

CONGRESS OF THE UNITED STATES
JOINT ECONOMIC COMMITTEESenator Douglas Releases Statement on the Consequences
of the Breakdown in Negotiations between the United
Kingdom and the Common Market Countries

Senator Paul H. Douglas (D., Ill.), Chairman of the Joint Economic Committee, today released a letter from the Honorable George W. Ball, Undersecretary of State. The letter provides a statement of the Administration's appraisal of the implications for the foreign economic policy of the United States of the breakdown in negotiations between the United Kingdom and the European Economic Community, or the Common Market.

The letter was sent in response to a ^{Joint Economic} Committee resolution, presented in the form of a question posed by Senator Jacob K. Javits (R., N.Y.), to the Honorable C. Douglas Dillon, Secretary of the Treasury, during his testimony before the Joint Economic Committee on January 31, 1963. The question read as follows: "Mr. Secretary: In view of the changed situation caused by the E.E.C.'s rejection of the British application for membership, what is the Administration's policy as it affects the Trade Expansion Act of 1962 and other aspects of our relationship with the E.E.C., the United Kingdom, the British Commonwealth, and the European Free Trade Association?"

In releasing the letter Senator Douglas said, "This letter ordinarily would be made available to the public in the Committee's printed record of its recent hearings on the President's Economic Report. The statement deals with a topic so vital to the economic and military strength of the free world that a separate release is desirable in order to bring the matter to the attention of the Congress and the American people without further delay."

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THE UNDER SECRETARY OF STATE
WASHINGTON

February 15, 1963

Dear Senator Douglas:

Secretary Dillon has called my attention to the transcript of his testimony before the Joint Economic Committee on January 31. In the course of his colloquy with the Committee several members expressed an interest in the Administration's appraisal of the implications for the United States foreign economic policy of the breakdown in negotiations between the United Kingdom and the EEC.

The significance of this event can best be appraised in relation to other trends and events involved in the evolution of United States policy toward Europe.

I

It is generally recognized that the progress of Europe toward unity has been among the most constructive and promising achievements of the post-war period. Through the creation and development of the European Economic Community, Europe has moved a long way toward economic integration. That goal, however, is far from full attainment and many difficult problems remain.

The United States has consistently encouraged the nations of Europe toward greater unity. Both the Legislative and Executive Branch of our Government have provided this encouragement--by word and by action. We regard greater European unity as essential primarily for political reasons--although, over the long run, the United States should also benefit economically from the contribution of the Common Market to a higher level of European economic activity.

A United Europe would eliminate the frictions and jealousies that have been the cause of so many past conflicts--conflicts that on two occasions have embroiled the whole world in catastrophe. Moreover, a unified Europe could effectively mobilize the common strength of the European people. It should thus be able to play the role of equal partner with the United States, carrying its full share of the common responsibilities imposed by history on the economically-advanced peoples of the Free World.

II

The basis for such a partnership is hard economic fact. In the North Atlantic World--Western Europe and North America--there is concentrated 90% of all Free World Industrial strength as well

The Honorable
Paul H. Douglas,
United States Senate.

as the great bulk of the Free World's technical skill and knowledge. This combined resource must be put to the defense and advancement of the Free World.

Combined action is particularly important in three areas:

First, Europe and North America must join in a common defense against the aggressive ambitions of the Communist Bloc. The defense of Europe is vital to the United States as well as to Europe itself. It is a costly task; the growth of European strength permits Europe to make an increasing contribution to it.

Second, the national economies of the nations comprising the great industrial complex of the North Atlantic are interdependent. This is becoming increasingly evident. A slow-down in growth rates in Europe could adversely affect our own growth rate, while an American recession would have serious repercussion in Europe. Our balance of payments deficit is, to a large extent, the mirror image of balance of payments surpluses of certain major European countries. If one nation or area adopts restrictive commercial policies, those policies will find reflection in compensatory or retaliatory actions by its trading partners.

The recognition of this economic interdependence has led us to seek new means to coordinate and harmonize our domestic economic policies. Substantial progress toward this end has been achieved through the Organization for Economic Cooperation and Development. Much further progress is required.

Third, the major industrialized areas of the Free World--the Atlantic nations--must commit large amounts of money, equipment and skill to assist the less-developed countries in raising their standards of living, if political stability is to be achieved and the dangers of subversion reduced. The effective utilization of Free World resources for this purpose requires a high degree of coordination of effort. We are beginning to achieve that coordination through the Development Assistance Committee of the OECD.

Fourth, if the resources of the Free World are to be efficiently utilized obstacles to the free flow of international trade must be reduced and trade expanded under conditions where the forces of comparative advantage can fully operate. This means that American goods must have greater access to the European markets while we must provide greater access for European goods to our own markets. Just as in other fields, benefits and obligations must be reciprocal.

III

During the past few years United States Policy has been increasingly based on the belief that these common tasks could best be achieved by the pursuit of two parallel lines of action--the attainment by Europe of a greater unity so that the European nations may act on a widening subject matter through common institutions and the attainment of a high degree of Atlantic cooperation through institutional arrangements designed for that purpose.

We have also felt that the effectiveness of our European partner would be greatly enhanced if a unified Europe were expanded to include the United Kingdom. We were, therefore, gratified when the United Kingdom Government decided to apply for membership in the European Economic Community. We recognized at that time, as we do now, that the organization of Europe was a problem for the Europeans, and that it involved grave national decisions for the participating nations. We have not, therefore, sought to influence these decisions but at the same time--since we have been repeatedly asked by our European friends--we have been frank in stating that, in our view, the accession of the United Kingdom to the Rome Treaty would contribute to the economic strength and political cohesion of Europe and thus advance the prospects for a full and effective Atlantic Partnership.

