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UNITED STATES - EUROPEAN ECONOMIC RELATIONS

Remarks made by Minister Manuel Abrams,
Deputy Chief of the United States Mission
to the European Communities, at a Conference on
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1972 : Year of Change

Speakers are often tempted to start with the well-worn cliché that "We are in a period of change," and that therefore problems are difficult to resolve. Is there any time period that is not one of transition from something old to something new? At least since the industrial revolution -- if not the beginning of civilization -- things have just refused to stand still. Despite these disclaimers, I nevertheless insist that 1972 is, more than usual, a moment of transition in the politics and economics of the world.

So far as the Communities are concerned, 1972 is a year which follows the completion of the enlargement negotiations but precedes the actual entry of the four applicants into the Community. So far as the United States is concerned, the trip to China of President Nixon is just one indication of the degree to which some of our basic policies are in flux. In the trading world the OECD high level group has been meeting in Paris to consider future comprehensive trade negotiations. The United States, the European Communities and Japan have declared themselves in favor of beginning such negotiations in 1973. In the aftermath of the August 15 crisis and the December 18 Smithsonian agreement, a reworking of the Bretton Woods arrangement is in the offing.

A discussion of US/Community relations inevitably involves a review of the problems which divide us. It is essential to put these problems into proper perspective at the outset. The economic growth of Western Europe, the

establishment of the European Communities, the prospective enlargement of these Communities -- all these represent not a failure but a resounding success for European and for American policy. While many things have changed since the bleak days immediately following the end of the war, our striving for a united Europe has remained a constant.

Facts and Ideas

Relations between the United States and the Communities, like most other things, are as much a function of the ideas that people have as of the facts. It is paradoxical that many Americans manage simultaneously both to underestimate and overestimate the European construction -- no mean feat. Particularly during the lean years for European integration -- 1963 to 1969 -- but also since then many Americans have viewed the Communities as an inward-looking organization fostering trade among its member countries but having little political content and little awareness of the outside world. At the same time, impressed by the tremendous economic growth of the European countries and their ability to capture a growing share of world trade, many of these same Americans have expected a greater power of decision and a greater degree of cohesion from "that Brussels organization" than are possible at the present stage of development. The inevitable effect of holding such contradictory views simultaneously has been a growing sense of frustration, and, in fact, some hostility on the part of some Americans to Europe.

It is not just outside observers who have commented on the absence of political content in the activities of the European Communities. Recently a well-known journalist said, "Purtroppo il consiglio dei Ministri della CEE non fa vera politica, ma una piccola e miope opera di promozione e difesa d'interessi nazionali a breve termine..." The writer of this sentence is our distinguished moderator, Signor Levi.

The European Communities, not wishing to be outdone in paradoxical behavior, have simultaneously shown insufficient concern about their relations with the United States (and other third countries) and over-reaction to developments in the United States. One of the Communities' Commissioners, Herr Dahrendorf, has stated, "The European Communities are aware of their responsibilities as the largest trading partner in the world. They are aware also of the profound impact of their internal developments..." I am sure that, intellectually, this is true of Professor Dahrendorf and his colleagues, but I have not found much evidence that internal debates on such matters as agricultural policy or the Yaounde Convention give much heed to the impact of policies in these areas on third countries.

At the same time, flowing from the immediate postwar period when the United States was the dominant economic force in the world, the Communities tend to show exaggerated concern about actions of, or developments in, the United States. While there are encouraging signs of a better perspective in this regard, this type of reaction still takes place. A recent example has been the great concern since the August 15 crisis that a change in parities would inevitably result in a European recession. This view was very widely held, though nobody bothered to explain why such a development was inevitable, in view of the fact that European countries, like the United States, have available to them the same instruments of monetary and fiscal policy to counteract such a development. Less than a month ago there was a headline in the International Herald Tribune, "Bank Experts Dismiss Euro-Slump as a Myth." I am not sure that it is yet considered a myth in Europe.

