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**THE EUROPEAN COMMUNITY
A NEW PATH TO PEACEFUL UNION**

**Lectures given by Prof. Walter Hallstein
President of the Commission
of the
European Economic Community
to the
Indian Council for Cultural Relations
in memory of Maulana Abul Kalam Azad**

LECTURE I

THE UNITING OF EUROPE

I

I am sure that I need not say - and indeed it is difficult to express - how very greatly honoured I feel that the Indian Council for Cultural Relations should have invited me to give this year's lectures in memory of that great teacher, educationist, and statesman Maulana Abul Kalam Azad.

Your country, it seems to me, has been particularly fortunate in attracting into political life scholars whose intellectual and spiritual greatness has given a characteristic and unmistakable tone to their work as practical men of affairs. If this was true of Maulana Abul Kalam Azad, it was equally true of that other great man whom all India has so recently mourned, President Rajendra Prasad. Long may this great tradition continue.

Nor can I forbear to express the diffidence which I feel at following as your guest lecturer so distinguished a company of scholars and statesmen. I have had the opportunity, in particular, to read the lectures given before this forum by the Prime Minister Shri Jawaharlal Nehru, by Prof. Arnold Toynbee and by Earl Attlee; and I must confess that I am a little nervous at the prospect of trying to emulate their eloquence.

I am nervous for three reasons.

First, because I did not learn English until fairly late in life, and I have not yet learnt more than a few words of Hindi.

Secondly, because I am not a world historian, like Prof. Toynbee, nor a Prime Minister like Mr. Nehru or Lord Attlee. Indeed, I am rather in the position of a scholar, who many years ago now decided to leave academic life because I felt that I had a duty to politics. Like so many of us, I still cherish the belief that one day I may be able once more to shed the cares of office and return to more

academic pursuits: I still retain, indeed, my professorial chair. But, to speak quite frankly, I have to confess that each time I am tempted to shrug my shoulders in the face of difficulties and setbacks, each time, somewhere within me, a small voice insists that I should carry on.

This brings me in fact to the third reason for my nervousness before you today. Involved as I am in the day-to-day affairs of the European Economic Community, and believing as I do that this day-to-day work has an importance far transcending the humdrum subject matter with which it appears to deal, I may seem to resemble one of those chieftains of past history who believed that not only the whole of India, but the whole of Asia and even the whole of the world revolved round the doings of that small stretch of territory of which he happened to be Maharajah.

I hope that I shall never fall - and that we Europeans will never fall - into so ludicrous an error. But I hope, on the other hand, that you will understand me if I look at the affairs of the world from the viewpoint of a European, and if I try to explain in these lectures what Europe - the new Europe - is doing, and what contribution it can make to the better ordering of the world as a whole.

I am encouraged to think that our problems in Europe are not after all so remote from yours, nor yours from ours. The other day I was reading a description of the tasks that faced a certain group of statesmen in 1947. Let me repeat some of those words. "The ideals... were: politically, to ensure the freedoms associated with a liberal state, to uphold the rule of law, and to give to every section of the community... a sense of national solidarity; economically, to correct the unbalance of [the] economy through a planned development of... resources, to create a new technological civilization by the combination of science and industry, and thereby to provide a higher standard of living for all; and, socially, to invigorate and reorganize... [this] vast and amorphous ... society, by injecting into it a new sense of social purpose and by codifying its laws, eradicating its harmful customs and integrating it into a single community."

I have cheated a little by omitting certain words, but can you

tell me the name of the community which they describe?

It might easily be the community of Europe, whose task of reconstruction, reconciliation and reunification was so great. But I am sure you have guessed that the passage I have quoted was a description of post-war India, by a distinguished Indian writer, K. M. Panikkar, whose services as a member of the Constituent Assembly, as a member of the Commission entrusted with reorganizing the structure of the State and as an Ambassador for his country as well as its historian, are so widely recognized in the West as well as at home.

The point that I am trying to make is that India's problems are in many senses analogous to Europe's problems. You too are facing the task of building a new society in place of the old, of creating a single community out of many different elements while preserving the riches and diversity of each. You too are embarked upon the technological revolution which has made change the keynote of our time. You too, willy-nilly, are deeply involved in the great questions that face the entire globe: you too are seeking their solutions in interdependence and in the hope of one day achieving the unity of peoples throughout the whole of our planet and perhaps in other planets so far unexplored.

II

Of all the problems that at present face the world, the greatest are two - the problem of peace and the problem of poverty.

I cannot pretend in two brief lectures to offer a panacea which would solve them both within a matter of years. But solve them we must. My aim in these two lectures is rather to report and to describe the contribution that a united Europe can make and in some degree is already making towards the solving of these grim dilemmas. Essentially, in my view, both are linked and cannot be separated; but it is convenient for the purpose of clarity to consider them one by one. This in particular may enable us to look at two successive aspects of the European Community in the making: first, its motives, origins, methods and achievements; and secondly, the role that it hopes to play, not just in Europe, but in a progressively united world.

III

To understand the European Community in the making it is necessary to go back over much of Europe's history. Unity has always been one of the ideals inspiring mankind; and Europeans have not been immune to its attractions. We are accustomed to think of ourselves essentially as products of the Greek and Roman civilizations; but those who have delved more deeply into the origins of our civilization have shown how profoundly our thought, our art, and our culture have been affected by other influences, and how many are their affinities not only with Judaism and the Arab world, but also with forces and tendencies which we Europeans normally ascribe to regions further East.

Europe, like America, has always been a melting-pot - indeed this perhaps is true of every civilized region of the world. Out of the melting-pot of medieval Europe many tried to cast a unified whole. In part, their efforts were vain. They were followed by many others; but as the medieval world gave place to that which we used to call modern, the forces of nationalism emerged triumphant, and the only way of reconciling them in a piece was the balance of power. The Habsburgs, the Bourbons, one after the other the great European dynasties dominated the divided scene; one after another wars succeeded wars; one after another new and precarious coalitions were erected like so many houses of cards. All this time philosophers - some called them dreamers - elaborated plans and projects for union in Europe to replace the clash of short-lived alliances. Sometimes, even the system of alliances was itself exalted to the status of philosophy, and the balance of power was given the noble name of the Concert of Europe.

We all know - and all the world knows - the appalling cacophony that that concert produced. Twice in a generation, the breakdown of Europe's balance of power led to wars whose ruin and bloodshed spread well beyond the confines of Europe. Men of many creeds and many nations fought and died to settle what had begun as European quarrels. These were happenings of which no European can be proud.

Mankind learns from experience, but only slowly. Everyone acknowledges that prevention is better than cure; but too often the measures taken to prevent future ills are themselves no more than cures for the ills of the day before yesterday. We all know the unhappy

story of the League of Nations, that first attempt to achieve Woodrow Wilson's aim to sweep away the very foundations of World War I. We all know - and I, who lived through those years in Germany, am especially conscious of - the strange and almost hypnotic paralysis which afflicted the countries of Europe during the 1930's, when old-fashioned nationalism took a new and still more sinister turn. We all know how that story ended - in the appalling holocaust of World War II.

