabriel Kolko - is particularly well suited to deal with the way in which the political economy of Western Europe had been shaped by the USA after 1945 throughout the period of the Marshall Plan, EPU and the building up of NATO. The same notion is also helpful to grasp in full the meaning of Kindleberger’s (1970) statement according to which the Marshall Plan never ended: it simply became the NATO Plan. In the original configuration of the strategy Great Britain was supposed act as the junior partner of the United States, yet dependent on it – a role implied in the US government pressure in favor of a convertible Pound Sterling. In this context Washington assigned to London the task of looking financially after Greece and Turkey. The British balance of payments crisis of 1947 compelled the UK Government to forgo that role officially. The Pound was declared non-convertible thereby reducing it close to the status of the currencies of the formerly occupied or defeated European countries. The impossibility of Britain’s

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5 Adolph Lowe (1893-1995) was a German economist and naturalized American who contributed to the early studies on the business cycle creating, while at Kiel university, a structural approach based on the role of the capital goods sectors. Having left Germany upon the rise to power of the National-socialists, he settled in the United States in the late 1930s after few years at Manchester University. Lowe taught at the New School for Social Research in New York where he became a towering figure. He returned to Germany toward the end of his life.

6 “[…] I, together with my friends Paul Tillich, Hans Staudinger and Fred Pollock from the Institute of Social Research, had a conversation with President Roosevelt. We submitted to him a plan which envisaged no longer reconstructing the old European nation states as sovereign units but of forming out of this bankrupt estate a democratically united Europe. The President’s answer was: ‘That’s impossible. I have given an undertaking to the governments of the European states (most of which were in exile in England or America) to reestablish the old sovereignties’. There was no point in arguing any further” (Adolph Lowe, quoted by Dönhoff 1998, p.4).

7 It is worth quoting Charles Kindleberger in full: “[…] the recovery program, never came to an end but was swallowed up in defense activity which developed under the North Atlantic Treaty Organization (NATO) following the North Korean attack on South Korea” (Kindleberger 1970, p.99). Charles Kindleberger (1910 - 2003) was Professor of Economics at MIT and one of the finest economists of the post-war era to date. He knew and understood Europe in a way which is still unparalleled. He was also one of the main designers of the Marshall Plan.
ability to take upon itself a purely regional role has been the main reason for the practical shift - as opposed to mere intentions - towards West Germany and Japan. 

It was not until the late 1950s that US policy makers became aware of the tendency towards a systemic balance of payments deficit of US accounts. The awareness came through Robert Triffin’s formulation of the well-known dilemma according to which the US must choose between its own domestic macroeconomic priorities or the ‘equilibrium’ of the rest of the free world. In the half a century before 1941 the United States sought to establish its globalism in tandem with the aim of expanding exports. The strongest gravitational orientation was towards Asia and towards China in particular, although until 1937 Japan was the main export market for US products. In relation to Britain the US position on exports became apparent just after the signing of the Lend and Lease program. Washington made clear to London that the opening up of the Sterling area balances could become part of the repayment package. By the time the Bretton Woods conference was convened Britain had been compelled to abide by US demands. Michael Hudson (2003) has explained at length the US strategy of hollowing out the Sterling area in favor of the Dollar area. He also showed how the British Treasury quickly understood that opening the Sterling balances would bring a crisis in the UK’s external payments. In his book Hudson reported how the British Treasury went so far as to suggest that the Government declare bankruptcy thereby compelling the US to bail out its most important ally.

From the mid of the 1940s onward Washington relentlessly worked to pry open the Sterling area and the zones of British influence until their final dissolution. Undoubtedly one of the most important of all these activities was the unwritten agreement between Roosevelt and the Saudi king Abdel Aziz Ibn Saud on the 14th of February 1945 on board of the US cruiser Quincy. From that meeting immediately sprang the special relation between the United States and Saudi Arabia expressed in the unequivocal political and military support of the US Administrations to the House of Saud and to its religious and political regime. In exchange the United States’ corporation ARAMCO - especially created in 1944 - obtained the exclusive concession for the exploitation of the Arabian oil fields. Therefore, what were supposed to become petro-sterlings, thereby sustaining the inflow of capital into the City of London, became instead

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8 The move towards Germany was already underway immediately after the end of the war as lucidly documented by Carolyn Eisenberg (1996). Yet the British failure to sustain the South-Eastern flank of the Mediterranean accelerated also the decision to resurrect the Japanese monopolistic Zaibatsu - the main force behind Japan’s imperialism in the 1930s. This point is made by Michael Schaller, one of the most distinguished American historians on China and Japan (Schaller 1985, chapter 4 in particular).

9 During the secret meeting between Roosevelt and Churchill at Placentia Bay off the coast of Newfoundland in August 1941, the British Prime Minister did plead with the US President not to force Britain to open up its Sterling balances in order to meet the repayment of the loans.

