

EUROPEAN ECONOMY AND EUROPEAN POLICY

Address by

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I

The crisis into which the European Economic Community has entered has not spoilt the general design I had for my speech this evening. However, it has changed it, or at least added to it. It would be rather affected on my part not to speak of the great difficulties of these last days and weeks. I will therefore begin with them.

The essential facts are known. The transitional provisions of the regulation on the financing of the agricultural policy expired on 30 June. In anticipation of this the Council of Ministers, in its decision of 15 December 1964, called on the Commission to make proposals to it:

- (i) Concerning the financing of the common agricultural policy for the period 1965-70. This the Commission did within the time appointed.
- (ii) Concerning the accrual to the Community of the agricultural levies and other income of its own. On this point, too, the Commission made proposals.
- (iii) According to the old financial regulation, to which the Council's request to the Commission expressly referred, these two groups of proposals (concerning the financing of the agricultural policy and the accrual to the Community of revenues arising at the frontiers) were to be made in respect of the final stage of the Common Market. We therefore had to say when and under what conditions this final phase occurred, and that we did.

Finally, we made a suggestion concerning the strengthening of the role of the European Parliament in budget questions. The Council did not ask us to do this in so many words, but indirectly. Article 2 of the old financial regulation recalls that the provisions regarding the joint revenues of the Community must be ratified by the Parliaments of the Member States. However, it is known that in some of these Parliaments there are strong trends in favour of making such ratification subject to a strengthening of the role of the European Parliament. We had to take this into account if we wished to avoid the risk of making purely academic proposals. In addition the Council itself, in a declaration of 23 December 1963 - I quote - "stressed in its discussion of the workings of the European Agricultural Guidance Guarantee Fund the great importance which it attached to the question of strengthening the budgetary powers of the Parliament".

What we proposed in this matter was actually very modest. In particular we respected the fact that in principle the Council of Ministers is the budgetary organ and not the Parliament. Accordingly, the European Parliament, which, moreover, endorsed our proposals by an overwhelming majority, has, in a much quoted resolution, emphatically made more far-reaching demands, as subsequently did certain member governments and parliaments.

From this short account it may be seen already that the Commission did not, as has sometimes been said (not in Germany), more or less complicate the problem by arbitrarily adding political conditions. We did not add anything at all, but we answered the questions put by the texts - and completely. We must therefore flatly refuse to play the part of scapegoat for which we have been cast.

The Commission's proposals were discussed for five days in the Council of Ministers and excellent progress was made. Thus agreement in principle was reached on 1 July 1967 as the final date of the transition period for the Common Market, and also on the procedure for introducing a whole new series of important conditions for the agricultural market. Deliberations on conditions for the industrial market were also proceeding well. There was agreement in principle that the income at the frontiers, therefore including customs duties, should accrue to the Community in the course of its development; discussion of several specific points had started. On the weighty questions of financing the agricultural policy differences had been narrowed, largely owing to the accommodating attitude of the French member of the Council. Only the question of the budgetary functions of the Parliament was still only beginning to be considered (in the Commission's internal report on the Council's discussions, which covers 52 pages, this occupies only 2 1/2 pages).

In this situation the Commission made every endeavour on the last night of the session to induce the Council to continue the discussions. The time necessary had obviously been underestimated when the discussions were arranged. Failure to observe a time-limit laid down in a Community regulation for an important decision is not a matter to be taken lightly. But there is no lack of precedents for continuing negotiations in such a case. When, for instance, the time-limit for the change-over from the first to the second stage of the transition period of our Community, 1 January 1962, was approaching - a time-limit laid down by the Treaty - agreement on certain conditions put forward by our French friends could not be reached in time. On their proposal the clock was stopped, and 14 days later agreement was reached. Unfortunately in this case we did not succeed in achieving unanimity in the Council on a similar procedure, although there was strong support for our suggestion.

In judging the situation which has now arisen all histrionics should be avoided, and the greatest caution should be observed in speculation about the future. Only one statement is possible as yet, and I think I must make it. Nobody intends on these grounds to jeopardize the existence of the European Community, in any way whatever. That would amount to the greatest act of destruction in the history of Europe, and indeed of the free world, since the days of Hitler. Nothing, I repeat, warrants our assuming that there is any intention of this kind.

