
U.S. Military Assistance to Europe, NATO's Military Build Up, and the Start of Intra-European Economic Cooperation, 1947-1955

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Abstract: This contribution pinpoints the interconnectedness between Nato's military buildup at the start of the Atlantic Alliance under the umbrella of U.S. military assistance to Europe, the revamping of a few manufacturing sectors that it fostered across Western Europe, and the early steps in the making of intra-European economic integration through cooperation in military productions. After an introduction, section two cast light on the early U.S. bilateral military assistance programs to western European nations prior to the founding of the Atlantic Alliance. This early U.S. military assistance was based on the transfer of military spare parts, end-items and machine tools and took place without entailing the foundation of full production capacity across Europe. Section three makes sense of the transition from U.S. bilateral assistance to the multilateral structure of NATO's coordinated production programs, which since 1950 combined military rearmament defence target with domestic economic expansion in each NATO's member states, close industrial and trade cooperation among them, and continued targeting of dollar gap in Europe through a system of coordinated productions placed by NATO and paid for in U.S. dollars based on a principle of financial burden-sharing among the member nations. Section four pinpoints the evolution of this multilateral procurements system, the OSP programs, through the case study of ammunition contracts and NATO's infrastructure programs, which served as a flywheel to introduce higher technical content in both high capital intensive and low technological content European firms. After shedding light on the influence of Cold War confrontation on the placing of OSP contracts by the mid-1950s and the ill-functioning of multilateral productions (section five), the article rounds off by stressing how the OSP programs were on the whole successful in combining trade integration, financial stability and technological drift under the umbrella of orders placed and rewarded either by NATO or the Pentagon.

Keywords: NATO's Rearmament Programs, European Industrial Cooperation, Off-Shore Procurement Programs, European Trade and Payments System, European Manufacturing Industry, NATO's Financial Burden Sharing

1. Introduction

Since their combined postwar inception the history of NATO, that of European industrial restart and take off, and that of intra-European and transatlantic trade and payments came to be strictly interconnected one another. More precisely, the non-military objectives set forth in the article 2 of the Atlantic Treaty, the reorganization and reconstruction of low and average capital intensive manufacturing, and labor intensive infrastructures across the Western European member states of NATO, and the early steps of the process of

intra-European economic cooperation, became complementary to each other. The signing of the Atlantic Pact in 1949 followed the restart of bilateral trade and economic relations between different war-torn Western European countries over the previous two years. Since that time, the revamping of European manufactures and means of mass communication and telecommunications revolved around and were substantially grounded on the industrial mobilization stimulated by the Atlantic Alliance defence policies and military build-up. Furthermore, and crucial to this contribution, since the beginning such industrial

mobilization took place against the backdrop of increasing intra-European economic cooperation and intensified trade relations between western Europe and the United States, and became a powerful tool for fuelling the beginning and erection of intra-European trade and payments.

This contribution aims at outlining such interconnectedness between Nato's military buildup, the revamping of a few manufacturing sectors that it fostered across Western Europe, and the early steps in the making of intra-European economic integration, with specific reference to the shaping of a Continent-wide system of trade and payments in raw materials, instrumental and investment goods, consumer goods and manufacturing-processed military end-items. A process of economic integration revolving around the pillar of military productions that set conditions for a full exploitation of and interchangeability among each Western European economy's manufacturing capacity, instrumental goods and raw materials resources, or manpower. In so far as the pillar of this industrial and trade cooperation were on the one side the labor intensive construction industry and all of those mature sectors boosted by the NATO infrastructure programs, and on the other the average capital intensive manufacturing industry that took advantage from the Atlantic Alliance defence programs set off at the very start of the 1950s, this contribution focuses attention on the NATO infrastructure programs and the off-shore procurement programs (OSP) that NATO and the United States placed with low and average capital intensive European industries such as the ammunition industry and the mechanical and metalworking industry working on subcontracting for the aircraft industry, a sector that forewent Intra-European industrial cooperation in average-capital intensive production lines. In carrying out this exploration this contribution also aims at pinpointing the two lines of financial contribution to the OSP programs: on the one side NATO cost-sharing financial allotments to the member states of the Alliance, on the other the appropriations to finance European industrial mobilisation on behalf of NATO defence programs out of the annual law for foreign aid passed by the U.S. Congress annually.

Thereafter, we spotlight the trajectory of such cooperation in manufacturing in the following decade up to the mid-1950s cleavage: at the time on the one side the creation in Spring 1956 of the Committee on cooperation in non military field, the so called Three Wise Men Committee, on the other extensive discussions on disarmaments that took place in 1957 between the Atlantic Community and the Soviet Union within the United Nations SubCommittee on disarmament, marked a watershed after which the trajectory of NATO rearmament went all the way down to foster the manufacturing of new production lines to supply new weapons to its member countries [1]. Therefore, by focusing on the NATO coordinated productions of aircrafts and ammunition during this time frame, this contribution leaves intentionally aside the upscale of coordinated production for air defence from the 1960s through to the following decade, when since the production of the F104 G aircraft and of

advanced anti aircraft missile systems such as the Hawk or the air-to-air Missiles Sidewinder [2], from the early 1960s up to the start of production-sharing for technologically advanced air strikers and helicopters during the 1970s, intra-European and transatlantic manufacturing cooperation combined closer trade and industrial exchanges, and increased capital intensive military production lines and weapon products that equipped the Atlantic military forces with highly technologically-advanced weapon and service equipments.