10 It has been reported that upon the discovery of the Saudi Arabian oil deposits the Secretary of the Navy Forrestal told Secretary of State Byrnes "I don't care which American company or companies develop the Arabian reserves, but I think most emphatically that it should be American" (quoted by Stephen Shalom 1990 from Quandt 1981, p. 48). This statement is 100% against Britain’s financial interests since Arabia was part of the British area of influence and the only non American oil companies would have been British. Throughout the 1950s the United States Government continued its systematic encroachment on British imperialism, most notably with the ousting of the reformist government of Mossadegh in Iran. The 1953 coups d’etat - ironically commissioned by London to the CIA in order to restore the oil interests of British companies - led to Iran’s oil concession being reoriented towards US multinationals while the formerly dominant Anglo-Iranian Company received very little. My emphasis on the control of oil is in connection to the role that oil based financial flows would have had for Britain’s industrially fragile balance of payments. This perspective tallies with Hudson’s (2003) observation that the UK ended up dependent upon the IMF.
petrodollars. From 1945 to 1947 the UK lost crucial positions in the Southern Mediterranean: through a convergence between the USSR and the USA it had been ousted from Palestine, thus from the Eastern side of the Suez Canal, while the absorption of the House of Saud strictly into the US military, political, and oil interests eliminated a fundamental source of strength for UK capital accounts. As mentioned earlier, as of the late 19th Century Britain had been offsetting its trade deficits through financial inflows made possible by its control over the Empire and over India in particular (De Cecco 1974). WWII and US actions towards the Sterling area laid bare the British structural external deficit problem foreclosing any form of escamotage. That London could not shoulder the burden assigned to it by Washington in relation to Greece and Turkey should not have come as a surprise. Michael Schaller has been correct in pointing out that the British crisis created the momentum for throwing the full weight of the US behind Germany and Japan jointly, thereby implementing one of the main objectives of the Grand Area strategy.

The British crisis, entailing the downgrading of one of the victors, expunged the Western European arena from an effective British presence and voice. It enabled the US to power ahead in its quest to rehabilitate German big business. It required a policy, which evolved over the years between 1947 and the creation of the Coal and Steel Economic Community in 1950-52, aimed at forming a space for Germany in Europe while accommodating the exigencies of France’s elites, the most important of which was the determination to return to their imperialist status. In this context the United States’ attitude towards French imperialism was very different from its stance toward Britain. As soon as the WWII ended France reoccupied Vietnam and increased its grip on Africa where in 1947 it conducted a most violent repression in Madagascar. Washington did not object to the re-imposition of French rule in Indochina. The building of a new space for the German economy in Europe required the support of France. In their turn the French elites and the bulk of the body politic were - and still are - completely wedded to imperialism. This means that the preliminary condition for obtaining France’s cooperation on the German question entailed the US acceptance - willy-nilly - of the resurgence of French imperialism.11 The demise of the British position made itself felt especially in the Southern Mediterranean due to London’s failure to meet US’s tasks in relation to Greece and Turkey.

11 The problematical connection between US policies in Asia and France’s imperialism - perfectly captured in 1952 by the famous British novelist Graham Greene (see also the eponymous 2002 film The Quiet American featuring a magnificient performance by Sir Michael Caine) - is well discussed in an excellent volume written by Andrew Rotter (1987). The author stresses correctly how France’s war against the national liberation movement of Vietnam had been largely bankrolled by the United States. However, Rotter delves on the European aspects of the war only in relation to the impact of the 1954 defeat at Dien-Bien-Phu inflicted on the French Army by General Giap and Ho-Chi Minh. Rotter argues that the French debacle opened the way to Paris approval of West German rermament. He further maintains that France would have never agreed to such a rermament as long as its army was stationed in Indochina. Rotter’s point leads to an important inference: objectively the defeat at Dien-Bien-Phu also paved the way to the 1955 Messina Treaty that set up the framework for the formation of the Common Market enshrined in the Treaty of Rome of 1957. Hence the US strategy of nesting the Bundesrepublik in Western Europe with an unchallengable economic hegemony was, to a significant extent, successfully completed thanks to the victory of the Viet Minh. The enduring economic and political roles of imperialism for France from 1945 to the present have been comprehensively analyzed by Claude Serfati, a deep student of France’s political economy and of its military industrial complex (Serfati 2015). France’s body politic is so deeply immersed in imperialist ideology to the point that in 2005 the National Assembly (Parliament) passed a law instructing the Lycée teachers to espouse the positive sides of French colonialism. The law has been amended in the wake of the uproar that followed its approval.
Greece was a crucial country because of the big political and military struggle underway regarding its future position as well as its internal social set up. Both aspects would determine the features of the area stretching from Italy to Crete. The battle over Greece linked up with a concern for securing Italy’s position both in Western Europe and in the Mediterranean. Before the issues between France and West Germany could be settled and before there was any definite certainty as to Italy’s dynamic integration in Europe, the United States already in 1949 called upon Germany to integrate Greece’s main exports, essentially tobacco products, into the German markets and to provide technological modernization in the sphere of public utilities. The effort to link West Germany to Greece and to the far flung sensitive southeastern side of the Mediterranean immediately after the civil war, when the Federal Republic of Germany was just being founded, is a proof of Washington’s determination to open up a wide and unquestionable space for the newly formed Bonn republic and for the well-established German corporations.