Nevertheless the situation remains serious enough. Enactment of provisions for the further financing of the common agricultural policy is an indisputable and undisputed duty of the Council, and this is an important field. The fact that it has not been possible to fulfill this duty within the time-limits set represents a serious failure. But it is not irreparable. The course of discussions so far does not permit the conclusion that agreement is impossible. On the contrary. Naturally, there is never absolute certainty of success in negotiations between six partners in which the disagreement of even one single partner is sufficient to prevent accord. But the only reasonable question which one can ask oneself is, nevertheless, whether a sufficient chance of success exists. This question, however, must be answered in the affirmative, and has been answered in the affirmative by most of the participants. All those concerned have not only expressed their will to fulfill the common obligations but have also acted upon it, and - as I have already said - this attitude has already borne its first fruits.

All energies must therefore be concentrated on continuing the negotiations. The cure of the crisis must begin at the place where it broke out. And it is to

this end that the Commission's efforts are directed.

That is all I can say publicly at present if I am not to endanger the success of these very efforts.

This is the first time I have ever had to begin a speech in such a singular fashion, and I hope it will also be the last. Admittedly, what I have said alters nothing on one point - the topicality of the matter about which I would now like to speak: what this Community is and what it means, according to the Treaty, according to the spirit which informs it and determines its fruition, and with all the real opportunities inherent in it. It is timely to speak of this, even if only to demonstrate once again the larger context to which the things belong that could be at stake.

I I

First of all: where does the European Economic Community stand today?

If the pace adopted is maintained, the customs union will be completed 2 1/2 years earlier than is provided for in the Treaty. In this way we are at the same time advancing ever further into the field of economic union.

One part of this, the Community's agricultural policy, has been forged, bit by bit, in tough and tiring work. It has even been possible to solve the extremely difficult problem of a common cereals price. On 1 July 1967 there is to be a common cereals price in Europe, on the basis of which the Community is also negotiating in the Kennedy round in Geneva.

The common transport policy has finally got under way.

A common economic policy is gradually taking shape, now that the Common Market, as an established fact, is already smoothing out economic waves and has caused solidarity in economic policy matters to grow. The close interconnection of the Member States and the experience of the Federal Republic is a good example of this in itself gives rise immediately to counter-balancing movements, both when the economic situation is overheated and when it is depressed. The example of Italy has shown this. The fact that inflation was smothered there is also attributable to imports from the Community. The subsequent depression was mitigated by the immediate rise in Italian exports.

The monetary union is in process of creation.

Work is going on on regional policy.

As regards a common fiscal policy, arrangements covering a first, partial sector are practically complete.

Competition policy already exists. A fortnight ago my colleague von der Groeben made a highly impressive report on this in the European Parliament.

A medium-term economic policy is being prepared.

The Community is beginning to handle questions of science and research, with the aim of overcoming the partitioning of Europe in this field as well.

Co-operation in social policy is bearing fruit.

In external affairs, negotiations are going on regarding permanent relations with Austria. The Community as such is a partner in the Kennedy round, which was brought about through its existence. It has concluded the first trade agreements with non-member countries. The countries of the Mediterranean area are striving for close connection with the Community. Negotiations for association are already being conducted with Tunisia and Morocco. Further to the south the EEC's link with a great part of Africa is assured by the Association of the former French and Belgian colonies.

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The short history of the European Economic Community, then, has been a story of unparalleled success, of uninterrupted progress, of powerful dynamism. And what has the economy itself gained from this?

The first answer to this question is the description of the central element of the Community: the Common Market.

The first point is that this is a market. The economic order prescribed by the Treaty is that of a free market economy. This is a statement of immeasurable significance. What determines the economic process is the freedom of businessmen to take their own decisions. It is they who are putting the Common Market into effect by their decisions on investment and production. The withdrawal of the State from the internal frontiers of the Community is expanding the area of freedom. Tax frontiers and administrative frontiers too will fade.

Secondly, the market is a large one. The Common Market is continental in scale. In many cases it takes a market of 180 million consumers to make the application of modern production techniques economically justifiable. But it is not only mass production that demands a large market; specialization in smaller and medium-sized firms has as much need of it.

Lastly, it is a secure market. In a case of emergency it is no longer possible for the Member States to manipulate their external relations. Germany's trade with her five partners is as secure as her internal trade. In 1958 rather more than a quarter of German exports went to other Common Market countries; by 1964 the figure had reached 36%. Sooner or later customs and quota barriers, unfair competition and unilateral alterations of exchange rates will cease to be a threat to a considerable part of German foreign trade. Britain's import surcharge has shown us what this can mean. Moreover, the existence of the Community must in the long run help to stabilize the international economy and consequently external trade. This point weighs heavy in the scales of the German economy, dependent as it is on exports.

What this Common Market means to the economies comprised within it is too well known for me to need to repeat it here.

