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The Impact of the Enlarged Europe on the United States and Europe

The subject of U.S.-European relations, increasingly receives a great deal - if not always the proper kind - of attention.

One of the Atlantic partners, the United States, has the most powerful economy on earth with a GNP well over the trillion dollar mark. The Common Market, on the other hand, forms the largest commercial power in the world. The economic, commercial and monetary data, covering the multi-faced relationship between the Atlantic partners, form a thickening and often confusing haze. Especially on the eve of major international trade and monetary negotiations, data are perceived differently and generate a curious mix of confidence, perplexity and apprehension.

Notwithstanding certain points of friction, the balance sheet of this relationship, so far, shows healthy profits for both sides. After the forthcoming enlargement of the Community, no fundamental change should occur in this basically favorable relationship, provided the major economic partners of the world avoid to get caught in their own rhetoric.

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What is the present status of the European Community?

The European Community is in the middle of a process of adjustment: first a group of six countries (Belgium, France, Germany, Italy, Luxembourg and Netherlands), it has on the 1st of January, 1973, become a community of nine countries with the addition of Great Britain, Denmark and Ireland.

The European Community has realized a full customs union among its member-states. It has developpped common policies in areas such as trade, agriculture, antitrust legislation and - to a large extent - aid to the developing world. The European Community has embarked on an economic and monetary union plan. It is preparing a European policy in the area of environmental protection, industrial policy and regional policy.

The European Community disposes of its own institutional structure and a decision-making process producing "European" legislation applicable within all of the member-states. The European Community budget, formerly financed by member-state contributions, will soon be an autonomous tax-raising body.

Trade and Investment Patterns

A sound way to evaluate what the Enlarged European Community will mean to U.S.-European economic relations is perhaps to remember the effects of the former European Community in the area of trade and investments.

The total U.S. commodity trade with the European Community in 1972 exceeded three times the level of trade in 1958, when the Common Market was formed. U.S. exports to the Community had thus risen from 2.8 billion to 9 billion dollars. Department of Commerce statistics tell us that from 1960 to 1971 overall U.S. exports rose by 116% whereas toward the Community U.S. exports increased by 143%. The expanded Common Market will be the number one market for U.S. goods.

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The Community's overall imports from third countries reached more than 45 billion dollars in 1970. On the same basis, the enlarged European Community imported goods worth $70 billion. Forecasts for 1980 say that by then the European Community will represent a market of about 130 billion dollars. This gives some idea of the possibilities that are open to American exporters.

Not only the volume of transatlantic trade is impressive, the pattern of this trade is equally significant: the United States scored an average surplus -- of 1.7 billion dollars -- in its trade with the European Community. Even in 1971, the figures showed a substantial U.S. trade surplus with the European Community ($1.3 billion). Today it is particularly significant that whereas the overall U.S. trade balance is showing a $6.4 billion deficit, Japan alone accounts for more than $4 billion of that deficit, Canada $1.5 billion, and the rest of the world including the enlarged European Community, only $500 million. (The most recent Department of Commerce figures show, for 1972, a U.S. trade deficit of 165 million dollars with the Six.)

Among the factors that have helped considerably the growth of U.S. trade with the European Community is the rapid rise in the standard of living which accompanied the creation of a large single market in the Community. Indeed, we share the belief of the United States that the key to economic progress lies in competition. The establishment of the European Community has considerably enhanced competition within the Common Market area, which in turn has boosted economic growth and the inherent demand for investment and consumer goods. This situation doublessly has encouraged the liberal orientation of the European Community trade policy.

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Another reason for the spectacular growth of U.S. exports to the European Community is the low level of the Community's common customs tariff. The Community is now surrounded by the lowest tariff average among the major industrial areas (Average post-Kennedy Round rates for industrial products are: 6.0% around the European Community against 7.6% for Great-Britain, 9.7% for Japan, 7.1% for the United States. Only 13.1% of European Community tariffs on industrial goods are over 10% and 2.4% are over 15% compared to 38.3% of U.S. tariffs over 10% and 23.7% over 15%).