**Summing up the Introduction: US intervention and the oligopolistic scale of the European Recovery**

The formulation of the Grand Area strategy explicitly envisioned that the United States would be flanked by two regional poles with Germany and Japan at the center of each. The path-breaking historical research by Eisenberg (2006) has shown that the American decision to divide Germany and to rehabilitate its big corporations - thus ditching Secretary Morgenthau’s moderate plan of reforms - had been reached as early as 1946. The forced British departure from the scene accelerated the process of opening up a wide space for West Germany with the US giving it the task of tying Greece to Western Europe. The forcefully pursued US policy of nesting Germany in Western Europe required a compromise with France’s ruling elites whose uppermost concern was to return to their colonial imperialism. As a consequence by 1947 - that is before the implementation of the Marshall Plan - the economic scenario for Europe entailed a reconstruction cum recovery led by Germany’s big corporations, while at the same time enabling the re-emergence of France’s imperialism with the corollary regarding Paris’ quest for a durable political-military hegemony in Europe. We will see that these two aspects – German big business and France’s hegemonic objectives - still determine the political economy of Europe.

Quite correctly, US policy makers saw the reigniting of growth in Europe, as much as in Japan, as being driven by oligopolistic corporations and not by the plethora of price taking businesses. It follows that the two main economic forces that were standing to benefit from the eventual new phase of oligopolistic growth were the German and the American companies. The former gained from the Third Reich’s conquest of Europe because the Nazi authorities, many of whom would become cadres and technocrats in the new Bonn Federal Republic, meticulously surveyed and re-organized the industries of the occupied countries, especially of France, the largest Continental economy during most of 1930s, to suit Germany’s overall production needs. German corporations had therefore a rather detailed knowledge of the production systems and of firms’ technical features all the way from Norway to Italy down to Greece. No equivalent knowledge existed as to the German and the wider European horizons among French and Italian

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12 A relatively recent Danish book gives a minutely detailed account of the US-German ties towards Greece that lasted from the end of the civil war in 1949 till the fall of the military dictatorship in 1974. The main instrument of the American-German link was the tobacco industry. Greece was to resume its role as the main exporter of oriental tobacco to Germany often against the penetration into the German market of Virginia tobacco. The issue dominated Athens’ official foreign economic policy throughout the 1950s and part of the 1960s showing that neither the US nor Germany had any intention of structurally transforming the Greek economy away from its deep state of underdevelopment. Greece never graduated from an unbridgeable trade deficit (Pelt 2006).
industries or institutions. Also, American corporations stood to benefit from a German dominated recovery chiefly for two reasons. Firstly, because they had been already heavily involved in the industrial sectors of the Third Reich with their own branches in the automotive and electronic industries. Secondly, at the European level, US multinationals were especially well placed to profit since they could link up their plants in Germany with their affiliates in the UK and in Belgium. In this way US corporations in Europe would become a major factor both in terms of structural integration, through the division of production planned by the companies, as well as in terms of market integration, because US firms looked right from the beginning at the overall level of European demand. The practical problem was that no spontaneous ‘market’ mechanism would bring about the desired expected level of profitable demand.

There is merit in both Kalecki’s writings in the 1930s on the cartelized economy and of the US debates from that decade to the end of the 1940s about recovery and stagnation in that they invalidated the view regarding the capitalist system’s spontaneous capacity to expand. In a monetary production system without the creation of demand, the predisposition and expectations vis-à-vis reconstruction and the prospects for recovery may well end up being frustrated. The first five years following the defeat of Japan corroborate the view that recovery may peter out. This happened around 1948-49 after the drastic anti-inflationary budgetary policies applied by Joseph Dodge. The reconstruction led recovery stalled and the economy headed towards something more severe than a recession until the arrival of the ‘gifts from the Gods’ as Japanese economic historians are fond to call the Korean War. In Europe too recovery could have faltered. In Italy where, as pointed out by Augusto Graziani, the 1947 deflationary stabilization had been particularly harsh, the economy stagnated till the end of 1949. The Korean War proved once more to be the factor that prevented the slide into a recession. The early postwar German case is also a good indication that there was no substitute for the creation of effective demand on a large Continental scale. The Bundesrepublik’s recovery would have likely come to a halt without the income transfer from the United States, without Cold War rearmament, and, specifically, had the Korean War - an unforeseen event from the European standpoint - not acted as a major impulse to demand for Germany’s capital goods.

The building up, mainly by the United States, of a demand centered set of external stimuli is the hallmark of European integration. As the external forces withered, the process of integration showed its limitations and began to fracture.

II. European Integration 1948-1957: from the Marshall Plan to the end of EPU

Towards German led and US sponsored oligopolistic growth; the position of France and Italy and the emergence of two polar mercantilisms.