Real GNP and industrial production have risen much more sharply in the Community than in the United States or the United Kingdom. The statistics on the increasing interpenetration of trade among the Member States are universally regarded as sensational.

The rest of the world has also benefited from this rapid and relatively steady economic progress. The Community's share in world imports has gone up by about 20%.

The German Federal Republic has enjoyed the fruits of this development to the full.

Germany's visible exports to the other member countries alone rose by 134% in the first six years, imports by as much as 163%. Despite the fears expressed in many quarters, this was in no way at the expense of non-member countries.

Agriculture, including particularly German agriculture, is drawing advantages from this success story. Increased incomes are having a good effect on sales outlets. Consumption of high-value livestock products is going up constantly. German agriculture in particular has no reason at all to fear keener competition. It is more productive than French agriculture, for instance. Of course, some changes have to be made to cope with changed circumstances. But these would have come anyway. They can definitely be brought about, and certainly more easily in the Common Market than if each nation were to go it alone. And all those responsible are prepared to help agriculture (and have already proved it).

The consumer too has benefited from the EEC, notwithstanding many opinions to the contrary.

Keener competition in the Common Market has not only speeded up growth but also reinforced price stability.

Thus, everyone has profited from our undertaking, inside and outside the Community.

I V

Now what is the outlook for the future?

According to the experts, the Community could increase its real GNP by about 4.5% in the coming year. In particular, a continuing quite vigorous expansion of overall demand can be predicted with some degree of certainty for 1966. The new Council recommendation on stabilization issued on 8 April 1965 has confirmed the restrictive line already laid down a year ago for 1965. The main thing is that the rise in public expenditure of all institutions must be kept down to 5% a year. The success of the stabilization policy is therefore an important factor for continuing and - in the medium term - rapid economic growth.

So much for the near future. But we can also be optimistic about the longer-term prospects.

The preliminary work of the independent experts working on a medium-term economic program for the Community provides good grounds for this. Private and public demand over the next five years will keep production rising at much the same growth rate as observed in recent years. In view of this, real GNP can be expected to show something like a 4.5% annual rate of increase. In Germany the growth in real GNP may be slightly lower than this average, at 4.2% - a consequence of the age structure of the population and a decline in the numbers gainfully employed. *Vis-à-vis* this fairly optimistic forecast, however, caution must be exercised on one point: the labour market will remain a bottleneck even in the more distant future. In the next five years the active population of the EEC will grow almost one-third more slowly than during the last five years.

The first consequence of this will be the continuation of migration of labour from one sector of the economy to another, particularly away from the land, from one Member State to another and into the Community from countries outside. And we must do all we can to encourage free movement of labour rather than put artificial obstacles in its way.

The second consequence: as the Community will only have a slight increase in manpower at its disposal, the existing labour force must be properly directed. Vocational training and professional mobility are therefore among the matters that will play a decisive part in the further growth of the economy.

The third consequence of the labour shortage is that productive investment by firms must be at least as extensive in the future as it has been in recent years. To assure economic growth, investment by the public authorities will also have to rise vigorously. True, what is produced by such investment is not directly visible; but nobody denies nowadays that it is absolutely essential to the modern economy. Let me simply remind you of road building, urban development, schools and training establishments, and social investments.

In view of this need for investment by private industry and the public authorities and the resulting claims on GNP, the increase in private consumption must still be kept within certain bounds.

So these are no longer the years of our founding fathers: the matters of moment today are investment, rationalization, automation.

V

This is enough to provide the first answer to the question that individual businessmen must ask themselves: what is the significance of all these considerations of economic policy and the overall pattern of the economy for the businessman himself, for his actions, his planning, his decisions?

The extended domestic market is a new economic environment. The different economic entities of the individual Member States are joining to produce a unified European economic entity. To this must be added increased competition from abroad, which has its effect on the structure of this economy, especially on the size of firms.

Industry therefore wishes to combine. However, it is not a question of combining at all costs but of combining in the right way. There are suitable and unsuitable mergers. There are industries in which the question is of greater urgency than in others. And there is no universal rule as regards the optimum size of a firm - and the Commission has investigated this thoroughly. The economic optimum can be achieved by various production processes in firms of different sizes. How else would smaller and medium-sized firms have any chance of success in the Common Market? At any rate we shall have to move the borderline between acceptable and unacceptable mergers in the years to come - and this means letting more mergers go through.

Competition is, of course, the vital factor in a modern free economy. This is the other borderline we have to consider. Monopolies and practices of market domination such as are harmful to the economy and to consumers are therefore unacceptable in the Common Market too.