2. U.S. Support for European Economic Cooperation and Military Assistance to Europe 1947-1949

The history of post-WWII industrial cooperation in the military sector among war-torn European countries began a little bit earlier than the signing of the Atlantic Pact in the Spring of 1949, and took place within the framework of postwar U.S. bilateral military assistance to West European countries. Besides, before the birth of NATO it mainly revolved around U.S. transfer to European countries of military equipments, munitions, spare parts and military end-items against the backdrop of U.S. Congress appropriations to assist friendly nations at the inception of the Cold War confrontation. In essence such a kind of assistance took place from 1947 to 1949. Since the formulation of the European Recovery Program (ERP) the Truman Administration considered to include a military Annex to the Marshall Plan legislation, the so called ECA bill, to provide Europeans with military assistance as part of Marshall Plan aid programs. Though this annex was discarded for fear that it might prevent the Marshall Plan from getting Congressional approval [3], it sheds light on the early U.S. concern for the security of European countries and on the U.S. intuition that, instead of running counter to each other, security policies and economic recovery could be combined with each other. The U.S. fears began as early as the British retrenched from their past military commitment on the Mediterranean basin, first and foremost in Greece since 1946, and took stage in the beginning of 1947 when the U.S. administration ask the Congress' approval of an economic assistance package to Turkey and Greece [4]. Thereafter, it mounted out of the Soviet coup d'etat in Czechoslovakia in February 1948, the East-West confrontation over the city of Berlin in 1948-1949, which among other events in international affairs marked the rise of the cold war with the Soviet-led Berlin blockade in 1949. During this two-year period the United States administration set in motion a series of military assistance plans and brought them before the Congress to get them funded. These military plans at the same time aimed at reorganising the national military army of countries in Europe and provided bilateral military assistance from the United States to each of them. Concomitantly, during this two-year period the United States laid down the foundation of another initiative that at the turn of the new decade will

play out in making the NATO military build up a powerful tool to promote industrial cooperation and the integration of Western European countries' manufacturing system: owing to the slow and uncertain progress of European recovery as early as these years the Truman Administration was aware that without U.S. support for promoting economic cooperation and exchanges among defeated nations it would not be possible to make Europe safe from Soviet influence. Against this backdrop the United States pointed attention to Germany and its crucial economy: before 1949 Washington not only had discarded past projects to scale back the German economy, an approach mostly mastered by the Roosevelt administration's Secretary of the Treasury Henry Morgenthau, whom suggested to deindustrialise the German economy and scale it back to an agriculture-centred economy [5], nor did the United States any longer fear from the resurgence of German economic might and potential expansionism. Rather, Washington began considering the resurgence of a German national economy and manufacturing industry as a vital step to promote European economic cooperation, in turn essential to strike back any Soviet move to extend its influence westward: U.S. officials recognised that the German economy was vital to the broader process of European reconstruction, and owing to French resistance to integrate defeated Germany in Western Europe the United States identified with a process of close European economic integration a pathway to accomplish European reconstruction and make at the same time continental economic recovery bound to the German economy [6]. However, even as the United States started planning full support for a European recovery revolving around the linchpin of closer economic relations and cooperation among European partners with the German economy as a pivotal driving force, the aforementioned mounting tensions that culminated in the 1948 Berlin blockade prompted Cold War tensions to rise. Such tensions brought Soviets and Americans to the brink of armed conflict. It was in this context that the American turn to promoting economic cooperation in Europe paired with Washington's support for a quick reorganization of national military armies in most Western European countries, first and foremost in Greece and Turkey, then in Italy and other war-shattered European nations. Accordingly, before the signing of the Atlantic Pact in April 1949 the United States began transferring U.S. military surpluses. Therefore, the U.S. Congress passed laws appropriating financial support to rebuild national armies in key countries that will remain at the center of American military assistance and strategies at least up to the mid-1950s [7]. In essence these appropriations for military assistance were bilateral and boosted American export to each recipient nations [8], thus paving the way for making production, supply and demand of military equipment the fly-wheel to resurrect bilateral trade relations between the United States and former war-wrecked western European economies. In 1949 this set of bilateral military assistance programs uttered in the signing into law by the the U.S. Congress the Mutual Defence

Assistance Act, which provided funds to friendly nations: this program, which was implemented after the signing of the North Atlantic Treaty, was organised in grants and loans for military assistance purposes. It offered to non-Communist nations both weapons, components for European military productions, spare parts, machine tools, and financial support to each of its beneficiary European economy in support for European import of instrumental goods and consumer goods required in connection with the start of military assistance [9].

Therefore, during this two-year period two characteristics featured economic cooperation in the military sectors. On the one side it followed the fundamental dynamics that underpinned the restart of industrial cooperation and economic relations among the western industrial countries. At the time many European countries began reopening their national economies through bilateral trade and economic relations with other former belligerent countries. This was for instance the case of Italy and France: the two countries restarted bilateral trade in the first few years after the end of World War II [10]. Likewise, in so far as the course of cooperation in the military field began under the auspices of U.S. Congress military appropriations to friendly nations, it came about through U.S. bilateral military assistance to Western European countries. In the second instance, military assistance did not involve the restart of production lines in friendly nations or any effort to technological transfer or the creation of an infant military industry. In the United States the debate revolved around whether or not, and to who extent, set in motion the reorganisation of national military forces in former belligerent western European nations. Both in countries where this eventually occurred, such as in Italy, and where it did not owing to multiple reasons as it was the case of Germany where both the German public opinion and some future NATO partners as France run counter to an early reestablishment of a German national military [11], before 1949 the Americans debated, and the Congress appropriated, the transfer of military spare parts, instrumental goods and end-item weaponries in the pursuit of reorganising a national army, rather than in the aim to stimulate the rebirth of a national military industry. Therefore, prior to the establishment of the Atlantic Alliance the United States did not conceive military assistance as a fly-wheel to develop autonomous production and defence capacity across friendly nations. For this reason in order to pinpoint the linkages between the beginning of military build up and the rebirth of Europe-wide military industrial complex, as well as the establishment or recovery of labor-intensive and average capital-intensive manufacturing firms across the Western European countries, and the beginning of intra-European industrial and trade cooperation in such manufacturing sectors for which cooperation in the military sector served as a chance and a fly-wheel, it is worth focusing on the military productions stimulated under the NATO procurements since its foundation at the turn of the 1940s.

