

THE EUROPEAN COMMUNITY
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THE EUROPEAN COMMUNITY AND ATLANTIC PARTNERSHIP

An Address by Professor Walter Hallstein,
President of the Commission
of the European Economic Community
to the National Industrial Conference Board
at
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I am delighted with this opportunity to appear before you and to speak about the European Economic Community.

Your interest in the integration of Europe and its bearing on trade in particular is evident because the 400th meeting of this Board just a little more than a year ago was devoted to "Economic Unity in Europe: Programs and Problems". I have seen the printed report of addresses given during that conference with its foreword by your Mr. John S. Sinclair. One can easily see that America in the nineteen-sixties has an intense new interest in trade. In just three days you will celebrate World Trade Week, as proclaimed by President Kennedy.

We call ourselves the European Economic Community. The name is somewhat less than precise, because we are far more than an economic community. We have, as you know, a distinct political character and goal. After the concept of Winston Churchill, we have set out to build the United States of Europe.

To be quite honest with you, as a professor of law and President of the Commission of the European Economic Community, I feel somewhat diffident about addressing members of this gathering. You have an enviable reputation for the cool, almost Olympian detachment of such economic experts as investors, industrialists and bankers - something which I very much envy you. I expect you know the story of the four friends who went camping in the Rockies. One was a retired general: one was a senior civil servant: one was a politician; and the fourth was a distinguished banker. Suddenly one night a huge grizzly bear appeared at the door of their tent. The general said "Give me the shotgun!" The civil servant said "We'd better ask the politician." The politician said: "We'd better ask the banker." "What is it?" said the banker, who was busy reading the Wall Street Journal. "A bear!" they answered. Without looking up from his paper, the banker said: "All right, but not more than five percent."

It is my belief that your capacity for detached and cool appraisal is more than ever necessary today. It is difficult enough to master the political and economic forces that rule our world; and unless we can study them impartially and begin to understand them, we shall be condemned forever to the kind of fatalistic resignation with which our grandfathers regarded, for example, the

ever-recurring business cycle. I am not saying - by any means - that we are in a much better position on this particular subject. But in some spheres at least we are beginning to replace hopeless fatalism by joint action. This is true in a number of fields in Europe, where the establishment of the European Economic Community has already solved some problems, such as the age-long enmity between France and Germany, which used to be thought inevitable and eternal. With your help, and the help of our other allies in the free world, I think we can hope to master our fate in other fields as well.

I mention the European Community not only because I am here today to represent it, but because the Community itself is one of the new factors in world affairs with which we all have to reckon, and which it is important for us all to understand. The European Community, in the first place, represents a new stability in the front line of the free world. Economically and politically, it is a guarantee that none of its members can be "picked off", attracted out of the orbit of the free world by political threats or economic promises from the East.

Secondly, the European Community is itself a force of attraction - once again both political and economic. I am not one of those who believe that we in the West should foment revolt among the subject peoples of Eastern Europe. The dangers and the human cost are too high for such decisions to be lightly taken. But we must never forget that we owe a duty to those peoples. We must continue to strive for their liberty. More than this, we must prove to them, and to peoples throughout the world, that a free system not only is better than any other, but that it works better. The Communist bloc can offer many inducements, many deceptive promises. It is up to us to show that we can go on better, and offer both help and freedom.

Already, the force of attraction of the European Community is making itself felt. We have just signed with Greece, one of our NATO partners in the Eastern Mediterranean, a draft Agreement of Association. We are working towards another with Turkey, whose position as a member of NATO is perhaps even more exposed. And there are signs that Great Britain, so long the absent partner in our move towards European integration, is at last beginning to rethink her whole relationship with continental Europe, and may one day be ready to participate fully in this great enterprise that we call European integration.