V I

This brings us to the last and most difficult question. What I have just described is all well and good, and no one denies the great success that has been achieved, but can we rely on things continuing to go so well; can we be sure that nothing will change?

The answer to this brings us to the kernel of the political problems of Europe. The answer depends on the political organization of this continent.

For five hundred years European history has wavered between the two principles of equilibrium and hegemony, and this conflict has cost Europe bloody holocausts and immeasurable material sacrifice. In two frightful world wars this century has come to the final decision: equilibrium is from now on the only solution. No single European State today has the economic, military and political potential to establish a hegemony. And you must not object: what about Russia? The result of communist control would not be hegemony but subjugation, as we know from bitter experience. And that is something quite different.

But what is the precise solution of equilibrium to be? Today it is settled that we cannot have the "European system of states" that kept Europe more or less in order until the beginning of this century: a collection of states with no structural link, jealous of their sovereignty, keeping each other in check by means of alliances that were switched as the interests of their members changed, and restrained or given free rein by the concert of powers and British diplomacy. It was an unstable balance of power. As Kant said, sarcastically but to the point, such a system was like a house built so perfectly in accordance with all the rules of equilibrium that it collapses when a sparrow alights on the roof. Now it was more than a sparrow that came down, and the system collapsed in two world wars that began in Europe. Little remained, apart from chaos.

To replace this system, which had lost its authority because it had not passed the only valid test, because it had not kept the peace, we began to build something new. This new construction, the European Community, we owe to the vision of Churchill, the resolve of Robert Schuman, the statesmanlike insight of de Gasperi and Adenauer, who made it the central element of the reshaping of their countries, and the farsightedness of those concerned in the Benelux countries. What is new is that the unstable balance has been replaced by a stable one. The interests of those taking part are not at the mercy of a fortuitous and arbitrary interplay of forces. They are being put into the joint hands of an independent self-administration of the Europeans. A common European policy is being increasingly substituted for the balancing act of external policy. Instead of a permanent invitation to outside powers to tip the scales more or less forcibly and affect the balance, we are coming to a relationship of co-existence or of friendship among equals as the European personality is gradually shaped, and this brings security and independence in relation to the outside

world.

The means employed are also new. The Community is a creation of law. It is not the product of a power struggle, not the imposition of a conqueror. It rests on the voluntary agreement of free men. It is at the same time the source of a new body of law, European law, which gives shape to our basic law, the Treaty of Rome, and supplements and develops it. And it constitutes a new legal order, applied, endorsed, experienced, lived from day to day by civil servants, by judges and by millions of Europeans, who thus become in ever-increasing measure European citizens.

Initially, this order concerns only the economy and social life. First of all it means - in the realm of European strategy - an alliance, a pact between the European idea and economic reason and social progress. This in itself is a vigorous and solid affair; for anything that is unreasonable is always unprofitable too. But the real, the ultimate meaning of the combination of economic utility and political necessity is much deeper: it lies in the fact that hardly any vital force is so strongly linked with the need for peace as the economy, whose very existence in fact depends on the maintenance of peace - and not only for the sake of trade.

Does this legal confirmation of the new order therefore answer our question about the maintenance of equilibrium? Not at all. It only defines the problem. It does not solve it. How simple the world would be if a law were sufficient to establish eternal peace among the peoples and eternal harmony between conflicting needs and desires!

No, the factors which have to be weighed, made to balance, and kept in balance, are not constant. What are these factors? The first is the policy of the individual states. We are a Community of states. How many times more must we say that our aim is not to replace them by a centralistic superstate? The word "supranational" which was earlier in vogue, appears to have had a really shattering effect in some quarters. What we want is not to do away with the Member States but to fashion a living bond between them. Europe is variety, and this variety we wish to preserve. The full treasure of European tradition, talents and aspirations must have its enriching effect on the Community. This is why no one is thinking of a streamlined Europe, of a European melting pot. This is what we mean when in the search for solutions to specific problems, we allow ourselves to be guided by federal examples. But even this appears to lead to misunderstandings in that we are thought to be already taking a federal State for granted. The whole distinction between federation and confederation is beside the point for the Community. In some of its aspects, the Community is more than a federation, and in others less than a confederation. In formulating this thought-provoking paradox, I should like to put an end to the theological dispute which divides us for no good reason.

We now come to the second problem of equilibrium, the legitimate differences in priorities and interests: agriculture as against industry; free trade as against protection; the free play of the market as against dirigisme; the general economic rule as against the regional exception and finally, to avoid making the list of concrete examples unduly long, I shall mention a general rule which everyone follows - to pay as little as possible into and get as much as possible out of the Community kitty, if I may use an image.