3. European Industrial Cooperation, Financial Burden-Sharing and Economic Expansion 1950-1952

The establishment of the North Atlantic Council in early 1951, and within it of its working organisation, the North Atlantic Council Deputies, marked the starting point for a reconstruction aiming at pinpointing the aforementioned interconnectivity between the Atlantic Alliance defence policies, the full recovery, restart and technical upgrade of European industrial production lines, and the early turnaround in the process of European trade cooperation. The North Atlantic Council brought together representatives from the member states' Ministers involved at national level in the defence policies and military buildup of NATO. As such, not only the Foreign Ministers, but also representatives from Economic, Finance, Defence and Treasury Ministers represented their respective governments. Therefore, since its inception the Council approached the issue of rearmament from a broader perspective that encompassed both the Alliance defence and security targets, and the economic implications that this entailed for its member states. However, in early 1951 such attention to this interconnectedness between military build up targets and their economic feasibility in each national economy was thought in order to maximise available and unused industrial production lines to meet the Alliance defence objectives: it was not clearly based on the idea that rearmament should entail economic growth or help accomplish economic reconstruction. The creation in January 1951 within the Alliance of the Defence Production Board was aimed to maximise military production but did not place it within the framework of broader expansionary targets for the national economies broadly conceived: as a matter of fact its purpose was «to achieve the maximum production of military equipment in the most efficient manner at the least cost and in the shortest time to meet the military material requirements of NATO» [12]. However, the parallel creation of the Finance and Economic Board, a sort of advisory body charged with instructing the North Atlantic Council and the single national governments with respect to the economic and financial aspects of the Community's rearmament programs, marked a step forward in the ways the Council approached the economic dimension of rearmament. The Board had to advise the national governments on the economic feasibility of the defence effort set up at NATO level for each member state's economy. At the same time, it was designed to serve as a sort of liaison between the Council and the infant Organisation for European Economic Cooperation (OEEC). This two-fold commitment best spotlights two concerns that drove the early steps of the Atlantic Community: on the one side the aim at setting conditions to strike the balance between the economic impact of the industrial mobilization required by the military build-up at national level, and the military and defence objectives of NATO as a defence and security community. In the second instance, it sheds light on the intertwining between such NATO industrial mobilisation,

and the very beginning of European economic cooperation. However, what brought the shaping of the Atlantic Alliance defence efforts all the way down in this direction was the Ottawa Council Meeting held in September 1951. At the time, the Military Committee called on the national governments to provide a financial contribution that exceeded far greater the amount each country was willing to contribute. The combining of this issue and an early Fall 1951 macroeconomic framework at international level marked by rising raw material prices, peaking international inflation, and balance of payments disequilibria across the member countries of NATO, prompted the North Atlantic Council to take increasing care for waging the industrial mobilisation required in each member state and its implication on the economic stability and growth-level in each national economy. The establishment of the Temporary Council Committee (TCC), gathering together clusters of experts from the member states and led by the so called three wise men (Plowmen, Monnet and Harriman), was thought to exactly target such tangle of issues. At the same time the North Atlantic Council instructed its working bodies and the member states to implement the Article 2 of the Treaty, where the founding nations stressed the non-military and civilian objectives of the Alliance as a vital component of a defence and security organisation. The TCC, which became operative shortly after its creation, worked on a report filed to the North Atlantic Council at the end of 1951 that marked a step forward along the Alliance's commitment to seek a balance between its defence programs, Europe-wide industrial cooperation in military productions, and its implication on the rate of economic growth and social stability in each domestic economy. In setting benchmarks to determine the degree of industrial efforts that each country could bear without impairing its economic stability, the TCC report made a step forward crucial to understanding the relations between defence programs, the restart and expansion of European military industrial complex, and domestic economic stability that soon underpinned military build-up. According to the TCC, the economic and industrial mobilisation set for rearmament purposes should not only not impair economic development and social stability in each member state, but it was also designed to serve as a flywheel for implementing and multiplying economic expansion. This target forerun a long term non military objectives of the Atlantic Alliance rearmament programs and the economic cultures which it was grounded on. In the first instance NATO viewed the defence efforts, and therefore its defence and security programs, as a powerful tools to foster economic growth at national level and, as this contribution will point out, closer economic and trade bonds among its member states. Reasoning along this line, the military efforts enforced by the early Cold War arms race were designed to have a positive economic spill over on the rate of growth of the Alliance's member states. Secondly, such approach highlights the influential role of military Keynesianism on the approach of the Atlantic Alliance to the rearmament-induced industrial mobilization and the importance placed

with NATO's role and objectives in non-military fields.

It was against the backdrop of this shifting attention of the Atlantic Alliance to the linkage between defence mobilisation and economic expansion in connection with the activities and reports of the TCC and the economic downturn that shook the advanced industrial economies in the second half of 1951 that it is worth placing the creation and beginning of multilateral rearmament programs promoted by the United States and implemented under the umbrella of NATO. In this respect it is particularly worth exploring the launching of the so called Off-shore procurement programs (OSP) in 1952. Designed to shift U.S. military assistance from bilateral programs to multilateral programs based on appropriations either by the Pentagon or by the Alliance to place and paid for in U.S. dollars production orders for military spare parts, raw material, components, instrumental goods or assembling activities with specific NATO member countries for transfer to other member states of the Alliance, this set of programs best showcases such shift in Washington and within NATO toward an increasing attention to the aforementioned intertwining between rearmament and economic expansion, military coordination and industrial cooperation among the member states of the Alliance. Furthermore, it featured one more novelty in the ways in which the Atlantic Alliance conceived the economic impact of military productions: in so far as these contracts were placed with member states according to each economy's raw material and manufacturing resources and defence requirements, the OSP were aimed to fully exploit each economy's resources and to integrate differing European economies so as to maximise the production capacity of each of them and in order to integrate them along transnational supplying and manufacturing lines. In this respect, the OSP contracts prompted an increase in trade and industrial cooperation, and technological transfer among European economies and between them and the U.S. economy. Furthermore, so long as the Pentagon and NATO paid for the orders in U.S. dollar, the OSP programs made the economic mobilisation stimulated by the Atlantic Alliance defence target a powerful tool to continuing the ERP objective of fixing up the dollar gap in Europe. It is worth pinpointing that U.S. appropriations and NATO budgetary expenses on OSP contracts should also wage the implications of each member country's industrial mobilisation on their respective balance of payments. As the program was promoted and financed by both NATO and the U.S. governments it is worth exploring both lines of actions to better understand the relative weight of the U.S. government in leveraging a multilateral assistance program and its influence on a program of production and trade integration, and financial burden-sharing within NATO. Before analysing these two lines of development it is worth stressing that though they continued throughout the second half of the decade as pinpointed in the Conclusion of this contribution, the OSP programs specifically featured NATO military productions and U.S. military assistance during the first half of the 1950s.