It was only after this second disaster, in fact, that men and nations began to seek really radical solutions to the political and economic problem that faced them. In both cases, the original hope was to achieve solutions on the widest possible scale. In both cases, experience proved that practical results would have to be sought, at least in the first instance, on a more modest scale and in specific regions of the world. Now, perhaps, we stand once more on the threshold of broader possibilities: but if we do so it is because our efforts have been successful on this smaller and more limited scale.

In the political field, the League of Nations gave place to the United Nations. This time, the United States and the Soviet Union were members from the start. The Assembly, too, enjoyed more power and could take more decisions by majority vote. In recent years we have all seen and admired the remarkable work that the United Nations has accomplished, and we all pay homage, as does the Treaty establishing the European Economic Community, to those great principles and ideals which are enshrined in the U.N. Charter. But it would not be honest to deny that in the early post-war years some of the hopes which people placed in that organization were grievously disappointed. Too often, we saw the veto used in the Security Council; too often we saw a hardening of attitudes in both the great continental powers of the world. It was Sir Winston Churchill's speech of March 1946 in Fulton, Missouri which first publicly acknowledged the widening rift which came to be known as "the Cold War"; and we in Europe were the first to discover, in many small and some much larger instances, the realities which lay behind so many professions of peaceful intent. I do not wish to enumerate the stages whereby the so-called "Cold War" became the so-called "Balance of Terror"; but the sombre story was a sad disappointment to many of the hopes of a better world order which so many of us cherished at the end of World War II.

Moreover, for a variety of reasons, what was true in the political sphere was true in the economic sphere as well. It was in July 1944, at Bretton Woods in New Hampshire that the war-time United Nations met to seek ways of freeing and expanding international commerce when the war was over. At Bretton Woods, both the English economist Lord Keynes and the American Harry Dexter White put forward extremely radical ideas for world economic reform - including the idea of setting up a world central bank to eliminate financial crises. What emerged from the Conference however, was something more modest: the International Bank for Reconstruction and Development, and the International Monetary Fund. Both, I need hardly say, have made an immensely valuable contribution to the re-ordering of the world's economy; but both have been handicapped, in the eyes of many people, by the limitations - dare I say, the conservative limitations? - placed upon them from the start. In some respects, they lent colour to the belief that more direct action was necessary. In 1946, therefore, the Economic and Social Committee of the United Nations set up a preparatory body to draw up an international trading charter, the Havana Charter. When this was agreed in 1948, it provided for an International Trade Organization; but since this was never fully ratified, the participating countries had to fall back upon the GATT, the General Agreement on Tariffs and Trade, which had been negotiated as an interim arrangement while the Havana Charter was under consideration.

GATT, of course, has never been a fully world-wide organization: it is, I believe, cordially disliked by some countries in the world. But there is no denying that it has brought to the international economic scene a degree of order and discipline which were previously lacking. As a code of good conduct and as a forum for the discussion of world trade problems, it has achieved an impressive amount. Nevertheless, no one who has looked impartially at the problems of world trade can deny the difficulty of liberalization - difficulty which even the GATT has not entirely been able to overcome. The most impressive results which it has achieved in the field of tariff-cutting, indeed have so far been the so-called Dillon negotiations, partly spurred by the creation of the European Economic Community; and we hope shortly to begin upon the so-called "Kennedy round". But before the Dillon round, tariff cutting proved extremely difficult; and even now, not all the problems involved in classical GATT negotiations have been solved.

The reason for this leads me on to the next part of my story. One of the great contributions which Lord Keynes made to the study of economic science was the realization that economics and politics could not be divorced. Similarly, the commercial problems involved in mutual tariff reduction cannot be divorced from the economic, social, and political problems which dictate, in many cases, the structures of the tariffs to be cut. An approach to trade problems which ignores this basic connection is bound to encounter difficulties: essentially, in fact, the problems of world trade are also the problems of world economic development.

This was already abundantly clear in Europe immediately after the war. The first measures of post-war relief were undertaken by UNRRA, the United Nations Relief and Rehabilitation Administration. This gave aid to victors and vanquished alike, and it extended to Eastern Europe as well as to the West. It was in 1946 that UNRRA was replaced by ECE, the United Nations Economic Commission for Europe; but hopes that this would be able to achieve genuinely Europe-wide economic co-operation were dimmed, to say the least, by the Moscow Conference of March and April 1947.

In that year also, the economic situation in Western Europe took a further turn for the worse; and it was in that dark moment that the United States of America came to the rescue with Marshall Aid. I may recall in passing that this offer of help was open also to Eastern Europe; and that if thus the hope of wider co-operation was once more narrowed down, this was by force of circumstances and not by choice.

Out of Marshall Aid, rejected by the Soviet Union, grew the first post-war organization for economic co-operation among the peoples of Western Europe. This was OEEC, the Organization for European Economic Co-operation: it was the first attempt to reform the old system in Europe. Originally, it had been suggested that OEEC might take the form of a customs union - which would have meant a really radical reform of the old system. As it was, however, this proved unacceptable to some of the countries concerned, and what emerged was an essentially traditional organization for co-operation between separate sovereign States. By liberalizing intra-European trade and payments, the OEEC and its European Payments Union did much to aid the economic development of post-war Europe; but those who had hoped that OEEC might

fuse into one economy the separate economies of its Member States were disappointed. Successful as it was, the OEEC lacked the powers and the structure to achieve more than the economic co-operation that its very title demanded.

Parallel to the development of OEEC, Western European nations had also established the Council of Europe. This was an attempt to transform the old nationalist system in Europe by means of political co-operation. Those who had originally proposed it had begun with far-reaching ambitions. They had hoped to establish a sovereign constituent assembly representing the peoples of their countries and endowed with the power to take decisions which would ultimately bring about true unity in Europe. But here, too, the hopes of many were disappointed. When it came into being, the Council of Europe comprised a Council representing Member Governments, together with an Assembly of parliamentarians: but the Council never really developed an independent sovereign existence, and the Assembly had practically no power.

IV

I must apologize for having delved so far into the past - and also for having recounted what in many respects is a somewhat dispiriting story, a story of shrinking ambitions and sometimes disappointed hopes. But do so is necessary if one is to understand the sense of frustration, the sense that action was urgent, the sense - in a word - of impatience which made possible the extra effort, I might almost say the revolutionary effort, involved in creating the European Community.