With the new phase starting in 1947/48, marked by the jettisoning of Secretary Morgenthau’s plans as well as by stopping France from transferring to its territory industrial plants dismantled in its zone of occupation, and lastly, by the launching of the Marshall Plan - Western Europe moved towards a path of

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13 An analysis of the integration of US automotive companies into Nazi Germany and how such an integration worked after 1945 can be found in the volume by Simon Reich (1990).
14 On Italy there are two classical works: Augusto Graziani (1972) where his introduction is still unsurpassed. A lesser known work but an absolute masterpiece is the book by Gualberto Gualerni (1995). I should thank Riccardo Bellofiore for alerting me to the importance of Gualerni’s study.
modern oligopolistic growth which was very different from the system of cartelized capitalism prevailing in the 1930s. To emphasize the importance of the change let me remind the reader that still during the 1946-49 period European countries were trying to revive trade by falling back on the type of bilateral agreements that they signed during the previous Depression stricken decade. Oligoplies in an area like Western Europe require a much more accessible space with distinct macroeconomic dimensions for the exporting industries. Without the exogenous stimuli of effective demand policies, oligoplies would relapse into a cartel-like posture.¹⁵

Where does the need for a common/large oligopolistic area come from? We must start from the view that in industry prices seldom move according to supply and demand conditions. This happens in agricultural and raw material markets where products cannot be stored and are substitutatable. But in industry we either have homogeneous oligoplies or heterogeneous ones. Homogenous oligoplies are usually associated with the steel, cement and chemical sectors. There the bulk of productions are similar and the major difficulties in getting into those markets are the barriers to entry represented by the high cost of building plant and equipment. That is, the large start-up capital acts as a barrier to competition. Under these circumstances firms operating in those sectors can set their prices in relation to a target rate of return connected to their own planned growth rate. Heterogeneous oligoplies occur in sectors where product differentiation is significant. Consumers’ electronics and autos are a clear example of that. Competition is not the main factor in determining prices. Prices are fixed on a mark-up basis and competition is conducted chiefly through advertising and the financial facilities given to buyers, as in the auto sector for instance. Heterogeneous oligoplies also have barriers to entry similar to the homogeneous ones. Even if, say, in the auto sector returns are high, “the market” by itself is unlikely to generate new entrants because to set up a new automotive company is very costly. If one looks at the new entrants in the automotive markets, such as Japan in the late 1960s and South Korea in the mid-1980s, they all came from behind the barriers of strong national protection and developmental policies. Oligoplies, both homogeneous and heterogeneous, require large start-up capital and economies of scale to enable mark-up policies aimed at making that capital profitable. In restricted macroeconomies oligoplies become like cartels: they sit on top of their markets reaping rents without innovating. The history of the foreign multinationals in lightly industrialized countries like Argentina and Australia is a testimony to the static monoplistic/cartel like behavior of those firms when markets are small relative to the output potentials of the technologies owned by the said multinationals.

A common European space for a whole range of industrial products meant that firms would be able to set their mark-ups by factoring in the European level of demand. The European affiliates of US multinationals have been the trailblazers of this micro-policy while German companies - whose size compared to the other European firms was much nearer to the level of a European wide productive capacity - were in the best position to catch up. Ludwig Erhard’s famous price liberalization policy - prompted and aided by the Western allies’ occupation authorities - was nothing but the stabilization of oligopoly prices. In itself it had no significant impact on the German recovery which was much more fundamentally determined by US macro-policies and especially, as lucidly observed by Thomas Balogh in 1950, by the rearmament drive. Balogh wrote that: “the truth of the matter is that Germany, like most other European countries, benefited by President Truman’s enlightened Keynesian economic policy, which Dr Erhard and his ‘experts’ try to discredit in their own country” (Balogh 1950, p.102). Referring to rearmament he went on to state: “But all this shows the correctness of the Keynesian analysis and of Keynesian policies.

¹⁵ The best work on the micro and macro aspects of oligoplies and their dynamic behavior remains that of Paolo Sylos Labini (1962).
Rearmament means merely an intensification of the policies advocated in this paper to relieve distress - alas only for destructive purposes” (ibid).

By contrast, British companies were in a more difficult position. Britain, by displaying a virtually intact stock of industrial capital, was well placed to expand its industrial exports to meet Western Europe’s high demand. In fact, initially UK’s manufactured exports towards Europe did increase. Yet British companies were not up to the task in any lasting manner. They were not orientated to rationalize production chiefly because they were numbed by the imperial system of captive markets. At the time of the Ottawa conference in 1932 more than 75% of British industrial exports went to the Empire and the Commonwealth areas. Given the world depression, the Conference had been called precisely to further nest British industry into the imperial bosom. This meant that the export horizons of British firms were defined by highly populated countries like India having, however, an extremely low level of per-capita income and, therefore, of per-capita demand, while, at the same time, exports to the rich white colonial outposts were limited by low population size. Thus, after 1945 British companies had neither the financial capacity nor the technical means to climb onto a European scale of which, unlike the German firms, they had little knowledge. Of course, they could have undertaken the change with governmental help through industrial policies. Remember however that the British financial position had been enfeebled by US pressures regarding the sterling area and by the sudden termination of the lend lease agreement which London expected to last for some time after the war. In all possible respects Britain was out of the continental European scenario.16