The starting point to make sense of the transition from U.S.

bilateral military assistance to the multilateral structure of NATO coordinated production programs is the year 1950: although the United States' bilateral military assistance programs were still under operation within the framework of the MDAP appropriations for foreign aid, the recently-founded Atlantic Alliance launched a Medium Term Defence Program for the member countries aimed to coordinate the rearmament of each country according to the defence requirements fixed by the Alliance for each of its member states. This program was intended to combine in the most efficient way a widespread call by both NATO and the U.S. government on European partners to engage with expanded budgetary appropriations on defence spending and increased industrial output and mobilisation in the wake of the defence efforts, and desperate need in former belligerent European countries for financial stability and balance of payments equilibrium [13]. Therefore, since the inception of this program the Alliance focused attention on combining defence and security objectives, economic growth-enhancing expansion in manufacturing capacity, and external equilibrium. As anticipated in this section, in so far as the Alliance was then still far from establishing a linkage between rearmament and economic expansion, the MTDP was merely conceived to coordinate national defence budget, industrial capacity, and external equilibrium within the framework of a rearmament-induced industrial mobilisation. However, since 1951 within both the United States and NATO several policymakers retained that such effort could not be accomplished without both coordinating and integrating manufacturing production lines and sharing the financial burden of this industrial mobilisation. In the context of a number of procurement contracts placed by NATO with European industry in the second half of 1951 for transfer to other NATO member states and paid for in US dollar by the United States, on the one side the Defence Production Board was charged with breaking down each European economy to make an assessment of its raw material stockpile, industrial output capacity or shortage, and manpower to make the most of each European economy's material resources and input. At the same time, some top ranking ECA officials such as Bissell, argued that NATO member states should share the financial burden of such infant Europe-wide industrial cooperation as much as possible, without charging the United States with bearing the entire cost of such effort in the direction of collective defence and industrial cooperation and integration [14]. Along the same line of reasoning within NATO the debate on the establishment of a common fund to finance coordinated production intensified [15].

Therefore, by the second half of 1951, even as the TCC drafted its report and the western economies felt the pinch of economic setbacks, the construction of coordinated industrial production programs among the economies of the Alliance was already in the making, and the two most critical issues on which the following OSP programs would be revolving around, namely full-utilization of each national economy's resources and industrial capacity, and the burden sharing of economic cost for such coordinated programs, were well

onset. Making matters better set for the launching of coordinated military productions programs, at the ninth session of the North Atlantic Council held in Lisbon in February 1952 the representatives from member countries passed a collective rearmament program that entailed a total contribution by the member states for 50 divisions, 4000 aircrafts and strong naval forces by the end of 1952 [16].

It was within the framework of these combined ever-compelling rearmament commitments, pressures from within NATO and the U.S. government to share the burden of NATO rearmament efforts, and the Alliance push for implementing coordinated production programs based on full exploitation of industrial capacity and other manufacturing inputs that since the Spring of 1952 the Atlantic Alliance launched a systematic set of off shore procurements placed with European industry and paid for by both the United States and the European countries according to a burden sharing formula. As a matter of fact, along with the launching of the OSP the Alliance set up a common budgetary fund: according to it, each member state was requested to contribute to it in proportion to its national income. The program was thought to implement a set of production programs across the European economies paid for in dollar by either NATO or the United States for transfer from European supplying industries to other European importing economies. The clear aim of this two-fold initiative that received full support from the United States law designed to shape American total foreign aid for each fiscal year, the Mutual Security Program, was both to finance coordinated industrial productions among member states, and the import of raw and strategic material by the European manufacturing economies, domestic industrial and capital investments required to foster industrial mobilisation, as well as import of manufactured military goods by other European countries [17]. Furthermore, it was intended to prevent such industrial mobilisation and full trade integration and industrial cooperation from straining the balance of payments and monetary stability of the Atlantic Alliance member countries.

By the end of 1952 the Alliance placed such coordinated set of procurements against the backdrop of a program for collective rearmament and security that clearly linked the industrial mobilisation of its member economies for rearmament to the objectives of economic expansion, monetary stability and external equilibrium for each of its member states: tellingly, at the Ministerial meeting of the North Atlantic Council held in Paris in December 1952, in reckoning «the progress being made in the coordination of production of defence equipment» [18], the North Atlantic Council voted a resolution on the application of Article 2 of the Alliance Treaty that prompted NATO to promote both the defence and the economic progress of its member states: more specifically, the Council called on member governments to find «solutions to their problems such as balance of payments, increase of output, internal financial stability and manpower.» [19].

Such industrial production cooperation, closer trade integration and financial burden sharing, as well as the more

widely-known objective of filling up the European economies dollar gap that underpinned the Atlantic Alliance's OSP contracts had earlier been largely experimented in the field of civilian productions under the European Recovery Program and its US-led institution, the Economic Cooperation Administration (ECA). Since the first implementation of Marshall Plan assistance a portion of ECA procurements were orders placed with European economies for transfer to other economies beneficiaries of ERP funds. In the fall of 1948, for instance, approximately 12 percent of the procurement authorisations approved by ECA were for orders and purchases among the Western European countries. In particular, such dollar-financed European purchases in other European countries were mostly coal from the so called Bizone to supply Austria, Denmark, France and Italy, among others; the ECA dollars were also used to supply material to the Bizone, that being the case of procurements placed in Belgium to construct goods wagons to be shipped to the Bizone, or non-ferrous metals to be supplied to other ERP countries [20]. Furthermore, as early as 1950 the U.S. foreign policymakers envisioned that the idea of transferring goods produced in an ERP country to other European countries that benefitted from the Marshall Plan should apply to military productions: according to Dean Acheson the ERP should finance military items manufactured in a country for transfer to other European countries and pay for such transfer by drawing on the so called counterpart funds administered by ECA [21].