It all began on May 9, 1950 with the Declaration made in Paris by the French Foreign Minister, Monsieur Robert Schuman, proposing the unheard-of step of pooling French and German coal and steel. It continued with the establishment, less than a year later, of the European Coal and Steel Community, applying in practice the principles of the Schuman Declaration. A year after that, the countries which had joined the Coal and Steel Community signed a second Treaty, this time establishing a European Defense Community. When it came to ratification, the European Defense Community failed. But again, less than a year after that failure, the countries concerned met once more to find a new way forward. The fruits of their efforts were two-fold - Euratom, the European Atomic Energy Community, and the Common Market, or more properly, the European Economic Community, of whose Commission I have the honour to be President.

Essentially, the three existing Communities - the Coal and Steel Community, Euratom, and the European Economic Community - are all organically linked in a single structure. Essentially, they all represent a decisive break with the past. In contrast to the balance of power between sovereign states, they seek to establish the fusion of interests. In contrast to the normal diplomatic methods of consultation and co-operation, they set in place an institutional mechanism whereby this fusion may be achieved. In contrast to the limited aim of traditional international organizations, they take as their ultimate

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objective what Mr. Schuman described as "the European federation which is indispensable to the maintenance of peace". Let us look at these three aspects one by one.

V

First, then, the fusion of interests was to replace the balance of power.

This, as Schuman clearly saw, could only be achieved by concrete actions: it would be useless to establish some kind of political mechanism unless what one might call the infrastructure of unity had already been created. The starting point, therefore, lay in the economic field; and more specifically, with the Coal and Steel Community, in the field of basic heavy industry. What was proposed was to pool the basic resources of the participating countries by removing the economic frontiers between them and by evolving joint economic policies.

This broad approach, which was to prove its worth in the Coal and Steel Community, is also that of the European Economic Community. For my own part, I believe that the term "the Common Market", and still more the term "the Market", which are often used as nick-names for the European Economic Community are liable to be misleading, since they imply that it is some form of bazaar.

But one aspect of the Community is certainly represented by the words "Common Market"; and I should like if I may to dwell for a moment upon their practical meaning.

If one is seeking to integrate the economies of a number of neighbouring countries, there are broadly two starting points that one may take. One is the more cautious, conservative, and - in my opinion - the less sure procedure; that is, to establish a free trade area among them. In a free trade area, each member country abolishes its tariffs and quota restrictions vis-à-vis the other members, but maintains its own external tariff and its own foreign trade policy vis-à-vis the rest of the world. There are a number of technical objections to this procedure, among them the fear of diversion of trade through the low-tariff members of the area: but more fundamentally, it is open to the objection that its structure makes greater unity among its members more difficult, not easier to achieve. In fact, I know of no completely successful free trade area which has not been obliged to envisage rather more than the bald principles that

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I have described.

The alternative starting-point - and that chosen as the basis of a common market - is the formation among its members of a customs union. Here, while national economic barriers between Member States are removed, all adopt a single external tariff, and hence a single trade policy, in their dealings with the rest of the world. The political argument in favour of this method, clearly, is that it makes more readily for economic and hence political unity. But the economic arguments in favour of both free trade areas and customs unions share a family resemblance: they are in many respects the classical arguments which favour the liberalization of trade. They are the arguments in favour of a larger market, leading to improved efficiency through better use of resources. Professor Jacob Viner, one of the world's leading experts on customs union theory, has pointed out that the extent to which these benefits spread outside the customs union essentially depends upon whether it adopts a liberal policy and whether its trading partners in the rest of the world do the same. Myself, I believe that the formation of a successful customs union itself leads in the direction of liberal policies, because countries which can stand each other's competition should be able to stand further competition from outside. I shall have more to say of this in my second lecture. But for the present I should like to suggest that within a customs union the classical logic of economic liberalism leads to some conclusions which might have surprised the classical economists.

Obviously, the first step in creating a customs union is to remove the tariffs and quantitative restrictions between its member states. These, however are only the most obvious of the barriers with which governments may restrict trade and distort competition, to protect home markets and industries. Fiscal systems, legislative requirements, state monopolies, subsidies of various kinds and even differential transport rates, although not necessarily undesirable in themselves, may be used as a kind of substitute tariff. Private business may engage in market-sharing practices or cartel agreements which have the same effect as quantitative restrictions imposed by the states. For these

reasons, therefore, rules of free and fair competition must be observed to avoid the common market's being divided up again.

Nor can the abolition of barriers apply only to goods. Free movement of goods would be meaningless if they could not be paid for; current payments must therefore be liberalized. There would be little re-location of resources and international division of labour if investments were not free to move throughout the area, and if people were restricted from taking or creating jobs wherever they chose. In a word, the factors of production need to be liberalized too.

All this, of course, cannot be done overnight. The European Coal and Steel Community liberalized the products under its jurisdiction in three separate steps; and the common market of the European Economic Community is being established over a 12-year transition period of which we are nearly one-third the way through the second four-year stage. The tariffs between our Member States now stand at only half their previous level; the first of three moves towards the common external tariff was made over two years ago; and a number of far-reaching steps have been taken towards the ultimate full liberalization of the factors of production.

Gradualness is one requirement in the process of building a common market: irreversibility is another. The Common Market Treaty sets the date of 1970 as the target for full economic integration, and although in case of necessity this date might be postponed for up to three years, the fact that we are already launched into stage two of the transition period, together with the accelerated progress we have already made, means that it is extremely unlikely that the target date will be put off, since to do so would require a unanimous vote of all our Member States on a special proposal from the Commission. The reason for setting a firm target date is very evident. If economic change is to take place, those involved and affected have to know what to expect: if new investments are to be made to meet the new situation, investors have to be sure that the old situation of a divided market will not recur. That is one reason, although not the

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only reason, why there is no provision for opting out of the European Economic Community.

It would be a mistake to conclude from what I have said, however, that the European Community merely represents a return to a classical market economy. What the Common Market seeks to do, essentially, is to merge economies, not just markets. This means that while seeking to utilize the dynamism of market forces both to achieve economic integration and to spur economic development, it is well aware that market forces alone cannot promote economic and social well-being. The hidden hand which Adam Smith thought would reconcile conflicting self-interests and promote the greater good needs to be supplemented, if not replaced, by human agency. For this reason, the Common Market Treaty establishes two such agencies - the European Investment Bank and the European Social Fund - whose purpose is to correct the blind workings of market forces by injecting aid into those sections of the Community, those branches of the economy, and those regions of Community territory, where such aid is needed. The Bank, in particular, is the agent of regional development policy, and extends a helping hand to industry where it cannot easily face change alone. The European Social Fund aims at ensuring that the Community's workpeople do not, as workpeople did in the past, bear the full brunt of technological progress, and that they are aided to retrain and adapt themselves to new techniques and - if necessary - new jobs.