Many Europeans -- perhaps most -- firmly believe that the United States has altered its position with respect to European integration. If you ask these people why they believe this, the answer is normally a logical exposition of the reasons why the United States might have, or should have, changed its policy. It is difficult to know how to respond to such people, since they are usually not convinced by quotations. I shall, nevertheless, cite the President's Foreign Policy Report to Congress of February 9:

"Both to us and to them [our allies] the advantages of European unification were unambiguous... No inconsistency was seen between European unity and broader Atlantic unity... This essential harmony of our purposes is the enduring link between a uniting Europe and the United States. This is why we have always favored European unity..."

U.S. Trade Problems with the EC

It is important to distinguish between official United States policy and the views of individual Americans. It would be foolish to deny that many individual Americans view the European Communities with less friendliness today than they did in 1958 when the Common Market was first formed. Some of the reasons for this I have already cited. There are other reasons which relate to Vietnam and to internal American problems, and there has been some tendency to attribute the blame for our balance of payments problem to the actions of our major trading partners, including Europe.

It is widely believed in the United States that our trading policies are more liberal than those of any other country, that we have been fleeced in past negotiations, and that the time has come to be much tougher and to protect ourselves from massive imports from abroad. As Macaulay remarked in 1824, "Free trade, one of the greatest blessings that a government can confer on a people, is in almost every country unpopular." It is certainly true that protectionist sentiment has grown in the United States and that one of the excuses its proponents have used has been the alleged protectionism of other countries.

Americans are not alone in this type of behavior. Europeans are also quick to detect others' sins and to deplore them loudly while failing to observe their own. Our efforts to achieve voluntary restraint agreements with the Japanese have been deplored on this continent. Yet the Communities insist on retaining a safeguards clause in the trade agreement which they are negotiating with the Japanese.

The two most important areas of contention in the trade field between the United States and the European Communities are the Common Agricultural Policy and preferential arrangements. Since I am speaking in Rome, it is not necessary to spell out in great detail the problems which arise for the United States from the Common Agricultural Policy. Italy shares many of our concerns in this respect. Italy, like the United States, would like to see the price of corn kept down in the interest of increasing meat production. The Italians also share our view that simply raising prices does not enable the Community to deal with the problem of the standard of living of the poor farmers, and that other, more direct forms of assistance are necessary to achieve this goal. We agree with the Communities that all countries support agriculture for political and social reasons which sometimes do not do full justice to economic realities, but it is our view that the Communities' approach is more protectionist than most other systems since it provides an absolute preference for domestically produced products and has no controls over production whatever.

Another of our long-standing grievances is the proliferation of preferential arrangements by the Communities. The term "preferential arrangements" includes a number of different types of agreements -- such as, association agreements of European countries such as Greece and Turkey; the Yaounde Convention with the developing countries of Africa; the Mediterranean agreements, some of which have been concluded and some of which are still in process; and the prospective industrial free trade area with the so-called EFTA non-applicants. I do not propose to review these different types of agreements in any detail, but I would like to point out the major reasons for our concerns, which are not always fully understood in Europe. Our principal objection to the preferential arrangements,

is that they call into question the guiding principle of GATT, most favored nation, without providing any clear trade philosophy to substitute for it. In addition, these preferential arrangements have a tendency to multiply indefinitely since each new arrangement provides a reason for still a further one. Some of them can also affect our trade interests.

Whenever the United States objects to the Communities' preferential arrangements, the usual response is to stress their political nature. Most Europeans are convinced that the United States is so myopic with respect to preferences that it fails to see the contribution which these agreements make to political stability. Let me assure you that many of us are well aware of the political reasons which have led the European countries to conclude arrangements with the African countries and with the Mediterranean countries. We understand the goals, but we question the means used to achieve these goals. Our doubts do not relate to the desirability of close ties between Europe and Africa and the Mediterranean countries but to the device of preferential trading arrangements. We also find it difficult to reconcile the professed altruism of these preferences with the somewhat less than idealistic practice of exacting reverse preferences in return. It is simply absurd for poor countries to have to offer trade advantages to rich countries, particularly in view of the commendable record of the European Communities in providing assistance to developing countries.