Therefore, it is true that the financial mechanisms was rather different in the ERP compared to NATO's OSP program: unlike the latter one, under the ERP the United States practically financed the program in its entirety whereas the OSP were paid for in U.S. dollar by either the Pentagon or NATO under the burden sharing formula: however, this coordinated integration of production and exchange of raw material and instrumental goods among European countries followed the same line of reasoning of later NATO's OSP programs: the integration of production lines and critical resources for manufacturing among the European countries that benefitted from the ERP, as well as their increasing trade exchanges under the Marshall Plan stimulated basic recovery of European industries, employment of unemployed or underemployed manpower, and utilisation of unused industrial capacity; on the other hand, the OSP contracts prompted the economies of the European member states to full utilisation of the factors of production and further technological drift, particularly in so far as NATO's procurements involved new technologically advanced sectors as electronics and mechanical industries.

4. The OSP Programs: Low-Capital Intensive and High-Technological Content Industries 1952-1955

The largest allocation of OSP contracts were with the ammunition, aircraft and related equipment-producing

industry, and with the shipbuilding sector. Therefore, the OSP contracts financed through the contribution of all NATO member states according to the burden-sharing exercise or through contracts directly placed by the U.S. Department of Defence with European industry exerted a leverage on both low-capital intensive manufacturing sectors and on highest-technological content firms of the time. Both kind of manufacturing sectors were placed orders by both NATO and the Pentagon, and as such both the least technologically advanced national economies and the most developed ones could take advantage from their participation to the OSP programs to increase their dollar earnings and to improve their balance of payments. Likewise, both contracts placed by NATO and orders placed by the Pentagon with low and high capital intensive firms followed the same pattern: their scale and financial amount rose from fiscal year 1952 to fiscal year 1953 and had the largest and most striking impact on European production lines and industrial expansion from 1953 to 1954, whereas later on they either got stable or began declining. On the one side the low-capital intensive sectors that were recipients of OSP contracts were in either case the ammunition industry and the large archipelago of industrial and service companies working on contracts placed in connection with NATO's common infrastructure programs. On the other hand the OSP contracts placed with the high-technological content European industry revolved at the time by and large around the aeronautical industry and electronics, mechanics and metalworking firms working on subcontracting on behalf of European and U.S. aeronautical companies. The aircraft industry is a useful case in point to point out the difference between contracts placed with European firms before 1952 and the OSP launched that year. Until the Fall of 1951 the off shore contracts placed in Europe by the Pentagon to supply its forces stationing in Europe or for transfer to other NATO member states had only been for manufacturing spare parts and machineries, not for promoting the launching across Europe of full production lines [22]. With the launching of a number of off shore contracts within the framework of the industrial mobilisation stirred by the Atlantic Alliance defence requirements set for each member state and the birth of the first systemic set of OSP under the umbrella of NATO, for the first time coordinated production among European companies led to full-assembly of military end items: the aircraft production program approved by the Alliance for fiscal year 1952/1953 led NATO to buy complete aircrafts in Western Europe [23].

To begin with contracts placed by NATO, in the least-technically advanced sectors the apex was reached in 1953. In September of that year a program worth up to over £ 300 million for coordinating the ammunition production of NATO European member countries formulated by the NATO experts was approved by the North Atlantic Council and recommended for implementation by the member governments of the Atlantic Alliance [24]. The program, aimed at producing almost every type of ammunition from small bullets to heavy calibre shells, was thought by the Alliance to develop sources of ammunition supply as near

as possible to operational areas and to produce ammunition at the time not produced in sufficient quantity by European manufacturers. The burden of financing it was jointly shared by the European members of NATO and the government of Washington; it clearly followed the principle of off shore orders and was at the same time thought to increase dollar earnings by some European producers [25]. A substantial contribution to the OSP contracts placed with low-capital intensive European manufacturers and service industry was given by the new Common Infrastructure program of the Atlantic Alliance, which boosted a varied archipelago of low-capital intensive European manufacturing sectors and service companies. Since late 1951 the North Atlantic Council approved a Common Infrastructure Program intended for establishing basic installations such as airfields and signal networks to be installed in a member country for use by both that country's army and any other NATO's member state army. As a follow up, for the years since 1952 it entailed that NATO military forces submit an annual infrastructure program to the North Atlantic Council to implement the program [26]. In the following few years through the middle of the decade the program essentially evolved into a set of procurements that stimulated the European construction industry and, to a lesser extent, the communication industry. In fact, by 1953 it had evolved along three main lines of infrastructural projects: airfields constructions, Jet fuel pipelines, and telecommunication projects for a total amount of roughly \$1.3 billion. The United States contributed to financing the program in the Mutual Security Act of 1953 [27].

In a way similar to the off shore contracts placed with manufacturing firms, contracts distributed to produce within the framework of the Common Infrastructure Program followed the burden-sharing principle in a strict manner: each infrastructure work carried out on the territory of a NATO member country was to be financed jointly by all member of the Alliance pending approval by the Infrastructure Payments and Progress Committee. As such the program devised a cost-sharing formula to be approved by each member state [28].

Earlier negotiations on U.S. bilateral economic assistance for military purposes had occurred since 1949 under the MDAP and its predecessor military aid programs, before the bargaining process on military and defence build up target, as well as defence appropriations in each NATO member state were discussed at multilateral level in connection with the industrial and manpower efforts, as well as the supplying of raw material and services to the OSP coordinated production programs. In a similar way bilateral bargaining between the United States and each NATO partner nation took place in most cases. This feature made the negotiations on the OSP contracts resembling earlier programs of bilateral military assistance: this bilateral bargaining presided over the integration of NATO member states resources, production lines and national markets over the following years [29].