All this demands a degree of what in your country it is normal, but in my country rather unpopular, to call economic planning. What we in Europe mean in this field is sometimes known by the name of "programming" - that is indicative planning which like yours sets development targets and seeks to associate industries and workpeople with their fulfilment. This, I am convinced, will become more and more necessary on a Community-scale as economic integration proceeds; and already, in our member countries themselves, some such programming is already a normal part of government policy, even although it goes under very different names. In France, it is usually known as "le Plan": in Germany, as "das Wirtschaftswunder": but in detail and in practice there is not so great a distance

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between the two.

This may be for the future; but already, under the Common Market Treaty, we are committed to the establishment of common policies in the fields of transport, agriculture, and foreign trade. In other fields, the Treaty calls for different degrees of joint action: "collaboration", "co-ordination", "harmonization", and "approximation". These terms are a cautious recognition that the logic of economic integration not only leads on towards the fusion of interests, but also implies within itself political unity. Economic integration, in fact, means the integration of policies; and in the words of a study of customs unions made by the League of Nations and re-printed by the United Nations, "the greater the interference of the state in economic life, the greater must be the political integration within a customs union." That is why I cannot regard the Common Market merely as a kind of bazaar. In reality, it is something more like a government building.

VI

What sort of government is the government which we see in embryo in the European Economic Community? It is not, as I said, a further development of normal diplomatic methods of consultation and co-operation as seen in traditional international organizations. Instead, the fusion of interests in the European Community is being achieved through a new mechanism of institutions which it is only a slight exaggeration to call a constitutional framework.

Of course, the European Community is not just a new power-bloc or a new coalition. Although it has its pride, it is not a swollen version of 19th century nationalism, taking a continent rather than a country as its basis. In fact, it is the concrete embodiment of a new approach to the relations between states. It is not merely international: it is not yet fully federal. But it is an attempt to build on the federal pattern a democratically constituted Europe - what I have called elsewhere a federation in the making.

No practical statesman would I think be prepared to endorse unreservedly the doctrine of the separation of powers: but classical democratic theory, with its division of the organs of government into executive legislative and judiciary, certainly underlies the constitutional structure of the European Economic Community. The Executive is the Commission - nine men, many of them former ministers in national governments, who are now no longer national, but European, responsible to the Community as a whole; they are not permitted to take national instructions, and once appointed for their term of office by common agreement of the member governments, they can only be removed by a vote of no confidence from the Community Parliament, of which I shall speak in a moment. The Commission has broadly three main tasks. First, it draws up proposals to be decided by the Council of Ministers. Secondly, it watches over the execution of the Treaty and may call firms and governments to account. Thirdly, it mediates between the governments and seeks to reconcile national interests; and a fourth task whose importance is growing is that of executing those decisions of detail which for the sake of rapid and impartial treatment it is empowered to take itself.

The legislative body of the Community is its Council of Ministers - one representing each Member State - which meets at fairly frequent intervals to take the major decisions on proposals from the Commission. The Council is not simply an international conference: it is an organ of the Community whose status is on a level with that of the Commission, and whose decisions are normally taken by qualified majority vote - a procedure which extends to more and more subjects as the Community moves through its twelve-year transition period. This means that the veto of a single member state can less and less hinder progress. What is more, the Council can only modify the Commission's proposals by means of a unanimous vote: so that here the veto works on the side of progress rather than against anything being done.

The judiciary branch of the Community's embryo constitution is the Court of Justice, which bears some resemblance to a constitutional court - a supreme court of appeal. It has seven

judges, appointed by common accord of the member governments, and like members of the Commission completely independent of the national states. Their judgments are binding throughout the Community's territory, and there has never been a case in which they have been defied.

I have left until last the European Parliament, which represents and exercises democratic control over all the actions of the Community. The national ministers who meet in the Council are of course subject to control by their national parliaments: but the Commissioners, by definition, cannot be subject to national control and must therefore be answerable to a Community parliament. So far, the Parliament's powers are limited. Its 142 members, at present elected by, and from the national parliaments, may one day be elected directly: but already they have the power to dismiss the Commission by a two-thirds majority vote. Their questions, addressed to both Council and Commission, have to be answered in public: each year, the Commission has to report to the Parliament's plenary session which scrutinizes and debates Community activities on that occasion and on several others at intervals throughout the year. Meanwhile, almost every week the Parliament's thirteen standing committees hold very searching "hearings" at which members of the Commission explain and defend their policies and are subject to the full, shrewd scrutiny of very experienced representatives of the democratic political life.

I should not wish to claim that this constitutional mechanism was perfect. But it does introduce into the relations between Member States several new elements. First, it means that there is a Community interest independent of those of the states themselves. Secondly, Community decisions are reached by a constitutional process rather than just by traditional horse-trading among transient coalitions. Thirdly, the international relations between the Member States - and the fact of calling them international reveals by its strangeness how far removed the Community's internal workings are from those of traditional diplomacy - are subject to the rule of law in a very concrete and immediate sense. Finally, and most importantly, they

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are subject also to a degree of democratic control greater than that ever imposed upon traditional international relations. In a word, while the Community, like India, is "a Union of States", it is also, in many respects already, a "Sovereign Democratic Republic".

VII

How far, in reality, has the Community reached this ultimate stage in its development? To put it another way, how much has the Community so far achieved? It is not my purpose in this first lecture to talk about the Community's foreign policy: but everyone knows that one recent event in the field of external relations - the interruption of the negotiations for Great Britain's membership - has had serious repercussions on the internal life of the Community, quite apart from its effects upon Britain and upon our other partners. Of the latter I hope to speak later; but as regards the life of the Community itself, I am convinced that although we have encountered a set-back, it is a set-back which we shall overcome. Indeed, it is not the first, and will not be the last. Already, there are signs that all parties in the Community are becoming aware of the dangers inherent in any return to pre-Community methods - of attempted hegemony on the one hand, or of balance-of-power politics on the other. There is a certain ineluctability about the Community's workings which to me recalls Samuel Taylor Coleridge's remark that good writing is a kind of skating that carries the performer off where he would not go. I do not claim that the Community is a kind of collective stylist: but it has a life and a momentum of its own.

To show you what I mean, let me quote a few figures which illustrate its achievements so far.

First, in the field of growth. Since 1957, that is in the five years since the Treaty of Rome came into effect, the gross national product of the Community has increased by 28%, and its industrial production by some 40%. It may be objected that these growth figures are no index of the success of the Common Market: but my reply would be that they certainly show that it has not failed.

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Perhaps a truer indication of the economic interpenetration which it is bringing about is given by the figures for intra-Community trade. From 1958 to 1962, trade between the six Member States of the European Economic Community rose by some 85%. Nor could the change be felt merely by professional statisticians: for one of the most striking features of this rapidly growing activity was its impact upon everyday life. Any traveller to Europe will tell the same story - of Dutch tobacco now easily obtainable in Paris, of Italian shoes having great success in the German market, of French pharmaceuticals finding readier outlets elsewhere. In this respect, Europe is on the move; and one of the most encouraging signs of the Common Market's success so far has been the reaction to it of industrialists and businessmen. It is this, rather than even the tariff cuts so far achieved, which explains the figures I have quoted. Industries are re-grouping and streamlining their operations because they now think in European, not just national terms; and in this new climate, despite occasional slowdowns in the annual rate of expansion, it is by no means fanciful to project for the future an annual growth rate of some 4 to 5%.