One of the obvious results of British entry into the European Community will be the reduction of Britain's tariff to the low level of the Community's protection.

The economic relations between the United States and the Community not only include the flow of commodities. The rising activity of American firms within the Community must also be taken into account. These investments have grown sixfold, from $1.9 billion in 1958 to an estimated book-value of $13 billion in 1971. In the past decade the Community has been the fastest growth area for American direct investment. In 1958, investment in the Community, largely in petroleum, comprised only 7 per cent of total American investment abroad. By 1970 the Community proportion had grown to 15 per cent of all American investments and three-fifths of it was by then in manufacturing.

The growth of direct American investment, however, is more accurately seen from the figures for the annual expenditure of American capital investment in the Community. Capital expenditure is made up of capital transferred from the United States, capital raised in Europe, and reinvested earnings. Annual capital expenditures in the six Community

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countries were $420 million in 1958 but are estimated at $3.3 billion for 1972.

This American direct investment has an impact on American exports to Europe and thus on the U.S. - Community balance of trade. Today more and more American products, from computers to detergents, are produced in Europe and are no longer being exported from the United States. In 1968, the last year for which complete figures are available, the sales of American manufacturing subsidiaries located within the Community totaled $14 billion. This was an increase from $12 billion in 1967 and $4.8 billion in 1961. Thus, in 1968, the sales of manufacturing subsidiaries were nearly 2.5 times the value of total American exports to the Community and nearly four times the value of exports of manufactured products. It is impossible to ascertain the exact amount of American exports which are displaced by production in Europe. But it is clear that a large degree of the capital migration from America to Europe was prompted by the conclusion of American companies that it was cheaper to produce in Europe than to export finished products from the United States. However, to me, the striking fact remains that it is precisely the area of the world where American investments grew most spectacularly, which is also the area of the world where the U.S. economy still maintains a relatively favorable trade balance.

Conversely, direct Community investment in the United States has not been large. The book value of this was $1.4 billion in 1960 and $3.5 billion in 1970. The reason for the low level of investment lies partly in U.S. policy toward foreign investment. As stated in the Commission's 1970 "Memorandum on Industrial Policy", certain features of American

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legislation hinder direct foreign investment in the United States. In a whole series of industries, such as aviation, electronics, insurance, and manufacturing of alcoholic beverages, no foreign investments are allowed. American antitrust laws, in addition, are applied not only against American subsidiaries of foreign firms but also against the parent company for their activities outside the United States. This restriction has stopped many European firms from investing in the United States. The European Community, on the other hand, only applies its antitrust rules against parent companies for their activities carried out either directly or through subsidiaries within the Community. As is shown by the investment patterns of American firms in Europe, a convenient way of establishing a foothold or extending company operations in a market is the acquisition of existing firms. Such transactions are often attacked in the United States by antitrust officials.

The repatriation of profits from American subsidiaries abroad has recently become a major new source of revenue in the American balance of payments. Remitted income on total U.S. direct investment abroad rose from $2.95 billion in 1960 to $9.3 billion in 1971. In 1971 American firms in the six original Community countries repatriated $1.2 billion, reinvesting the remaining profits in plant expansion in Europe.

Thus, the U.S. economy benefits doubly from European integration: from a considerable increase in U.S.-European Community trade and from the impressive income growth through investments in Europe. Both make a major contribution to the credit side of the U.S. balance of payments.

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Because of its heavy dependence on trade for the development of its GNP (trade accounts for 20% of the GNP of the European Community and only for 7% of the U.S. GNP), the Community had to follow "open" trade and investment policies.

The economic structures of the United Kingdom and of the other applicant countries are, in this respect, similar to the structures of the Community countries: also a large percentage of their GNP is dependent on foreign trade. Their policies toward direct U.S. investments have been equally liberal.