At the start of his monumental Story of Civilization, Will Durant states, "There is hardly an absurdity of the past that cannot be found flourishing somewhere in the present." As an honest economist, I must confess that this judgment is at least as applicable to economics as it is to other fields of endeavor. Perhaps it is nowhere more pertinent than in international monetary matters; somehow, the subjects of money and gold tend to stimulate the irrational.

More than 30 years ago when I was a student of economics, I learned about mercantilism, its shortcomings, and its presumed demise. So far as I can judge, it is still alive and kicking. Almost every country wants to have a surplus in its balance of payments and an ever increasing volume of reserves, preferably in gold. Furthermore, trade deficits are equated with sin and surpluses with virtue. A devaluation is generally considered a confession of failure, balance of payments are analyzed in terms of components or in geographic terms, and we are told that we have no trade problem but an investment problem, or that we have no trade problem with Europe but only with Japan or Canada. All of these are fallacies but they flourish along with reality. They do not make it easier, however, to deal with the international payments problems.

I do not propose to present a blueprint of a new Bretton Woods Agreement. However, having amused myself -- and, I hope, my audience as well -- by reciting these odd, contemporary myths, I believe it is incumbent upon me at least to point out the road to monetary rationality. In the brave new world of the day after tomorrow gold hoards will be distributed to the jewellers and dentists; the dollar will be a national currency, subject to the same rights and responsibilities as all others; the international currency unit will be managed internationally by mutual agreement; parity changes will take place more frequently than in the past and not just in response to crises provoked by festering payments imbalances.

Turning from the substance of the problems between the European Communities and the United States to the means for dealing with them highlights yet another problem. We have tried to establish a consultative mechanism for reviewing our problems -- and we certainly have made some progress in dealing with the problems through this mechanism -- but neither side is entirely happy with it. It is simply not easy to devise an appropriate mechanism for consulting, let alone negotiating, with the Community. The institutional problem of arranging for a EC/US dialogue simply reflects the institutional problem of decision-making within the European Communities. The member countries are well aware of this shortcoming, and various proposals have been made to improve the decision-making apparatus, such as the establishment of European Ministers. While we can endeavor to improve the US/EC consultative mechanism under existing circumstances, in the final analysis it is largely dependent upon the institutional improvements that will be made within the Communities themselves, particularly after enlargement.

Let me return for a moment to 1972. Things have not been quite as bad during the nearly three months of this year that have already gone by as might have been contemplated. The trade package agreed on February 4 has helped to clear the air. I think there is a determination on both sides to try to avoid regurgitating our arguments concerning the trade irritants which each finds in the practices of the other. There is a chance that, with good will, we can utilize 1972 to start the process and build up momentum in the crucial trade and monetary arrangements which face us over the next few years.

1973 : Year of Promise

In contrast to 1972, 1973 is a year of great expectations. It is the year when the major trading partners of the world are committed to begin far-reaching trade negotiations.

It is also the year which will see the Community enlarged to 10 members, with all that that implies concerning the economic strength of this not-so-small Europe. Needless to say, there are some people in the world who will not welcome this development and who will fear the increased competition from this formidable entity. This is not true, however, of my government. Let me quote President Nixon's address on February 7 before the White House Conference on the Industrial World:

"I do not believe that America has given up, that it will give up. Nor do I believe that we in America, because of the competition we face, will try to build a wall around ourselves...
"If we were to let this nation turn isolationist in its economic policy, we would be inviting a trade war -- and like the other kind of war, every nation on this planet would lose. We are not going to let either of these things happen.

"We are not going to become isolationist in our foreign policy and we are not going to become protectionist in our economic policy. We are not about to forget the secret of the world's highest standard of living -- A competitive spirit that results in rising productivity."