All this is an index of growing activity which in itself is knitting together the economies of our countries. The European Community is becoming an economic reality; and despite setbacks, it is also becoming a political reality too. Europe is putting its house in order. But it is not doing so at the expense of others. In my next lecture I shall try to show what the gradual uniting of Europe has meant and will mean for the rest of the world, and how the nascent European Community can face the responsibilities that go with unity and prosperity.

LECTURE II

EUROPE AND THE WORLD

I

In my last lecture, I described how Europe, weary of century-long strife and ever-recurrent wars, is now at last trying to set her house in order. It would be foolish to disguise the very great difficulty of doing so - of grappling with old, deep-rooted habits; of trying to build out of diverse and sometimes discordant elements a new and more viable unit; of setting in the place of old, outworn methods of co-operation the new and hopeful method of integration through the fusion of interests. But I think that I said enough to show that, despite the difficulties, it is no longer merely fanciful to speak of the Community of Europe as a new political factor in the affairs of the world.

Europe, then, is undergoing a peaceful revolution. But this in itself is partly a response to immense and far-reaching changes in the world as a whole. The new Europe finds itself in a new world. What are its characteristics?

Many of them, of course, have long been familiar: but in our own lifetime we have seen a rapid acceleration of the pace of change. Mechanization first began to affect everyday life in Europe some two hundred years ago: but in the age of mass-production, automation, and atomic energy, it has taken on a new force and a new meaning: its promise - and its potential menace - demand new responses from us all. Likewise, the speed of communications was a new fact of life as long ago as the last century, with the invention of the telegraph and the telephone. Today, with radio and television, with air travel and space travel, we have to adjust our thinking to a world in which, to quote the Hon. Dean Acheson, "terrestrial space has all but been eliminated." Partly in consequence military technology has been revolutionized together with the rest. Atomic energy has found warlike as well as peaceful uses: submarines, aircraft, and rockets, themselves no longer a novelty, have combined with it to bring us all within point-blank range of its destructive power. Tomorrow, space itself may be a launching-pad. All this has made it more than ever vital not only

to bring our strategic thinking up to date, but more especially to find ways of making the unthinkable impossible.

But this is not all. If world war, as I believe, is no longer possible, this in turn means a change in our attitude to peace. Diplomacy, the strategy and tactics of peace, can no longer be considered as a means of ensuring victory in "the next war": its overriding aim must be to prevent it. This means that we must turn all our ingenuity to the peaceful solution of the world's problems. And here again, technology has transformed the human scene.

Science, in fact, whose most spectacular achievements it is natural for Westerners to see in the field of mechanical technology, has also brought its blessings and its dangers in the field of applied biology. To take the case of agriculture, at least one continent has undergone the so-called fertilizer revolution. North America has enormously increased both its production and its productivity; and the same revolution is already spreading to Europe. This brings with it the challenge of what are called "food surpluses" - although the name is mocked by the need for food elsewhere.

In other parts of the world, indeed, we see another phenomenon. In the field of health, we now have the knowledge and, potentially, the equipment to wipe out some of the perennial diseases that have scourged mankind for so long. Already, the process is beginning; and already, we can witness the first results. In many parts of the world today, as in Europe since over a hundred years ago, infant mortality is decreasing, and man is living longer. Partly owing to improved health, the world's population is growing apace.

At the same time, moreover, we face political changes and challenges. The long quest for liberty that so many people have pursued throughout their history is now reaching fulfilment in many countries of the world. New nations are springing up to satisfy the longings of ancient peoples. Lands once subject are becoming free. And yet, in other regions, the process of liberation has been reversed, and there are new subject peoples whose servitude is no less real because it is organized with all the resources of science.

Alongside the challenge of liberty, there is the equal challenge of poverty. I have alluded to it already. In the world of today,

nearly 2 000 million people live in the so-called developing countries - 1 250 of them outside the Communist bloc. They live, in many cases, as their ancestors lived: as our ancestors lived. Their average income is one-tenth that of the average European: and with a population increasing by nearly 2 % a year, that average income has remained stationary for the last 40 years.

Finally - and it is connected with all these problems - there is the challenge of organization. How can the world so order its political and economic life as to meet its dangers and opportunities? What new demands do greater mechanization and swifter communications, more terrible weapons of war, growing populations and bursting granaries, make upon us? Essentially, I think, they demand that we find new ways of organizing our lives in common. How can we outlaw war - and at the same time safeguard liberty? How, in a shrinking world, can we learn to live within elbow's distance of each other, and yet preserve our identities? How can we solve the equal and opposite problems of unwanted plenty - and appalling poverty? All these, in part, are organizational challenges. What is our response?

II

In asking this question, I have made unashamed use of a familiar rhetorical device. I have used the word "we" many times. Nowadays, many speakers and writers use it rather in the same way as one used to use the word "they". "They" were always "the others": the Government, if one was in opposition, or other countries, if one was in power. "They must do something about it - that was the perpetual cry. Today, the world is more subtle. Speakers and writers no longer talk about "they": instead they say "we". "We" must do something about it - the old cry has become more wily: but I sometimes wonder whether its meaning has changed. Yes, "we" are all responsible: "we" must do this or do that - but what is really meant is that "they" must do it, not we at all.

In using the word "we", however, I was more serious than this. In the first of these Memorial Lectures, Shri Jawaharlal Nehru said many wise things, but none wiser, I think, than this: "these problems of today," as he put it, "belong to a new world and cannot be solved by the application of old world methods." He pointed out that "if it is

urgently necessary for the underdeveloped countries to raise their standards, it is equally necessary, from their own point of view, for the richer countries to speed up this process." In other words, in the present-day world, there is no question of "we" and "they". The world has become one, bound in a solidarity based not only on compassion or sympathy, but on material fact.

Perhaps, therefore, I need no justification in talking about "we". But if I do so, it is also because I am speaking not only of humanity in general, but also of the European Community which I have the honour to represent here today. What are we, in the Community, doing about the responsibilities we bear?

And we do bear responsibilities. The European Community may be small in area, but it is potentially one of the world's giants. Within its borders live some 170 million people - nearly as many as in the United States of America: and its working population is even greater than theirs. The Community is the world's largest trader, its largest importer and its second largest exporter. Economically, it is the fastest growing major unit in the western world. In particular, it is one of the world's biggest markets for basic commodities - raw materials and farm produce.