A bulwark, then, and a force of attraction. But the Community is more than this. One of the reasons, indeed, for its force of attraction is its size. Our population is almost as big as yours, although our area is far tinier. Our working population is even bigger than yours. We are the world's largest trader, and the world's largest market for raw materials. And just because our development was in the past held back by war and rivalry and the fragmentation of markets, we are only now beginning to make up the gap in our growth, and hence to expand at a remarkable rate. Between 1950 and 1959, the gross national product of the Community countries rose by some 74%: last year alone it rose by 7%, while our industrial production rose by 12%. Between 1953 and 1960 our productivity rose by 40%. A vigorous expansion of internal demand has caused investments to rise significantly. 1960 brought us the greatest rate of growth we have known for years. Community exports rose 13% to \$19.6 billion; imports grew by 20% to \$20 billion. Vis-à-vis the United States alone the Common Market had in 1960 a trade

deficit of almost 1.5 billion dollars. From 1959 to 1960 imports of chemical products from the United States rose by more than 40%, of finished products by 94%, and of vehicle by 95%. Thus the United States is still the Community's main customer and her main supplier. This substantial increase in imports, incidentally, should make clear that we are a liberal trading community, not a protectionist one as some of our critics have tried to establish. This rate of growth does not mean, of course, that the European Community is outstripping the United States. Despite our rate of growth, our per capita gross national product is still between one-half and one-quarter that of the U.S.A. And while, for example, American investments in the Common Market countries have increased rapidly during the last few years, they still represent only about 1% of our annual gross investments, and in absolute terms total about the same in the whole Community as they do in Great Britain. Our standard of living, likewise, is still much lower than yours - although it is rapidly rising. A straight comparison, therefore, between American and European growth rates can be highly misleading if it leaves out of account the enormous headstart which America enjoys.

Nevertheless, the rapid postwar growth of Western Europe, and especially of the European Community, does signify one very important thing. That is, that we are no longer in the unhappy and burdensome position of poor relations. I do not need to tell you the immense debt of gratitude that we in Europe owe to the United States - and to the United States taxpayer - for the aid that came to Europe after the war. But what I should like to say is that we in the European Community are now once more on our feet, with all the self-confidence that it implies. And this, gentlemen, is something new in Europe. It is another basic characteristic of the European Community as a new force in world affairs.

No one, in other words, now doubts that the Common Market is here to stay. We have accelerated the operation of the Rome Treaty - and this in response not to a mere administrative decision, but to the activities of private business, which have run ahead of the politicians in their desire to enjoy the future full Common Market. When we negotiated the Rome Treaty, we were all concerned about the dangers and difficulties of giving up protective tariffs. Now we want to hasten the process, because we have come to see it not as the abandonment of safeguards, but as the seizing of opportunities: not as the dismantling of defenses but as the provision of a new stimulus that our industry needs. And this process, already begun within the Community, is beginning to show its effects in our attitude towards the rest of the world. We always declared that we were liberal-minded. Not everyone believed us! But the Community was the first to accept Mr. Dillon's proposal for tariff negotiations, which should begin shortly in Geneva; and we have also proposed that these negotiations should be followed by a further round to bring world tariffs down further still.

The "Dillon negotiations" have not yet started, but even before they begin our pragmatic approach has brought benefits for our trading partners. This is to anticipate the result of the GATT-negotiations by making a provisional reduction of 20% in the Community's external tariff applicable to goods of third countries. This measure was unanimously decided by the Community's member states at the same time as they agreed to accelerate the establishment of the Common Market by more rapid reduction of the internal tariffs applicable to goods flowing between our member states.

This decision to accelerate was a gigantic vote of confidence in the Community, echoing the vote of confidence already given by our private industries. It strengthened the Community in all its spheres. It has helped prepare the way for the present discussion of steps towards unity in the political field. It has certainly enabled a strengthened Community to be even more flexible and more liberal in its dealings with its friends and partners. In international affairs as in personal relations, the greater one's self-confidence the greater one's willingness to relax and be friendly. Furthermore, the speedier we consolidate our own economic unity, the easier it will be for us to exert a liberal influence in world economic affairs. Our willingness to anticipate the results of the GATT-negotiations, I believe, is striking proof of this growing self-confidence, which makes it easier to be liberal.