Enlargement does not merely mean growing economic strength and accelerating trade. Depending upon the will of the 10 countries comprising the enlarged Community, enlargement could open the door to many things which have heretofore seemed hardly practical. It could mean a greater degree of political cohesion and harmonized foreign policy in Western Europe; it could even involve European defense cooperation within the broader Atlantic framework. From the current gropings, a true monetary and economic union, including a European capital market, that can take advantage of the resources and experience of the city of London could develop. This new entity could play a major role in the reform of the international monetary and trade systems, which could have as its major membership groupings the United States, a Western European entity, Japan, the developed countries of the Commonwealth and the LDCs. It could also have as a consequence a more stable East-West situation in Europe and the Mediterranean.

While the enlarged Communities will provide a challenge to the United States, it is a challenge which we welcome. On balance, the implications for United States interests would be basically favorable. We would expect a greater sharing of responsibility for world stability, security, and prosperity.

Having painted this favorable picture, it is necessary to raise some doubts in order to be realistic. No one can now be certain whether the members of the enlarged Community will, in fact, realize the potential for advance now opening before them. One of the key questions is whether the Europeans will succeed in devising common policies in such areas as monetary union and foreign policy and, furthermore, whether such policies will be compatible with U.S. policies. As I have said earlier, it is our judgment that the answers to these questions are a favorable affirmative, but no one can be absolutely sure about this.

EC Institutional Problem

Although 1973 is a year when much should be accomplished, it is also -- I regret to use this term again -- a year of transition in the development of an enlarged Europe and in the relations of Europe with the rest of the world. The institutional problems which have made life difficult over the last few years will not suddenly disappear. It is hardly necessary for me to explain to this audience how painful a process it is for the Community to arrive at decisions and how virtually impossible it is to change a decision once it has been reached. Negotiations with third countries are incredibly complex and, in fact, one can question whether the term "negotiation" is applicable at all. The Commission is given a mandate by the Council of Ministers; it states its position in terms of the mandate; it hears what the other side has to say; and then, unless the other side accepts the Communities' position, the Commission can only go back to the Council to have the mandate changed.

One consequence of the institutional problem is that the Community has not produced the sort of initiatives one would expect from such a new organization. The Community has also been deficient in its public relations, and this has contributed to an image abroad which does not always do justice to the policies and accomplishments of the Community. For example, on December 12 the Council agreed upon a declaration of intent which represented an important step forward in terms of agreeing to wide-ranging trade negotiations, including agriculture and non-tariff barriers. Not merely have the Communities failed to advertise this important step but they actually attempted to keep this declaration of intent secret for a while.

Another shortcoming of the Community institutions which is, I think, apparent to the representatives of most foreign missions

accredited to the Community, is the relative paucity of attention paid to third countries. Quite understandably, perhaps, the attention of those portions of the Community concerned with third country relations has been focused on the countries with which the Community has negotiated, or is negotiating, agreements of one kind or another. The other countries of the world have found it necessary to knock loudly on the Communities' door if they wish to be heard at all. Sometimes the door has remained shut, despite loud knocking. Several countries, including fairly recently Japan, have requested regular consultations with the European Communities. For various reasons these consultations have been refused.

Outlook

There are reasons to believe that this situation will improve after enlargement. The problem is recognized by many Commission officials, and there are reorganization plans now under consideration which will tend to place greater stress on foreign relations. Moreover, it is reasonable to expect that the British, who have been on the outside looking in for so long, are keenly aware of the problem and will try to remedy it. Finally, it is most heartening to note the important place relations with third countries have on the agenda of next October's Summit meeting.

Economically, 1971 can hardly be described as a brilliant year for the United States. Nevertheless, despite the stagnation, the record balance of payments deficit, and the suspension of convertibility, our policy towards Europe has been firmly maintained by President Nixon.

The basic goals of the Community are at least as much political as economic. The main reason for our continuing support is that we consider its basic political goals to be in the American interest. We are in favor of a process that puts an end to the centuries of internal strife in Western Europe. And we welcome the evolution of a Europe that -- by working together -- can make a more significant independent contribution to the resolution of our common economic, political and security problems. Whatever differences Europe and the United States have had thus far, our common interests have prevailed, and we are confident that they will continue to prevail so long as both sides make a major effort to keep them in view.

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