It would be hard to say whether, relative to European integration, France was in a much better position than Britain. The country’s political economy exhibited conflicting features relative to the process of European integration. I have already mentioned the absolute determination of the country’s elites to restore their imperialist position. For Britain Europe was a problem as its ruling classes preferred the Empire. For France exercising direct hegemony in Europe constituted an absolute political and economic necessity because it was the terrain determining the relations with Germany. Thus they wanted to be in Europe lock stock and barrel with their imperialism not only intact but also strengthened. As shown by Claude Serfati, during the interwar period the role of the colonies expanded enormously, absorbing up to 40% of the country’s exports, a figure that did not change much till the end of the 1950s, well over a decade into the European integration kick-started by the Marshall Plan. France did not have an India to exploit (Indochina was not remotely near the role played by India for Britain), nor did it have relevant white settlers’ states, except a tranche in Algeria. Thus French colonialism affected the outlook of the country’s industries even more than in the case of Britain. France’s imperialism was a safe source of rents thereby sustaining the weight of the large rentier classes in the country’s politics. This state of affairs sat well with the picture of France as a country controlled by a state elite and a number of large banks and firms also glued to the State with a plethora of inward oriented small enterprises around them.

The cleavage between the gravitational pull of imperialism and the need to establish a role in Europe, without which the integration of Germany would have been most problematical, would wreck the Fourth Republic. From the end of the Second World War till the formation of the Fifth Republic in 1958, France

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16 The lack of dynamic transformation in British industry was the focus of Nicholas Kaldor’s 1966 famous inaugural lecture at the University of Cambridge Nicholas Kaldor (1966). The non-suitable nature of British firms both in the context of European integration and of Germany-US integration has been studied in recent book by Volker Berghahn (2014) of Brown University. The relevant part is chapter 6: “British and German Business and Politics under the Pax Americana, 1941–1957.”
annually displayed current account deficits which brought about a number of devaluations of the French franc (the Bretton Woods agreement allowed for once over devaluations). However those external deficits did not block growth because of the Marshall Plan’s moneys, NATO’s funding, to which one should add the bankrolling by Washington of the Indochinese war. Nevertheless until the extra-institutional rise to power of de Gaulle, France’s capitalism did not have a strategy of European integration. As pointed out in a detailed study by Jean Pierre Dormois (2004), empire trade was contributing to the negative performance of the trade balance. The recurring devaluations showed that France’s industry did not yet possess the features needed for the country to play a dynamic economic role in Europe. The French conundrum emerged rather clearly during the negotiations leading up to the Messina Treaty of 1955. Having been the prime mover in setting up the European Community of Coal and Steel in 1950 (CECA) - involving the very same countries that later would form the Common Market - Paris was rather ill at ease with the Messina program regarding the schedule for trade liberalization in manufacturing. Only after de Gaulle’s rise to power (1958) and the defeat of the mutiny of elements of the French Army stationed in Algeria against the President (1961), would France’s capitalism be provided with a state planned European strategy where the economic and the military-nuclear dimensions became tightly intertwined.

Italy is the third and crucial factor in the formation of a European oligopolistic space. Without Italy the US sponsored economic integration would have amounted to a half-baked project. For post 1945 Italy, integration with the rest of Europe was absolutely vital as much as it was for the young Bundesrepublik. In this sense one may well use a slogan from the 1968 students’ rallies in Paris: *Allemagne-Italie: même combat!* Germany however displayed a capital goods sector capable of producing machines for its own machine sectors, for its own non capital-goods industries, as well as for exports to the rest of Europe. Its corporations were - size wise - already poised to become oligopolies on the continental plane. What

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17 “By the 1950s it had become plain that empire trade was in fact contributing to France’s balance of payments deficit, thereby deepening the ‘dollar-gap.’ Empire trade, by providing a ‘life-raft’ to some failing industries at home and a ‘safe-haven’ to others, was skewing French exports towards basic run-of-the mill necessities.” Jean Pierre Dormois (2004, p. 38).

18 The theoretical understanding of the German mechanism of accumulation can be clearly evinced from the seminal book by Adolph Lowe, *The Path of Economic Growth* (1976). It is one of the most important 20th century works on the structural aspects of growth, capacity creation and capacity liquidation. Lowe’s theoretical model is based on three sectors in a vein similar to Marx’s schemes of reproduction. Hierarchically the top capital goods sector is formed by the machine tools sector. Here machines can reproduce themselves as well as produce an intermediate capital good useable only in the consumption goods sector. Thus the total stock of capital in a developed economy is distributed among three sectors: Km = the stock of capital in the machine tools industries; Ki = the stock of capital in the intermediate investment industries producing machines functioning only in the consumption goods sector; Kc = the stock of capital in the consumption goods sector proper. New equipment is produced by both Km and Ki. Equipment produced by Km is the gross quantity of new machine tools M generated every year. Equipment produced by Ki is the gross quantity of investment goods I made available to the consumption goods sector. These quantities of equipment can be greater equal or less than depreciation depending on the state of the business cycle. Thus the total quantity of machines produced by the Km and Ki sectors is - using a price index - M + I. Km is the sector from which the machines making machines originate; it plays the crucial role of ensuring the reproductive capacity of the system. M output can be allocated to both Km and Ki. I output can only be installed in the Kc sector. Germany may be portrayed as having a strong Km sector which expands also the Ki sector. Italy would have, in this context, a relevant Ki machinery producing I equipment for the Kc sector and at the same time would display, for a quite a while at least, a significant amount of imports of M machines. Notice that beyond a certain ‘Rostovian’ level of development, it is not so much the absolute size of the Km sector that matters but rather its capacity to act as the reproductive engine of the economy.
Germany required was an overall dynamic European effective demand so that its exports could flow without being hampered by the balance of payments problems that the other European countries could face.