Its policies, therefore, have a direct bearing upon developing countries and upon the rest of the world in general. Politically, the Community was not devised to be against anyone or anything. Despite what some have said of it, it is neither a tool of imperialism nor an instrument of capitalist hegemony. If one of its aims is to ensure that Europe's voice is heard in the affairs of the world, rather than being drowned in the cacophony of intra-European squabbles, this is not because Europe wishes to return to a situation in which one part of the world dominated another - a situation which is irrevocably put behind us. One of the purposes of having a voice, and a part to play, in the new world that I described is to be able to make a positive contribution to matters of joint concern. Already, the mere existence, the progressive creation, the inherent dynamism of the European Community ensure that this is possible. If the Community's existence poses some problems and highlights others, the consolidation of its policies should make both kinds of problems easier to solve.

III

The first external problems arising from the Community's existence were essentially due to its own customs and economic union and to the association with it of a number of African States. Controversy over the former aspect of the problem began very early in the Common Market's existence, some six months after the signature of the Treaty of Rome; the Community's trading partners expressed their concern, at a meeting under the auspices of GATT, lest the abolition of internal trade barriers, together with the alignment of the Member States' outer tariffs into one single external tariff, might diminish the Community's imports from the rest of the world. Their fears were not entirely met by the assurance that the incidence of the common external tariff was lower than the average incidence of the tariffs it replaced, since it was based on the purely arithmetical average of their percentage levels. However, it was certainly clear that the outer tariff was in conformity with international trading rules, and that it was several points below even the British non-preferential tariff, to say nothing of some of the higher duties in the differently-structured United States tariff.

This was true even of the level of the common tariff in its original form: but not long elapsed before that tariff was reduced. At the end of 1960 the Community accelerated its own internal tariff-cutting and applied the first part of its common tariff, one year ahead of schedule: but this was done on the basis of the common tariff provisionally reduced by 20 %. The aim of this reduction was to anticipate the possible results of the Community's first major tariff negotiation in the GATT, the so-called "Dillon negotiation". This had the effect of reducing the average incidence of the common tariff from 7.4 % to 5.6 % - a remarkable drop.

But tariff levels, of course, are only of interest for their effects on trade. How far has experience so far justified the fears expressed by the Community's trading partners that their exports to the Six Member States would diminish with the development of the Common Market? In general terms, not at all. Spokesmen for the Community had always pointed out that the stimulus it gave to business activity within its borders would lead to greater demand and greater imports;

and indeed, from 1957 to 1962, the Community's total imports from the whole of the rest of the world rose by 39 % to a record total of 22.3 thousand million dollars. Its exports in 1962 stood at 20.6 thousand million dollars, so that it had a trade deficit with the outside world of nearly 1.7 thousand million dollars. There is no particular moral virtue, of course, in having a trade deficit - nor any particular wickedness in having a trade surplus. But the figures that I have quoted surely disprove the accusation that in trade matters at least the Community is anything but "outward-looking".

The second problem posed by the Community was in respect of the association with it of the so-called "overseas countries and territories" - less euphemistically, the former colonies of the Member States. Here, once again, was a clear reminder that we live in a changing world. When the Rome Treaty was signed, the vast majority of the overseas countries and territories had not yet achieved independence; and their so-called "mother countries", particularly France, who had the largest number of African colonies, understandably felt a special responsibility for these countries' economic welfare. Most of them had enjoyed special trading arrangements with their European partners. Were those arrangements to disappear entirely with the formation of the European Common Market? Could they, on the other hand, continue bilaterally? Here was a challenge to the ingenuity of the Treaty-makers. They solved the problem by establishing between the African and other States and the Common Market as a whole a kind of modified free trade area, in which the African States were to enjoy progressively free access to the European market, but could retain customs and revenue duties on European produce, as well as their own tariffs and trade policies vis-à-vis the rest of the world. Together with these trading arrangements, the Community agreed to grant direct financial aid both to social projects in the associated countries and to economic projects designed in particular to help supply the infrastructure for future industrial development.

These arrangements were devised at a time that can still be called "colonial": but there was nothing "colonial" about them. Indeed, the fact that they were multilateral Community arrangements, not just national measures, was especially welcome to the African countries themselves. The Development Fund, in particular, was not only a Community fund, with no national control over the capital it contained,

and supplementary to the bilateral efforts of Member States, which remained unaffected and undiminished: it was also democratically operated. The choice, the working out and the implementation of the projects which it financed rested entirely with the Governments of the associated countries. Nor was there any political pressure exerted through the association: it was a new invention to meet a new demand.

I have spoken in the past tense. The reason is that this first association arrangement was itself overtaken by events. Its financial aspects were valid only for the first five years; and already, within that time, the colonial era in Africa - at least as far as the Community was concerned - was rapidly coming to an end. All the African associates, one by one, achieved independence; and it was now necessary to work out new arrangements on a new basis to fit their new requirements. It was significant and encouraging that the Africans opted to continue an association with the Community - a proof, if proof were needed, that they did not regard it as a colonialist entity. The new Association Convention, completed at the end of last year, will I hope be signed and ratified before very long. In addition to the extension of the trade arrangements I have described, it provides for the increase and diversification of financial aid and, appropriately enough, for the establishment of democratic institutions in which Africans and Europeans are jointly and equally represented.

I have described these developments in some detail because they are often misunderstood. The misunderstanding is not only about their nature, but also about their motivation and their effects. As I hope I have shown, they are not colonialist. As I have described, they arose from a sense of special obligation towards countries which had once been colonies and which were now linked by sentiment and memory, as well as by interest, with their former "mother countries" - a link not unlike that between the countries of the Commonwealth. But what would be the effect of the association on other producers of tropical and similar products? This was the question that troubled other countries in Africa and elsewhere.

Here was a second challenge to the Community in its relations with the rest of the world. And here, once again, the facts so far disproved many of the fears. When the new Association Convention was worked out, it was agreed that the Community's outer tariff vis-à-vis non-associated

countries should be reduced by some 40 % on a number of tropical products. This was a recognition that the Community bore a responsibility towards other countries than those associated with it. The effects in practice have yet to be seen: but already experience so far has shown that the Community's overall needs in most of the products concerned have continued to grow rapidly enough to demand increased imports from non-associated countries as well.

In fact, of all the factors affecting world trade in tropical products, the commercial aspects of the Association Convention are far from being the most important. From 1958 to 1962, indeed, the Community's imports from non-associated African countries rose from 1.7 thousand million dollars to 2.6 thousand million dollars. At the same time, imports from Asia and Latin America have also increased - although not at such an extraordinarily rapid rate as this. These facts prove, I think, that no one has suffered as a result of the association.

Of course, they cannot be held for proof that we have solved all our problems; and I shall return in a moment to those questions which most closely interest India, Asia as a whole, and developing countries generally. Before I do so, however, there is one third set of problems - or perhaps I should say concerns, since they are not yet proved to be problems - which arise from the creation of the Community. These are the fears expressed by many of the Community's partners regarding its future common agricultural policy.