In both spheres, that of the State and that of objective interests, the perpetual flow of events allows not a moment's respite. Any order designed to freeze the balance at any given moment, and create a mammoth inflexible system would be out of touch with, indeed hostile to, living reality and wholly unfeasible.

This explains why, in addition to practical rules, we also need procedures and organs.

It also explains the organizational structure of the Community. At the heart of this system, which has frequently been described, lies the debate between the Community's interests and specific forces, traditions and also necessities. It finds expression in the relationship between the Council as the chief decision-making body and the Commission as initiative-taking body, and also in the link between the European Parliament and the

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national parliaments, through people who are members of both. And the results are legally guaranteed by the European Court of Justice.

The most original element in the structure is the embodiment of the Community's interests in the Commission, which is independent of the national governments. There can be no doubt - and this is no special pleading on my part - that this element, working on the basis of the Treaty, is of paramount importance to the functioning of the whole system. Experience has proved it.

The system is dominated by two principles: the first is that every conceivable interest should find representation, the second that the representative authorities should be prompted, in fact forced, to co-operate. And this is what happens in practice. There is not one item of business which is not dealt with from start to finish in the closest possible co-operation between the various Community institutions, with the national Government departments, and with the various pressure groups in the Community. This is proved by the thousands of meetings which are held annually at all levels. And since the Community has no administrative substructure of its own, every Community act is implemented by national administrations and courts and is thus translated into the language of the public authority with which the individual citizen is familiar.

This mutual dependence in the fulfillment of the Community idea is the essence of what we call integration. This is why it most clearly reflects the inner cohesion of all efforts to achieve European unity, that is between the Treaties of Paris and Rome on the amalgamation of economic and social policy, and those fields for which we have as yet no contractual basis, in particular external and defense policy. It has been said that preparation of the future in such fields must be kept distinct from the existing Treaties. This is completely true, in the sense that those Treaties must be fully implemented and remain intact. But of course it should not be taken to mean that every single attempted step towards European unity is not in fact part of a powerful movement which has embraced all branches of European policy.

In this sense, what is known as economic integration is part of political union. It is political in its substance - economic and social policy. It is political in its motives, viz. to make Europe strong against threats, to guarantee its independence and to give it its proper say in the shaping of world policy. It is political in its consequences: to mention only Germany, has it not made it easier for us to take our place again in the family of nations, has it not helped to solve the so-called Ruhr problem, have not further endeavours in the field of integration, while failures at the European level, smoothed the path towards the incorporation of Germany in the defense of the free world and made it possible to solve the problem of the Saar?

This is also why we are justified in hoping that our day-to-day efforts to accustom people to the wider European perspective, to change gradually their patterns of thought and behaviour, and to promote a feeling of European responsibility - that all this will prepare and encourage them to make the further attempts of which I spoke and for which the time is not yet ripe.

For these new fruits will not fall into our laps. Nothing happens automatically in politics. We shall have to go on working hard as in the past, with diligence, understanding, imagination and determination. We must not forget that the art of politics does not, as is widely thought, consist merely in weighing interests but also, in fact chiefly, in contacts with other human beings. People and peoples must draw together. This will not occur overnight but will be the result of a long process. There is a central, decisive factor in this process, and that is the relationship between France and Germany, which imposes a special task on both Frenchmen and Germans alike.

This relationship can be described as an indissoluble marriage, indissoluble because there will be no further war between the two countries - and if this were the only thing that could be said for it, it would in itself be an incalculable blessing. It is an interesting marriage with a highly gifted and self-confident partner, far superior to the German in the complete lack of sentimentality and yet sensitive and capable of well-nigh unpredictable reactions. Any policy which overlooks this indissolubility will lead to error, even to disaster. This applies for both partners.

Let me close with a word of thanks which is not an empty phrase, a word of thanks to the German economy of which there are so many distinguished representatives here tonight, and through it to the European economy. The work of uniting Europe is not done by the diplomats, the politicians and the technocrats alone. It is done by the peoples. In the economic and social sectors it is the work of the labour force and management. Much of it is your work. Had not those engaged in economic activity by their own free decisions seized upon our program and bodily set about implementing it with a sure feeling for the truth and reality of what was afoot, everything would have remained no more than a promise. You have breathed life, vigorous life into the fabric.

Not only that ... much of what you have done, you have done faster than was planned and have thus yourselves determined the dynamics of progress. You have every reason to be proud of your achievement.

May it remain so! For although we are sure that we shall reach the ultimate goal, it is not a matter of indifference to us how we do it, when and at what price.

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