During the course of the negotiations for the accession of Great Britain to the EEC--the United States Government was repeatedly assured by the Six, including the French Government--that none of the parties had any political objection to United Kingdom membership in the EEC. We recognized, at the same time that the negotiations involved complex technical and economic problems--and there was always the possibility that these problems might not be solved to the satisfaction of all parties. We, therefore, recognized the possibility--although not the probability--that these negotiations would break down.

The veto of the French Government terminating the negotiations occurred at a time when the technical and economic problems were well on their way to solution. This has been made clear by the statements issued by the Commission of the European Economic Community. In our opinion, the action of the French Government must be regarded as motivated primarily by political reasons.

It is still too early to know with precision what the French Government's veto may imply for future French policy. It seems clear enough, however, that this action has not changed the underlying facts that have dictated the need for greater European unity or effective Atlantic cooperation. We believe, also, that these facts are generally understood by the great body of European opinion.

They can be briefly summarized:

1. Europe cannot defend itself today by its own efforts; its defense rests heavily upon the overwhelming nuclear strength of the United States.
2. The nuclear defense of the Free World is indivisible.
3. The great industrial economies of the North Atlantic countries are to a high degree interdependent.

4. To reap the full economic benefits of this interdependence requires a free flow of trade.

5. The urgent needs of the newly developed nations require effective common effort on the part of the major industrialized powers of the Free World.

The existence of these facts, it seems to us, determines the broad policy lines that we intend to pursue.

First, we shall continue to encourage the development of European unity and to express the hope that arrangements may ultimately be made for the accession of Great Britain to full membership in the EEC. Recent events have demonstrated a substantial body of European opinion in favor of Britain's participation in a uniting Europe and the British Government has made known its own desire that the United Kingdom should play a full role in this development.

But while we continue to regard the ultimate accession of Great Britain to the Rome Treaty as an objective to be encouraged, we recognize that it is unlikely to occur for some time. Meanwhile recent events do not appear to have destroyed the vitality of the strong European drive toward unity nor seriously impaired the value of the integration so far achieved through the EEC. Obviously, it is in the interests of the whole Free World that the EEC develop in an outward-looking manner and that it not acquire autarchic characteristics. We propose to use our influence to this end.

Second, we shall seek to advance the arrangements for close economic cooperation with Europe through the OECD. We shall also continue to develop close cooperation in the monetary field through the IMF, the Committee of Ten, and Working Party Three of the OECD.

Third, we shall continue to work toward the strengthening of NATO and the development of adequate conventional forces in Europe. We see dangers in the proliferation of national nuclear deterrents but we recognize the desire of Europeans to play a full role in their own nuclear defense. We have, therefore, proposed the creation of a multilateral nuclear force, within NATO, and we reached agreement with the British Government at Nassau for the mutual support of such a force. Ambassador Livingston Merchant is going to Europe next week for exploratory discussions.

Fourth, we intend to utilize to the fullest the powers granted to the President under the Trade Expansion Act in order to improve access to the European Common Market as well as other major world markets for products of United States farms and factories. Governor Herter intends to press liberalization of trade as rapidly as possible.

Since General de Gaulle's press conference on January 14, suggestions have been put forward for the United States to join in special commercial relations with one or another group of nations to form a trading bloc competitive with the European Common Market. We do not believe that this would be sound policy. For thirty years, the United States has consistently adhered to the most-favored-nation principle and to the expansion of trade on a nondiscriminatory basis. For us to enter into preferential trading relations with any nation or nations would mean discrimination against all other nations. Such a policy would be inconsistent with our position as the leader of the Free World.

You and Congressman Reuss have raised the question of the adequacy of the powers provided by the Trade Expansion Act if it should develop that the UK does not become a member of the EEC prior to the opening of the Kennedy round of negotiations. You have introduced legislation that would so amend the Act that the scope of the so-called "predominant supplier" clause would be unaffected by the failure of the UK-EEC negotiations. The Administration's position with respect to this proposed legislation was stated by the President at his press conference of February 7 when he said:

"No, we haven't planned to ask the Congress, because we do have the power, under the Trade Expansion bill, to reduce all other tariffs by 50 per cent, which is a substantial authority. We lack the zero authority.

"On the other hand, it is going to take some months before these negotiations move ahead. It is possible there may be some reconsideration of the British application. I would be responsive and in favor of legislation of the kind that you described. It is not essential, but it would be available, and if the Congress shows any dispositions to favor it, I would support it."

Fifth, we propose to continue to develop techniques to improve the cooperation of the major industrialized powers in providing assistance to the less-developed countries. This does not mean the abandonment of national programs of assistance but rather their more effective coordination. At the same time, we shall try to assure a greater contribution to this common effort on the part of the European countries.

The broad lines I have described suggest the general directions of our policy. These policy goals have been and will continue to be pursued through a variety of instrumentalities and in a variety of forms. The veto of British accession to the EEC is not an insuperable obstacle to those policies. In 1954, the French Assembly turned down the European Defense Community Treaty, but the next few years were years of unprecedented progress towards European integration along other lines. The basic soundness of US policy was not affected.

So today we have sought to chart a course that corresponds to the requirements of United States interest--to pursue a positive line of policy rather than merely to react to, or to follow, the policies of other Governments. This seems to us the only posture befitting the leading nation of the Free World.

Sincerely yours,

/s/ George W. Ball

George W. Ball