The common agricultural policy of the European Community, unlike the beginnings of its customs union and of its association with overseas States, is only now starting to come into effect; and it is therefore too early to draw hard-and-fast statistical conclusions from our experience of it. However, in the first few years of the Community's existence, there was no sign of any diminution of agricultural imports. In 1958, they stood at 7.4 million dollars; in 1961, they stood at 8.4. In the future, irrespective of the common agricultural policy, the Community may possibly feel the same signs of a trend towards greater self-sufficiency that are being felt by all advanced agricultural producers. Nevertheless, consumption levels in Europe still lag behind those of the United States; and in several branches of agriculture it seems likely that the coming years will see increased demand. One of the aims of our common agricultural policy, moreover, is to maintain traditional trade links with the rest of the world. How will this be done?

In some senses, the word "policy" is in this respect a misnomer: for what we are establishing is more truly described by the term "common agricultural mechanism". The system of variable levies which is the basis of the Common Market in agriculture, in fact, is in itself neutral: what determines whether or not the system is protectionist or liberal is essentially the level of prices. Already, the adoption of the common system implies a degree of simplification - and, it must be added, a degree of liberalism: since it replaces and abolishes a whole series of protective measures previously used by the Member States and ranging from such blunt barriers as quantitative restrictions to the more subtle but equally effective device of compulsory mixing regulations. This means an immense simplification and a greater transparency of markets; and its protective effect can perhaps be gauged by the fact that the present margin of Community preference for cereals has been fixed at one dollar per metric ton, which corresponds to about one percent ad valorem.

On the question of prices, we in the Community are at present engaged in trying to bring price levels together. Our first proposals to this end involve some first reductions in wheat prices in four of the Community countries; and although they also involve a rise in the barley price in France, this is aimed at achieving a better balance between the acreage under barley and the acreage under wheat. Price reductions, of course, are unpopular with European farmers and therefore with

their governments; but they would be a step in the direction of greater liberalism vis-à-vis the rest of the world. How markets will in fact develop it is of course too early to say, since this is dependent on other factors besides the Community's policy. On this subject, and on the stabilization of world markets generally, I shall have more to say in a moment. For the present, let me turn to some of the other aspects of the Community's external policy.

V

So far, I have mentioned three problems - or, as I should prefer to say, three fears - raised by the Community's existence. I hope I have shown that they are less grave than is sometimes supposed. But in any case the Community is more than just a source of apprehension for its trading partners. I can say this categorically, because I read in the latest report of the United Nations Economic Commission for Asia and the Far East that - and I quote - "the European Economic Community presents the developing countries not only with new problems of trade with developed countries, but also with new opportunities." In fact, the three questions I have already mentioned - those of the common tariff, the association of African States, and the common agricultural policy - are not so much questions raised by the Community's existence as questions which its existence throws into sharper relief. Moreover, it is my conviction that these questions, as well as many other world economic problems, present an organizational challenge to which the Community's existence facilitates a common response.

Let me begin by taking the specific instance of India. Already, Europe's record vis-à-vis your great country is not negligible. For the combined years 1961 to 1962 and 1962 to 1963, the contributions of the European Community countries to the so-called Aid-to-India Club total 498 million dollars - just over half the United States contribution, and a good deal more than that of the World Bank. As far as trade is concerned, 64% of the Community's imports from India already come in duty-free; and in the Dillon negotiations, although ultimately we did not negotiate directly with India, the Community was able to offer concessions amounting to 8.5 million dollars' worth of goods. On cotton textiles and jute, it is true, we have more to answer ^{for} but on the former, under the long-term agreement which came into force in October 1962,

the Community countries will by 1967 have enlarged their import quotas to 12 thousand tons as against just over six thousand in 1962.

When one looks at the overall trade balance, it is true that the Community still has an export surplus vis-à-vis India: but this now stands - in 1962 - at just over 143 million dollars as against just over 327 in 1958. Community exports to India over the same period have dropped from nearly 430 million dollars to just over 298 million; while India's exports to the Community have been climbing steadily from nearly 103 million dollars; worth in 1958 to over 155 million in 1962.

I say this not to claim that we have fulfilled all imaginable obligations, but to show that we have made a start. Obviously, however, there is much more to be done. This became especially clear during the negotiations with Great Britain which were suspended in January 1963. I do not propose here to dwell on the facts of that suspension or on the way in which it occurred, or on its possible motivation: nor, for the time being, am I immediately concerned to discuss its effects. We all know the situation, and I have spoken about it at length elsewhere. What is more to the point in the present context is the fact that the negotiations with Great Britain - and it was one of their difficulties as well as one of their advantages - brought the Community face to face with almost all the world's major economic problems, and all at once. Prominent among them, of course, was the question of future relations with the Asian Commonwealth countries, and in particular India, Pakistan and Ceylon.

I am sure that you know as well as I do the broad outlines of the solutions which were envisaged for these problems - the gradual application by Great Britain of the common customs tariff; the suspension or partial suspension of duties on a number of spices, essential oils and other tropical products; and zero duties on tea, as well as on such miscellaneous items as lemon-grass oil, shellac, handloom products, and sports equipment. Still more significant, however, was the proposal, accepted by all the delegations, that the enlarged Community should negotiate by the end of 1966 comprehensive trade agreements for the purpose of maintaining and, as much as possible, increasing the foreign currency receipts of these countries, and in general of facilitating the realization of their development plans. The means to be employed in particular envisaged tariff policy, quota policy, export policy, the

encouragement of private investment, and technical assistance. Finally, for cotton goods, a system of guarantees was worked out to ensure that exports to the enlarged Community did not fall below a reference level taking into account the increase planned under the long-term agreement that I have already mentioned.

All these, of course, were measures of commercial policy - of common commercial policy. It may be that some of them have become more difficult of realization now that British membership of the Community has been postponed. However, I have already expressed the hope in another place, that some at least of the measures envisaged during the British negotiation may still be able to bear fruit. I am thinking in particular of the possibility of comprehensive trade agreements with the Community: for this is an instance of the way in which the fact of having a common commercial policy, as we are bound to do by the end of our transition period if not before, may facilitate the achievement of results which would be much harder to attain if they had to be negotiated separately with six individual European countries. In a similar way, the Community's existence, and the greater prosperity that it brings to Europe, should ease some of the other relevant problems. A richer Europe should be able to increase its financial aid. A modernized Europe should be able to increase its imports - and particularly its imports of manufactures. A united Europe should be able ipso facto to promote greater stability in world markets and, by acting constructively, to promote greater liberalism and better market organization throughout the world.