Certainly in the first phase since the launching of NATO off-shore procurement programs at the beginning of the new

decade and for a few years in the first half of the 1950s, notwithstanding the new NATO burden-sharing formula, NATO was not left alone with coordinating the American economy and the European national economies in developing coordinated military production programs and allocating funds to manufacturing and service European companies. As a matter of fact, along the line of the MDAP under operation in the past few years, even in the OSP contracts a large amount of procurements were still placed by the U.S. Department of Defence with European firms, rewarded in U.S. dollars and transferred to other NATO member states 'national armies to help them meet the Atlantic Alliance defence targets, or used to fill up the Pentagon defence effort.

The U.S. legislative framework in which appropriation to finance and pay for in U.S. dollar contract placed with European firms by the Pentagon was the Mutual Security Program: since 1951 under the Mutual Security Act it received on annual basis Congressional approval for integrating all forms of foreign aid [30].

The U.S. Department of Defence financial commitment in the first two years since the launching of the OSP program in 1951 demonstrates the role of Washington in helping the Atlantic Alliance to implement this multilateral procurements program. During the first year of operations the Department of Defence placed orders overseas for \$2.7 billion for the production of military material in the framework of the military assistance program. This first round of OSP contracts both stimulated an expansion on the supply side in Europe, and served as a leverage to promote productions in the most capital intensive sectors of European manufacturing and the restart of production lines where they were under-utilized. Furthermore, it marked continuities in U.S. technological transfer to European national industry compared with the early reorganisation of European industrial capacity from 1949 to 1951 tracked in the previous sections. Furthermore, the first American-financed OSP program stirred production and supply in low to average capital intensive European industries. In the wake of the importance given by Washington prior to the foundation of the Atlantic Alliance to providing Europeans with ammunitions, the European ammunition industry and related sectors accounted for a substantial share in the first set of OSP contracts placed by the Pentagon with European industry. As in 1951 the European ammunition industry was working at full production capacity to supply European buyers, the contracts placed by the Pentagon with European suppliers under the first OSP program stimulated an expansion in production capacity of European ammunition firms. This expansion was achieved through the adoption across Europe of modern production techniques and by building entirely new production lines. Therefore, as far as a traditionally low-capital intensive military production sector as ammunition was concerned, the first OSP program triggered a shift to increase the technical content of European industry. This feature of the 1951 off shore program was all the more distinctive of other European manufacturing sectors that were the recipients of OSP contracts from the

Department of Defence: in so far as contracts were placed with the highest-technologically advanced European industries as electronics, new investments to increase production or to extend existing facilities for production were achieved [31]. Therefore, on the part of the United States the placing of contracts in Europe under the first OSP program was not only a way to help NATO in the early stage of its new role as a fly-wheel for industrial and trade integration among European economies but also a means of triggering an expansion and technological drift in production capacity. This critical role of the United States in resurrecting European industry, propping up expansion in industrial production and full utilisation of under-utilised production facilities, as well as technological upgrade as a starting point to let European production lines and patent industry supply other NATO member states to meet the Atlantic Alliance defence requirements marked further continuities with the early steps of military assistance.

A straightforward demonstration of this continuity and the U.S. contribution to it was the pivotal role that British models and patents still retained during these early years of cooperation on military production and supplies by NATO member economies. At the time the OSP programs under the umbrella of NATO were launched, the British industry played a critical role both as a supplier of models and patents to other European assembling industries, and as a national manufacturing industry charged with final assembly. In the aeronautical sector, for instance, though other European mechanical industries assembled non British models such as the Marcel Dessault Mystere produced in France or the F86 all-weather fighters produced in Italy, under the first OSP program British type jet fighters were produced in Belgium and the Netherlands. On the other hand, in 1952 the United States concluded with Great Britain an off-shore procurement contract under which London agreed on building 500 Centurion Tanks to be paid for in U.S. dollars for transfer to Denmark and Holland. Likewise, within the late Truman administration it was registered a widespread consensus that the termination of the Marshall plan should pave the way for the end of direct and purely economic assistance to Europe, whereas military assistance under the OSP coordinated production programs should be implemented and increased over the next few years: this was for instance the U.S. Secretary of Commerce Sawyer's approach to foreign aid for the future. Likewise, at the end of 1952 many U.S. officials suggested that traditional postwar transfer or selling of military end items to European armies should be substantially cut, whereas appropriations for OSP contracts to the European firms from the Department of Defence for transfer to other NATO member states should be increased from \$1000 million as of fiscal year 1952/1953 to \$2000 million during the following fiscal year [32].

In the wake of Korean war-related industrial mobilisation, by staggeringly expanding appropriations to finance the OSP contracts placed by the Pentagon with the European industry, in 1952 and 1953 the U.S. Congress pushed forward the American strategy to promote full utilisation of

under-utilised production and manpower capacity in Europe, expansion of production capacity and reorganisation and technical upgrade of the most capital intensive European manufacturing sectors that were the recipients of OSP contracts from the U.S. Department of Defence: the OSP contracts placed in Europe totalled \$630 million in fiscal year 1952 and over \$1.6 billion in 1953. Yet again the British industry accounted for a large share of the U.S. off shore contracts placed with the industry of the old continent, and its ammunition industry took the lion share of it: in June 1953 alone two OSP contracts worth up to \$20 million for shells supply and for the production of rockets were signed by the British Ministry of Supply and the United States government to be paid for in U.S. dollar to supply other NATO countries [33].

Such total staggering increase in the scale of OSP contracts placed with European economies had an impact on the trade and external payments position of European countries of equal or similar magnitude. In particular, the external payment position of NATO European countries and Germany improved remarkably from fiscal year 1952 to fiscal year 1953: their overall deficit in the net gold and dollar balance of payments dropped from \$3.9 billion to \$600 million [34]. This trend clearly suggests the positive impact that increasing U.S. appropriations to OSP contracts placed with European firms had on the level of trade integration and financial stabilisation of European member states of NATO required to meet the defence target set forth by the Atlantic Alliance.