I would like to quote a proposal made sometime ago by the assistant-secretary general of GATT. He suggested the method of linear tariff reduction as already practiced within the Community and the countries of the European Free Trade Association.

Linear tariff reductions extended to all the contracting parties of GATT would, of course, be conditional upon adequate reciprocity. Some non-European contracting parties such as the United States have tariff procedures which do not allow linear reductions. We can envisage some postponement of reciprocity. This proposal would, in effect, leave both the Community and EFTA to develop into "low tariff clubs", and in itself might contribute to a solution of the internal European problem which would offer nothing but advantages to you, our friends on this side of the Atlantic as well. This proposal of the secretary general is only one such possibility.

These are signs, I think, of a new self-confidence in Europe, born of a measure of success both in the European economy itself and in the working of the Common Market. But success brings with its responsibilities, what I should like to call responsibilities for interdependence. We in Europe have already enjoyed the fruits of your recognition of interdependence: Marshall Aid was one; the NATO shield is another. It is up to us, now that we are no longer poor relations, to play our full part in reciprocating these efforts. A liberal trade policy, such as we intend to pursue - such as our Treaty pledges us to pursue - is one such contribution. Indeed there are many things that can be done in GATT. I sometimes regard this organization as a world-wide Chamber of Commerce. But that, if I may say so in such a gathering, is too much a laissez-faire concept to suffice by itself. What we need in the western alliance is a kind of Ministry of Economics which not only looks after free trade but stimulates the development of harmonized short-term and long-term economic policy. Let me explain by making a slight digression.

So far, I have pointed - as a good advocate should - to the positive side of the Community's significance as a new factor in international affairs. It is a bulwark and a center of attraction: it is large and rapidly growing: it is successful, and it intends to be liberal. But what of the negative side of the picture? What of the problems? There must be some, clearly, for otherwise the picture would be too good to be true.

I am not going to be rash enough to ask you to list them for me. There are quite enough for me to list as it is. Perhaps the first is the question of so-called "discrimination" against American goods. By setting up the Common Market, we are bound to discriminate: for goods of member states will eventually face no tariffs when entering each other's markets, while those of the United States will have to face the common tariff surrounding us all.

I think I am betraying no secrets if I say that the attitude of your Government, as I understand it, has always been clear on this point. In its view, discrimination of this sort can be justified on two conditions. The first is that the economic disadvantage should be offset by political advantages - a real move towards integration, rather than a mere trading arrangement, and a real strengthening of the West. The second is that the degree of discrimination should be as small as is compatible with achievement of this objective. I do not know if I have rightly interpreted the attitude of your country: but I know that I have expressed that of ours. It is an attitude that conditions both our liberal trade policy and our policy towards other European nations that express a desire to share in our integration process.

This brings me, indeed, to a second problem: the wider European problem, the problem of Great Britain, the problem of the Six and the Seven - call it what you will. I myself do not believe in the so-called "split" in Europe. On the economic plane, Europe cannot be split by the mere fact of six nations, each of which previously had a national tariff, combining into a Community whose joint tariff is substantially lower than some of the national tariffs it replaces. This is not a "split" in Europe: it is a partial consolidation. Nor even is Europe "split" if a number of other countries, which did not join the Community, themselves decide to organize a free trading area among themselves. This is further discrimination, if you like, but it is also further consolidation. And on the political plane, "splits" do not take place unless they are brought about by a deliberate political choice. Such a choice, I am perfectly certain, no responsible statesman of the present day would dream of making.

This, however, does not relieve us of the responsibility for doing all that we can to remedy any real difficulties that arise because of the existence of the Six and the Seven: and here once again it is our duty to think, and not in the last instance, of the United States, too. Any solution to the Six-Seven problem must obviously take full account of the needs and wishes of America. That is why we have always stressed the open character of our Community. Any European country that is prepared to accept the rules of the Rome Treaty, including the political promise that it represents, is very warmly welcome as a recruit to the Community. We know that this is a difficult choice, because it entails a fundamental commitment: it means adopting a method which has proved its worth but which demands real sacrifices. As I said just now, there are signs that Great Britain is rethinking this whole problem: they are signs that we welcome.