When countries or groups of countries with open trade and investment policies decide to merge into a vast economic union, there are good reasons to believe that the subsequent economic blending will bring about an open entity where increased competition creates increased wealth. Logically, the U.S. business world should contemplate the enlarged European Community as a more prosperous client and - as every salesman knows very well - the more prosperous a customer, the better chance there is of selling to him. (Incidentally, it is for this very reason that the rich American market is an important factor of world trade.)

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Agriculture

American officials contend that the Community's agricultural policy is excessively protectionist and harmful to U.S. interests. These charges are not supported by the U.S. Department of Agriculture statistics!

The fact is that the European Community remains the largest market by far for U.S. agricultural exports, which totalled $1 3/4 billion in 1971. Since 1964, the last year before the effects of the Common Agricultural Policy (CAP) made themselves felt, American farm exports to the Community grew by 42% as compared to 26% to the whole world. Of course, not all U.S. agricultural produce has scored the fabulous growth of soybean exports to the European Community over recent years ($800 million in sales in 1971). Exports of other agricultural commodities remained stable, some have even dropped.

Naturally, such divergent developments reflect problems for which the Common Agricultural Policy serves as an easy scapegoat. In reality, they often reflect conflicting interests between American producers and exporters of interchangeable and competing products.

Forty per cent of U.S. farm exports enter the Community facing neither duties nor quota restrictions. The other sixty per cent undergo what is called a variable levy or tariff, which is the basic CAP instrument of protecting the European farmer against a chaotic world market.

There is no point in denying that such protection exists around the European agricultural market. But there is no point either in pretending that a totally open, non-protected agricultural market exists in any of the industrialized states we know.

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The methods and devices of protection may be different from one country to another, but somehow they exist in every country.

The U.S. protective system mainly consists of quotas and governmental income support to farmers. The European Community has the variable levies and a price support system essentially carried by the consumer. Should we make a comparison of protection in the United States and the European Community? Supposing, for example, all supports in all forms were discontinued both in the United States and the Common Market. This would come to a $1,320 per capita income drop in the United States and a $860 per capita drop in the European Community. In other words, competition between agriculture of different countries amounts in fact to competition between public treasuries of these same countries.

When the European Community proposed to bring some order in the world's markets through international commodity agreements during the Kennedy Round, the United States refused.

In February 1972 the United States and the Community reached an agreement on several agricultural issues, including grain stockpiling, citrus fruit, and tobacco. On the same occasion both sides concurred to initiate the long-term multilateral negotiations within GATT during 1973, which will cover both industrial and agricultural products. The Community maintained that one means of achieving order in world agriculture is through international commodity agreements. Such agreements are important for developed regions, such as Europe and America, but crucial for the developing countries, which despite efforts at economic diversification, still depend heavily on agricultural exports.

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Will Britain's entry into the Common Market have an impact on agricultural world trade? The answer is yes. What exactly the impact will be is difficult to predict. There will be no problems, of course, for products that have no tariffs, such as soybeans. The United Kingdom will have to eliminate its present 10% duty on soybeans. Presently, tobacco undergoes more taxes and excises in the U.K. than in today's nine European Community countries. The agricultural products for which British entry may cuase a change in trade patterns -- butter, bacon, sugar -- are not of major importance to U.S. exporters.

The Common Agricultural Policy is not a rigid set of protectionist devices. It is a practical and relatively homogeneous system, replacing the previously existing panoplies of different national -- and often very restrictive -- regulations in the field of agriculture. It is conceived according to the present European agricultural situations, yet it also takes into account the interest of Europe's traditional trade partners.

Finally, the CAP is the prerequisite for the structural changes that will allow Europe to achieve successfully its green revolution. Fourteen per cent of the total working population in the European Community is still employed in agriculture. The corresponding figure for the United States is four per cent. Half a million European left the agricultural sector every year in the sixties. The same flow is expected to continue in the coming decade. Allowing this massive process to take place smoothly is one of the goals of the CAP.

Basically the cost of this policy is picked up by the European consumer who pays a relatively high price for his food, not by Europe's trade partners as it is too often suggested by US spokesmen.

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