VI

This, I believe, is the true contribution that the European Community can bring to the problems that I mentioned at the beginning of this lecture. I have quoted already the case which interests you most directly: but what is true of India is true also, and perhaps more especially, of other countries which so far have been less able to make rapid strides along the road of economic development. Let us take, first, the question of financial aid. As I said before, we live in a world which is grossly disproportionate. At present, about one-seventh of the world's population has four-fifths of the world's total income. In 15 years' time, unless we do something about it, these proportions will

be even more extreme. Simply to maintain present incomes in the developing countries, 20 thousand million dollars are required annually. To increase those incomes by 2%, a further 30 thousand million dollars will be required - and this calculation is based on the optimistic hypothesis that the money is put to the best use.

At the moment, the record of the Community countries in this respect is not to be under-estimated: their total contribution to under-developed countries has been calculated at something like two-and-a-half thousand million dollars per year. This figure comes from the surveys made by the Organization for Economic Co-operation and Development; and mention of this is a reminder that here the Community's existence has been in part responsible for an important organizational change. The OECD is the successor organization to the OEEC, the former Europe-wide body responsible for Europe's post-war recovery. Its enlargement and transformation into the OECD was partly due to the creation of the European Community, and it is a sign that Europe is now once more looking outwards and seeking to increase its aid contribution, as well as to co-ordinate the actions of the developed countries in this domain. It is only a beginning, but one must begin somewhere. Secondly, what is true in the field of financial aid is true also in the field of trade. As the recent ECAFE report has pointed out, many of the products of the developing countries in Asia are only marginally affected by the Community's common external tariff: among them are rubber, raw jute, raw cotton, tin metal and concentrates, hides and skins, some woods, and so on. Indeed, the exports of developing ECAFE regions to the European Community have in many cases increased more rapidly than those of the associated African States. Between 1958 and 1961 their total rose from 665 million dollars' worth to 820 million dollars' worth. Nor was this increase only the product of undiversified economics. Imports of manufactures from these regions into the European Community from 1955 to 1960 increased by more than 115% - a far more rapid rise than the similar imports of developed countries generally.

I do not wish to claim credit for the Community by virtue of these figures: but I do wish to point out that they belie the charge that the Community is protectionist or "inward-looking". From the beginning, those of us who had the duty of defending it on economic grounds always maintained that the mere fact of abolishing tariff barriers within the Community would make possible a more liberal policy vis-à-vis the rest

of the world. If France and Germany, for instance, could face fair competition from each other, they should surely be better able to face fair competition from the rest of the world. Moreover, the Common Market Treaty itself calls upon the Community both to pursue liberal quota policies and to promote tariff reductions; and this, in fact, is precisely what it has done. With a very few exceptions, the quantitative restrictions which were abolished within the Community as far as industrial products were concerned have also been abolished vis-à-vis the rest of the world. On tariffs, it can reasonably be maintained that it was the Community's existence that made possible the Dillon negotiations; and it is certainly true that the fact of the Common Market inspired President Kennedy to propose the Trade Expansion Act under which we hope to be in negotiation in GATT next year.

In preparation for that negotiation, experts on both sides of the Atlantic are at present studying the techniques and methods that it will have to adopt. It may be that in order to get the full benefit from the tariff reductions which are envisaged, we may have to rethink some of the ways in which we traditionally negotiate in GATT. There can, of course, be no question of abrogating the most-favoured-nation principle of non-discrimination: but there might be a case, for example, for adapting its application so as to give greater benefits, by demanding less reciprocity, in the case of developing countries. It might be argued, likewise, that the tariff structures of the world's developed countries should be harmonized so as to make bargaining less difficult - again with the aim of being able to accord special treatment to countries which by virtue of their state of economic development are not yet in a position to follow the practice of their more developed partners.

All these, of course, are hypothetical questions to be answered in the future. But the fact that we face the Kennedy negotiation is, I think, a proof that the European Community has already begun to stimulate more liberal policies in the world. In turn, the fact that those policies demand some fresh thinking is likewise a proof that when we consider the problems of developing countries we may need to think afresh and depart, perhaps from purely classical precepts. Already, in practice, this is recognized when we speak of financial aid. But there is finally one third area in which new methods and fresh action are necessary - that is, in the organization of markets. Here, too, the

European Community has a contribution to make.

When one looks at the grim problems of poverty that beset the developing world, there is one striking fact that meets the eye. That is that despite all our efforts at direct financial aid, despite liberal policies, and despite increased trade, many of the benefits which we seek to obtain through these measures are nullified by price movements in the world markets. This is the heart-breaking problem of the so-called "terms of trade". Exports from the developing countries increase, but their value falls: as if in a mirror-image of this situation, the developed countries' exports to the developing countries decrease because their value and their price rise progressively beyond the reach of the would-be buyer. Financial aid can palliate this problem: increased imports by the developed countries can marginally affect it. But the only true solution - and it is one that has been sought again and again in the past - is some kind of stabilization of world prices and markets by means of international agreement.

This is true in the field of raw materials; it is also true, and more especially perhaps, in the field of agricultural produce. Here, demand is comparatively inelastic: but output fluctuates widely from year to year. Moreover, the so-called "world market" is in fact a market for surpluses, taking only 5 or 10% of total world production.

Already, in the British negotiation, the Community proposed a world conference in which the main importing and exporting countries would discuss these agricultural problems. Whether it can now be held is uncertain. But what is certain is that in this field, as in the field of raw material markets, the creation of the European Economic Community is in itself a stabilizing factor; and that by wise action within the framework of its common commercial policy, the Community stands a chance of bringing into being, in partnership with the United States and with the British Commonwealth of Nations, a new approach to the organizational problem that I have described. The reason is simple: for where there were once six voices there is now to be one voice; and that voice is far more powerful than the separate voices of the past.

VII

I am afraid that I have imposed for too long upon your patience. I have quoted many statistics: I have explored many details: I have sketched in outline many proposals and many ideas. But in essence, my message today is a very simple one: it is a plea for understanding. What I have been trying to say is that the European Community is not merely an attempt to put Europe's own house in order: it also represents an opportunity - a peaceful, perhaps unique opportunity - to contribute to a better order in the world. Already in Europe we are trying out a new method of work, a new form of international life. We believe that it may one day have wider possibilities. But even now we feel that the potential repercussions of the Community's existence give us all the chance to build better. To change the metaphor, the Community is a stone cast into a pool that has too long been still: the ripples spread out in concentric circles to the very confines of our world. To change the metaphor yet again, the Community may be likened to a piece of grit that produces some discomfort: but it is thanks to the grit within its shell, you will remember, that the oyster produces the pearl.

Please do not misunderstand me. I am not saying that the world is the Community's oyster! I am not saying that it is the repository of all the virtues, or that it can solve all the problems by itself. On the contrary. "We" - not "they" - must all make efforts: but by spurring us to do so, the European Community may perhaps have shown the way ahead.