Italy did not have the array of capital goods sectors of Germany or even of France. None of its major firms was near a European level of productive capacity. While some, like the major automaker FIAT and the ancillary tire company Pirelli, could claim near monopoly status in the respective domestic markets, none could establish itself as a leading European oligopolistic company. Italy’s industries though, were not so badly damaged, except for steelmaking capacity. Furthermore there existed a significant panoply of firms producing consumption goods for which Italy was already well known. These were accompanied by many companies operating in the intermediate mechanical and capital goods sectors servicing the consumption goods ones. Hence an effectively financed program of European recovery was bound to generate exports in those products, as well as boost the production of the machines coming from the intermediate capital goods sector. What Italy badly needed was foodstuffs and the relevant raw materials for industry. The European Recovery Program known as the Marshall Plan provided just that.

For both West Germany and Italy, integration into Western Europe was a vital economic necessity, which was quite different from France’s elites’ aim of combining their exigencies of political hegemony vis à vis the Bundesrepublik with the lopsided colonial nature of their politics and economy. However Germany and Italy were at the opposite ends of the process of integration. The former acted as the integrating force by determining, through its machine sectors, the technical features of capital accumulation, while the latter relied on the growth of Europe’s consumption demand in which that of Germany would loom large. The structural dichotomy between Germany and Italy implied a radically different economic role for the exports of each of the two countries. Italy needed sustained growth in its exports for chiefly three reasons: (1) to finance the purchase of raw materials and of oil, (2) to overcome - by means of steel imports - the existence of bottlenecks obstructing the input-output flows joining together the steel and the mechanical industries, (3) to attain through the European levels of effective demand the required economies of scale in the relevant industrial branches. Hence a safe trade balance was essential for the domestic industries as well. In particular, the rapid expansion of the domestic oligopolies, selling mostly to the national market like autos and scooters, would have been much harder to implement without a sustained export performance.

In the case of Germany we obtain a different picture. Except for the immediate postwar years, domestic investment (production of machines) and exports constituted major elements in the mechanism of realization of profits and in furthering at the European level the oligopolistic position of German companies. No one better than Michal Kalecki offered the appropriate theoretical definition of the role played by exports in a country having the industrial structure of West Germany: “It is the export surplus and the budget deficit which enable the capitalists to make profits over and above their own purchases of goods

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19 Among Italian economists only Gualerni (1995) pointed to the rather limited war damage suffered by Italian industry. His study being by far the most accurate one, should carry the day. Gualerni chastised Italy’s policy makers and economists for blindly subscribing to the view that the country was lacking capacity and physical capital. The consensus regarding the overall lack of physical capital, he argued, led also the Communist and the Socialist parties to ultimately accept harsh deflationary measures which retarded recovery.

20 It is worth stressing in this context that France’s elites changed tack neither as a result of a rational and informed assessment of the viability of colonialism, nor of the country’s position in Europe. In the case of Vietnam they were simply compelled to relinquish their Asian imperialism following the defeat of the French Army, limitless US support notwithstanding. In the Algerian instance the very same elites found themselves mired in a series of political crises culminating in the 1961 failed patched up military “golpe”.
and services” (Kalecki 1971, p. 86). In the course of time Italy too would become export dependent but in a way that kept it always quite apart from Germany. Thus postwar Europe witnessed the systematic expansion and consolidation of two forms mercantilism (or of export oriented economies).

The first and dominant one is Germany’s structural neo-mercantilism. The Netherlands, Switzerland, and Austria, and the bulk of the Belgian economy are tightly linked to it in terms of their input-output relations. All of them benefited and still benefit from the net export wave of Germany. Holland formerly via its industry and advanced agriculture and now through its high-tech branches and as a center of industrialized services, Switzerland as a major supplier and importer of specialized capital goods and automotive products and Austria as a supplier of intermediate advanced technologies and a buyer of machinery and of motor-vehicles. This group of countries, numbering today 42 million people, i.e. just 62% of either France’s or Britain’s population, and no more than 68% of Italy’s, has come to represent over the years the largest export destination of Germany’s output. The Benelux and Austro-Schweitz (BAS) area now absorbs more products from Germany than the amount purchased from it by the United States and France combined, who are, respectively, the first and second importer of German merchandise. At the same time the BAS group is also the largest exporter to the Bundesrepublik with which it has a deficit compensated by the overall surplus position of the BAS group.

The exchange relations between Germany and BAS highlight the structural nature of German mercantilism. The surplus is due to the vast array of capital goods and technology sectors in place on the German soil following more than 150 years of priority and care given to these branches, albeit under very different political regimes. These sectors can endogenously produce new technologies while their complexities also require imports of intermediate products, highly specialized custom made machinery, ad hoc wide ranging logistic services. It is evident that in such an integrated framework the objective is not competition through prices but through technological innovation supported by appropriate mark-up pricing.