The US-financed portion of the OSP contracts placed with European industry began decreasing since fiscal year 1954 against the backdrop of increasing and binding conditions posed by the U.S. Congress on allocating funds out of the Mutual Security Program for military production overseas. These conditions reflected both concerns for the security of production lines in specific European countries, particularly in supposedly Communist-dominated plants in Italy, and fear by the American business community for the rise of competitive European producers: in discussing the Mutual Security Program for fiscal year 1954, for instance, the U.S. House Committee on Foreign Affairs brought forth these concerns and restrictive conditions [35]. That same year, within the framework of Congressional debate on the annual Foreign Aid Bill, that in 1954 cut appropriations in military and economic assistance to the free world against attacks, many congressional voices raised the issue of supposedly ill-functioning OSP contracts. In particular the Senate appropriation Committee complained about the use of military assistance funds by Britain, making the argument that London retained aircrafts produced under the OSP contracts for her own use instead of distributing them to other NATO partners, and that London was taking advantage from dollar funds to develop her own aircraft industry in competition with U.S. manufacturers [36]. However, if we consider the OSP contracts allotted to European industry that year relative to total U.S. delivery of military equipments to European partners we can find that

the OSP contracts increased their share out of it: that year most of the military equipments procured with new funds appropriated by the Congress for Europe were under the category of off shore procurements. Therefore, since 1953 the OSP contracts placed by the United States with European firms relative to the total OSP contracts decreased, but they increased relative to the total amount of U.S. payments to industry for delivery of military equipment funded by the United States [37].

Along the lines of prompting industrial cooperation among the national manufacturing and labour markets germane to the new OSP programs, NATO procurements also marked continuities with respect to bilateral assistance programs promoted by U.S. diplomacy and funded under the MDAP and other military assistance programs financed by the United States and appropriated to friendly nations by the U.S. Congress. For instance, consistently with the importance that assistance to provide allied nations with munitions, earlier carried out under the auspices of the Additional Military Productions Program, the OSP programs charged national industrial productions with procurements contracts and appropriated financial assistance in U.S. dollar to place contract with the national munition industries specialising in this sector for transfer to other NATO member states. In 1953 the Council of the North Atlantic Treaty Organisation recommended the approval of an ammunition procurement program worth up to £ 357 million: the program was on the list of the OSP programs for that year and as such should be funded by the participating supplying and importing countries and by the U.S. Mutual Security Agency in so far as its budget contributed to financing the OSP program. To better understanding the share of these low-capital intensive ammunition program out of total OSP since that year it is worth stressing that that fiscal year total OSP programs amounted to more than £714 million [38].

5. Atlantic Industrial Cooperation and Cold War Confrontation: The OSP Programs by the Mid-1950s

By the mid-1950s combined cooperation in the military and economic fields under the umbrella of NATO's off-shore procurements had involved practically most NATO member states. However, most member states had either purchasing or supplying and manufacturing preferences that periodically brought negotiations on the off-shore contracts among NATO partners on the verge of a standstill. Furthermore, frequently some member nations linked their role and commitment to meet NATO defence programs to the Atlantic Alliance's efforts to deploy a decent and sufficient army to protect their defence and borders at the apex of Cold War confrontation. Other NATO member states bargained their contribution to the OSP programs by promoting or protecting the role of supplier that their national industry had carved out over the past few years since NATO had launched its

procurement programs. It is worth making reference to some cases according to their position on the demand or supply side of the Off-shore procurements programs. On the demand side of NATO procurements, it is certainly noteworthy among others the case of Denmark and its aeronautics: since the beginning of NATO's coordinated production programs and burden-sharing Denmark had taken advantage from the leading and outstanding British-manufactured fighters and equipments: in 1954, within the framework of a debate between the United States, NATO and Denmark about the equipping of Danish air force with all-weather fighters, the Government of Copenhagen showed its reluctance to accept offers from the Atlantic Alliance for supplies from national manufacturing industries other than British firms. By that year the country, which had only one squadron of interim all weather fighters equipped with British NF Mk 11s, relentlessly refused American and NATO offers for American Sabres or Canadian built all-weather fighters and insisted for British delta-wings Javelins, which at the time NATO could not supply. What explained this Danish preference for British supplies was both the leading and longstanding experience of British aircraft and mechanical industry, and a firm Danish preference for British radar equipments. Furthermore, in 1953 Denmark rejected an American offer to establish in the country two fighter wings with 150 aircrafts because they considered NATO land forces deployed to protect the Southern flank of the country too weak [39]. If one focuses attention on the supply side, this was certainly the case for each national European industry that since 1950 -under the Atlantic Alliance defence targets and procurement programs- could either revamp a longstanding tradition in specific manufacturing sectors and combining resurrection of production lines with further capital investment and technical upgrade, or supply NATO partner countries with services such as the patent industry's in which a specific national economy had a well-established tradition. As pinpointed in this contribution, the pillar national manufacturing industry whose production lines, stimulated by NATO procurements programs and rewarded under either NATO budget or the United States Mutual Security Program, was the epicentre of the process of industrial mobilisation for military purposes and the relative intra-European exchanges in raw material, services and end items, was certainly the British economy. As prior to full implementation of the Off-shore contracts, since 1951-52 the British industry kept supplying NATO for transfer to other member states the largest amount of manufactured goods, spare parts, instrumental goods or services. As seen, since the beginning of NATO's multilateral procurement programs the United States maintained a substantial role in that the U.S. Mutual Security Program financed productions placed with manufacturing member economies for transfers to meet the Alliance's defence target of other member nations and was complementary to dollar allotments under NATO burden-sharing. From 1951 to 1952 France took advantage from this procurement mechanism: as a matter of fact Paris led all of the other manufacturing countries as the first dollar aid