But this problem itself is not essentially something for which the Community is wholly responsible. It is, if you like, a problem that the Community's existence has merely highlighted, and brought into sharp relief. It existed already in 1947 and 1948, at the time of the foundations of O.E.E.C. It was not solved then - and for a decade the question remained ambiguous: how was Europe as a whole to respond to the challenge of scale that the postwar period had made

urgent? Now, partly owing to the emergence of the Community, that question has become acute enough for an answer to seem possible.

What is more, if in this way the creation of the European Community has only spotlighted a problem that would have arisen, perhaps more gradually, in any case, the same is true of many of the other questions that vex us all.

There is the problem of the developing countries. It is a problem that has been growing more acute as their terms of trade have worsened; and it is one to which the European Community is now in a position to make its full contribution - another mark, if you will, of interdependence.

There is the problem of agricultural surpluses. Our need for a common agricultural policy has merely thrown this problem into greater relief.

The problem has its roots in the amazing technological revolution in agricultural production. Here in America, some 7 million agricultural workers are producing food and fiber of outstanding quality and in such quantity that some parts of your domestic market are saturated and surpluses are building up for which outlets must be found in other markets. This revolution has spread to Europe. In the European Economic Community, some 25% of the population now supplies the need of the remainder for many farm products. Given our obligations to the developing world, what is to be the fate of those young countries which still depend largely for their national revenues on the sale of crops? Finding an equitable balance will require cooperation of a high order. We must all work for an agricultural policy that will avoid surpluses, and I know that this is the goal of the farm policy enunciated by President Kennedy and Secretary of Agriculture Orville Freeman.

Last but not least there is the problem of the American balance of payments - which is quite a separate issue from that of trade balances, since last year the trade balance ran markedly in America's favor. This is a problem - the payments problem - which is closely linked to the aid problem, and to a further problem that we are only just beginning to approach: that is the problem of stable currencies and international liquidity. All these questions, I repeat, would have existed even had the European Community never been created. Our existence merely shows them in a new light.

But what is more important, in my view, is that many of these difficulties - although immediately more evident - become easier to solve once the existence of the Community becomes a fact. One simple reason for this is the concentration of effort that the Community itself implies. Another is its concentration of resources. A third is the fact that the Community itself must study such issues even within its own borders. Take for example the still unsolved problem of the business cycle that I mentioned at the beginning. We are facing this problem within the Community: we have set up a special body from all the six countries with the sole function of dealing with just this. I cannot pretend that we have yet succeeded: but our efforts, already involving six countries, are a basis on which a wider approach could be founded. The same is true of the monetary problem. In addition to the normal contacts between bankers - and heaven knows that they are multiple already! - we have instituted a regular process of collaboration between our central banks. This process could be extended. And the same is true, I personally believe, of a whole series of activities in which the Community is seeking to point the way ahead.

Where does that way ahead lie? In my view, it lies in the direction of a reshaping of the international order on an Atlantic scale. Already, the modest beginnings of such a movement are coming into existence in the form of the O.E.C.D. This new Organization for Economic Cooperation and Development will bring the United States and Canada for the first time as full members into a forum for Atlantic economic cooperation with the European member countries of the former O.E.E.C. Unlike its predecessor, the O.E.C.D. will look outwards, not inwards. Its aims is Atlantic cooperation - and free world development. It has been aptly described, by my friend, a Member of the Commission, Jean Rey, as "the economic conscience of the free world." But it can be more even than that. If we wish it, this organization can develop into a real forum for cooperation such as has never existed in the world: a means of achieving, between free nations and continents, a degree of mutual assistance that can outclass any merely imposed central planning as is practiced by the countries of the Comecon, of the Communist bloc. If we wish it. We must wish it!

I began this talk with a frivolous story - the story of four friends trapped in their tent in the Rockies. That story was not entirely frivolous. We in the free world are in much the same plight as those four friends, and there is not very much time left. Already, as we sit and discuss our debated policies, the great grizzly bear is scratching at the door.