The second, but subordinate, form of mercantilism is the Italian one which grew particularly during the 1960s and 1970s when the issue was no longer that of exporting textiles in order to import foodstuff or steel. Its features had been established during the 1950s. Its main aspect is the price sensitivity of exports which happens when the country’s products are easily competed against by foreign substitutes. In the oligopolistic fixed exchange rate framework that prevailed until 1971, the high elasticity of foreign demand relative to the prices of Italy’s products meant that wage increases either impacted directly on export prices or on profit margins. In the first case export demand would be affected whereas the second instance impacted upon profitability. The concentration of exports in products having a high elasticity of demand in relation to price is also the reflection of an incomplete domestic development in the array of capital goods sectors and in their size which gave to Italy’s own export growth, second only to Japan’s, a relatively high import content. To this very day the German-Italian dualism in relation to exports marks analytically the structural divide within Europe. Below Italy there are countries with permanent external deficits with no hope of become net exporters, except temporarily when their economies are mired in deep recessions. These are Spain, which is quite industrialized but fails in its capital goods sector, Portugal, and Greece.

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21 The issue has been stressed by both Augusto Graziani and Paolo Sylos Labini. It will be seen that Graziani’s analysis is relevant for the understanding of the 1970s and 1980s.
Through Germany - carrying Austria and Switzerland - the Benelux and Italy, the European system was made to gravitate heavily towards export led growth. Exports thereby ceased to be a residual. The formation of a common economic space would have hardly come about if exchange rates were not fixed as per Bretton Woods. Indeed with flexible exchange rates a European area of effective demand would have not emerged. Floating exchange rates would have compelled some countries to treat their exports either as a residual, or would have made their exports depend on competitive devaluations, which no country wanted, quite rightly, to envisage.

The role of the United States and its institutions.

Export led growth may be attempted by every single country but cannot be successfully attained by all unless exports end up in another inhabited planet. US authorities favored as much as possible the export growth pattern seemingly unaware of that fallacy of composition until Triffin formulated his dilemma. In effect what preoccupied the US was the possible persistence of what was then called dollar shortage resulting from the balance of trade surplus of the United States and from the dollar denominated raw materials and oil that European countries had to import. The direct and indirect control by the United States over raw materials was the factor that closed the US system of hegemony. But it is also the element that led the United Sates to get deliberately and persistently embroiled in armed conflicts, interventions, and military coups against Third World’s independence nonaligned movements or even against simple reformist governments like that of Mossadegh in Iran. To square the circle every hegemonic act had to be counterbalanced by a series of decisions - including those of military nature - that relaxed the dollar shortage having, therefore, a further ‘Keynesian’ impact on the capitalist economies of Europe and - mostly from the 1960 till the end of the Vietnam War - on those of Japan, South Korea, and Taiwan.

As to Europe, during the first 14 years after the end of the Second World War roughly up to 1959, US institutions operated in the direction of an overall European integration in such a way as to reduce - and nullify - the balance of payment constraints of the countries concerned. The Marshall Plan played an absolutely central role also qualitatively because its institutional mechanisms worked, sometimes unwittingly, mostly on the demand side. To begin with, the Plan was based on the principle of counterpart funds which entailed that countries receiving ERP shipments would pay the equivalent dollar amounts in domestic non-exchangeable currencies into a common European institution called the European Payments Union especially set up with US capital at the Bank of International Settlements in Basel. In practice the counterpart funds arrangement allowed the European countries to pay back to themselves the sums nominally owed to the US for its shipments to Europe of the Plan’s earmarked goods. This form of payment would cancel the equivalent deficit held in relation to the USA. The sums - denominated in non-convertible currencies - while calculated as repayments could only be used for the purchase of European goods. Counterpart funds were also used by the participating governments to retire public debt. Moreover the funds and EPU became the main instruments for establishing a European centered trade system. The working and the scope of the Marshall Plan for Europe as a whole has been nicely put by Ronald McKinnon (1991) in the Asian Wall Street Journal. He wrote as follows:

Instead of giving bilateral aid to individual countries, the American government decided to redirect its aid and credit multilaterally to regenerate Western Europe as an integrated bloc. Trade creation within Europe itself was given center stage - with American aid confined to a pump priming role.

Furthermore, the Plan aimed successfully to limit trade diversion from Europe towards the United States:
[a]ny country was allowed to discriminate against buying from the dollar area (mainly the U.S.) in favor of imports from other European economies.

The role of the European Payments Union appears in full in relation to the position of West Germany. As mentioned earlier, German corporations, unlike most other European companies, in terms of size and in terms of the array of products were already oligopolies having a European productive capacity. They also had a knowledge of the economies of the European countries superior to that their trading partners had about Germany and the rest of Europe. Therefore the renewal of intra-European trade thanks to the US initiative with the Marshall Plan meant first and foremost German net exports to the rest of Europe. Without EPU the other European countries would have found rather quickly their investment plans blocked by the external deficit vis-à-vis Germany while all of them were still in a dollar shortage situation. At this point the German constraint would have been met mostly by means of recessionary measures thereby impacting badly upon Germany itself. The process of European reconstruction and growth would have been seriously weakened.