recipient. However, since fiscal year 1952-1953 Britain took the lead and shared nearly half of the total contracts including both NATO off-shore contracts and contracts placed with European industry to supply the stationing of U.S. troops in Europe. If one breaks down these data and examine the following fiscal year, it is possible to catch that Britain increased its share of total dollar aid and industrial production and its manufacturing industry was increasingly appropriated funds and rewarded within the framework of the Alliance off-shore contracts: total NATO off shore orders for military equipment of NATO forces in fiscal year 1953/1954 amounted to \$395 million. With a substantial increase relative to the past year, contracts distributed to Britain rose up to \$193 million [40]. If we consider that by that fiscal year total off-shore contracts overrun allotments for supplies, equipment and maintenance cost of the American troops deployed in Europe, which that year were equal to \$207 million, we can catch the longstanding central role of British manufacturing and service industry in military procurements of the Atlantic Alliance defence efforts since the late 1940s. Therefore, by the mid-1950s on the one side the total amount of OSP contracts outpaced the share of allotments to finance the stationing of U.S troops in Europe in the total value of contracts to the military industry complex for military purposes; on the other hand, the British industry was well-established and led all the other manufacturing nations involved in contributing to the OSP programs of NATO and its member states, then the core industrial procurement program of the Atlantic Alliance. If we keep researching the supply side of the OSP programs we can see that while Britain retained and strengthened its pivotal role, other manufacturing economies took advantage from the OSP programs to expand their production levels, restart unused production lines and to reduce the unemployment rate in specific manufacturing sectors, particularly in a wide range of labour-intensive or low-capital intensive mechanical industries that worked on subcontracting for the national defence industries or under the Atlantic Alliance procurements. For the sake of argument it is worth keeping an eye on the mechanical sectors working on procurements for the aeronautical industry. In this respect it is worth exploring the role of the Italian mechanical and metalworking industry during the Eisenhower administration. As a matter of fact, it is true that since the coming of the new U.S. ambassador to Rome Luce -as widely stressed in the literature on the subject- bilateral negotiations between Italy and the United States on the number of and the financial amount of OSP contracts placed with the Italian mechanical industry working on aeronautical productions revolved around not only the financial commitment of the Italian governments to increase their defence appropriations. Rather, the amount of orders placed with Italian firms was based on the willingness or recalcitrance of the Italian firms, first and foremost the Turin-based Fiat group- to curb and to marginalise any leftward and supposedly Soviet-inspired trade union: in 1954 such a kind of American pressure on the Italian business community, which the Ambassador to Rome

shared with prominent Congressional Committees and members such as the Senate Appropriations Committee [41], led to the failure in the Turin polls to elect representatives from the leftward CGIL [42]. Notwithstanding this shift of negotiations on the OSP to political issues, by the middle of the 1950s the Italian mechanical and metalworking industrial complex was still a critical provider of spare parts, munitions, end items and instrumental goods within the framework of both the OSP programs and the national military build up target that the Italian army was bound to accomplish according to the Atlantic Alliance defence objectives. At the time both firms from the national military industry complex and mechanical industries from the civilian manufacturing sectors offered a critical contribution to the Atlantic Alliance defence and security targets. Furthermore, very often the national industries took advantage from such involvement in military procurements to increase their trade exchanges with European partner industries and to internationalise their markets, mostly at European and transatlantic level. As for traditional Italian military industries a case in point at the time was that of munition firms as Borletti: founded at the end of the nineteenth century as a firm specialising in precision mechanical products, during the twentieth century this company developed a manufacturing specialization in producing timing devices and fuses for artillery shells, rockets, airborne bombs, land and sea mines and demolition charges. In the first half of the 1950s Borletti was assigned important OSP contracts to supply fuses and timing devices to NATO and SEATO Services. More importantly from the research perspective of this contribution, such involvement in the OSP programs both increased Borletti's export and prompted this firm to increase its capital intensive investments to align with the technological drift required to produce some of these military components: its facilities developed up-dated high precision machinery and automatic assembly machines [43].

6. Conclusions

This contribution has pinpointed how since its inception at the very beginning of the 1950s the military build up of NATO was thought by the Alliance in the pursuit of both defence targets, financial stability and trade integration, and economic growth in each member state of the Alliance. Likewise, it pinpointed the two lines of financial contributions to such collective effort, from within the Alliance and from the contracts directly placed with European firms by the U.S. Department of Defence. From the view point of the economic implications of NATO defence efforts, the main effects it triggered were intensified trade integration and cooperation in manufacturing among the European economies, and between them and the United States. In turn, such cooperation prompted each national economy to improve its country-specific production specialisation and to maximise its resources. This process stimulated increased production and supply capacity by leading low-capital intensive European sectors and led the

most technically advanced sectors to confront rising competition by increasing capital investments and developing their technologically advanced production lines, as was the case of the aircraft industry. Under financial support from both the Pentagon and NATO budget, we associated these development across the European economies under the aegis of NATO rearmament with a specific program: the off-shore procurements. Though they featured continuities with earlier U.S. bilateral military assistance programs carried out by the United States under the MDAP, they worked as a proper fly-wheel for trade integration, industrial cooperation and technological drift across the European economies that were partners of the Atlantic Alliance. Even within the framework of the mid-1950s fierce criticism for the OSP programs that rose within the United States, American policymakers reckoned its importance in raising the European standard of living, expanding European industrial production and providing critical conditions for strengthening the military security of the old continent. According to a traditional highly critical U.S. Congressional committee as the Senate Appropriation Committee, in some cases as the aeronautical industry such spill-over effects of NATO off-shore procurements contracts on the European economies stretched to the stunning point of spotlighting the «excellent» potential production capabilities of certain European manufacturing sectors [44].

From the mid-1950s through to the end of the decade the Mutual Security Program's economic objective, and as such production cooperation for military rearmament under the umbrella of Washington and NATO, went well beyond the scope of fostering the integration and technological upgrade of former belligerent European economies. As a matter of fact, though the 1959 law passed by the U.S. Congress stressed once again the objective of strengthening the defence and economic growth of allied friendly nations, military assistance rose to a global stage: at the time the very purpose of promoting autonomous military productions was extended to developing nations within the framework of shaping regional defence arrangements to confront Soviet aggression across the globe. In this perspective, by the end of the 1950s the U.S. government broadened in scale the role of economic assistance for military purposes to push forward international market integration: by the time the European allied economies had accomplished currency convertibility, the Mutual Security Program commitment to promote international trade and monetary integration went global: «MSP policies will complement other efforts by the U.S. to foster a high level of international trade and investment within the Free World, including: continuing to press strongly for a general reduction of trade barriers within the Free World; encouraging the further extension of convertibility of currencies and the elimination of discriminatory trade and currency restrictions; and, encouraging private enterprise and investment for Free World Development, especially in the less developed nations.» [45].

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