EPU, by contrast, acted as a clearing union facilitating commercial credits (Milward 1992). The surpluses arising from the intra-European trade were deposited by the surplus countries in EPU accounts. Currencies were not exchangeable directly but through EPU. The sums could be spent, via credits, throughout Europe. There was no point to letting those amounts sit in the EPU accounts, nor could they be used for purely financial transactions. Thus the surplus countries themselves, essentially Germany, had an interest in enabling the deficit ones to use the surplus moneys via credits and/or to protect their domestic markets in the case of structural rather than conjunctural external deficits. There existed within the EPU formal procedures allowing the country in structural deficit to undertake measures directed at limiting imports without having to rely on recessionary policies. This type of smart economic engineering, the policies of the Marshall Plan and the mechanics of EPU, was due to the intelligence of Robert Triffin and Charles Kindleberger, who devises institutional forms that protected Western Europe from the possibility of severe intracontinental balance of payments crises which could have arisen from the predominance of the German surpluses, as well as from the persistent weakness of France’s balance of payment due its colonial entrapped political economy and to the military interventions in Indochina and North Africa.

However, it must be remembered that the Marshall Plan and EPU constituted necessary but not sufficient conditions for recovery and beyond. The factor that made it all happen was US expenditure that is, the systematic transfer of purchasing power from the Unites States to Europe lasting until 1957. Unlike the case with post-war Japan, where the US occupation authorities supported Tokyo’s government decision to reiterate the 1940 law barring foreign investment into the country, the active directing of European trade towards Europe itself and allowing discriminatory practices towards US imports did not go against the interests of US large corporations. In many capital goods items, such as the long-range commercial airliners manufactured by American aviation companies, imports were inevitable anyhow. More importantly, US corporations were already operating in Europe, in Germany in particular, and were therefore most interested in seeing it develop into an integrated market.

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22When in jeopardy the viability of EPU was guaranteed by US capital injections approved by Congress. Indeed, without such a support Germany would have been hard put to avoid a balance of payment crisis due to the sharp rise in raw material prices with the outbreak of the Korean War. As it happened the prompt US injection of capital into EPU not only enabled Germany to overcome the rise in raw material prices, but it also permitted the Bundesrepublik to benefit directly from the war through the increased demand for capital goods caused by the conflict.
Viewed in this context the Marshall Plan and its follow up was not just a recovery program. By opening the road to an integrated European economic space, the strategy explicitly exported to the Continent the US oligopolistic system. US policy makers aimed at creating the conditions for European markets to be compatible with those of the US. The European framework within which US corporations operated, their input-output linkages, and the nature of competition with other European companies, was to become synergetic with the mainstay of the European economies, namely with the German industrial system. This objective was openly stated during the political and economic discussions regarding the recasting of the West German economy and the transformation of the system of cartels into oligopolies.

III. Conclusions

It should become apparent, at this stage, that it was the US sponsored integration, started by the Marshall Plan and institutionalized in the EPU system, that dominated the process of European integration. It enabled both economic and institutional integration. Without US institutional intervention the 1950-52 European Community for Coal and Steel, which led in 1957 to the formation of European Common Market, would not have come about. The six countries could undertake their institutional integration because of the framework provided by the United States. The problematic component of the group was France because of its colonial involvements the burden of which went beyond what could be accommodated by the said US inspired and sponsored bodies. Indeed in 1957 France had to be rescued by the IMF. Within that context there was one dominant pattern of dynamic cumulative causation represented by the growth of the Western German economy followed by a dynamic but subordinate export-oriented process typified by Italy. The EPU system and US institutional spending on Europe cushioned the European countries from two US recessions, namely that of 1954 and that of 1957-58, thereby confirming Kindleberger’s remark that the Marshall Plan never ended since it became the NATO ‘Plan.’ Two post-Soviet era books have extolled the virtues of the combination of ‘butter and guns’ in providing stability (Kunz 1997; Forsberg 2000). In relation to the United States and East and South East Asia, ascribing to the butter and guns policy an aura of enlightened guidance is irresponsible. Yet for Western Europe in the 1950s that combination - embodied in a whole series of arrangements - did wonders.

The year 1957 can be taken as a watershed mark because of the founding of the Common Market. It was followed by the shutting down of the EPU at the end of 1958 with the respective currencies returning to direct convertibility in a fixed parity system. Pretty soon the European scenario became characterized not by positive feedbacks but rather by stop-go policies aimed at addressing external imbalances while increasingly counting on net exports as the strategic driver of demand and employment. This kind of perverse Keynesianism, particularly strong among the countries of the Common Market, began to dominate during the 1960s and was further enhanced with the collapse of the fixed parity regime in 1971. Luigi Pasinetti gave a precise definition of the perverse process while it was happening:

The ‘Keynesian’ management of total effective demand has by now become such a common Government policy as to be used sometimes not only for achieving full employment, but also for deliberately causing ‘Keynesian’ unemployment (Pasinetti 1974, p.41n).

The 1957-1971 scenario will be discussed in the next essay which will be extended up to the formation of the European Monetary System in 1979. In particular it will be shown that the Europe of the Common Market and of the EEC was never, and could hardly become, Keynesian, as much as it could never be transformed into a federal system in the sense dreamt by Altiero Spinelli.
References


