

Partnership in the Making: A European Point of View

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I hope that no one will accuse me of mixing in internal American politics if I take a position here on the question of Atlantic partnership. By definition, a partnership is two-sided. There must be co-operation between the two partners, which means that each must have an opinion of his own.

We must make clear from the outset that this partnership has a concrete objective. Broadly speaking, the objective is economic integration - that is, establishing a unified economic area, an area in which conditions are created that approximate those of a single national economy. This is precisely the economic essence of what has been set up in Europe under the name of the European Economic Community. Perhaps our experience - the experience of a friend - can be helpful in future Atlantic planning.

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Thus, my text deals with a partnership which is "in the making". This talk, which is part of the common effort to find the proper substance and form of Atlantic partnership, is already partnership in action. It should be clear that what we are proposing for the future is not something entirely new but rather the organic development of what already exists.

What is our aim?

We have already made a fundamental decision by calling the future arrangement a "partnership". We have made this decision for compelling reasons. We have made a choice between two concepts that are theoretically possible. Using terminology which is in process of formation, we may call one the idea of an Atlantic community and the other the idea of Atlantic partnership.

I repeat: when we set forth the difference this way, we are using terminology which is in process of formation. Actually, we have a fairly precise definition of the term, "community", in discussing economic integration, if we use the European Economic Community as our example. Its

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decisive criterion is political.

First of all, the European Community has institutions. There is a European "Government" - which should not be translated by the German word, "Regierung", but rather - if we are looking for the precise American connotation - by "Institution" or "Verfassung", which means constitution, or "Statut", which means statute. This latter word, statute, is often used in Europe in discussing the so-called political union. In other words, we speak of a system of responsibilities, jurisdictions and procedures, which enable the Community to have a policy of its own, which may indeed be different from the policies of the several member states and which is not simply the sum of these policies.

Secondly, one must not forget that the Community has a frontier. Of course, the attitude about this frontier and the orders given to frontier officials may be quite liberal. It need not be a Great Wall of China or a Berlin Wall. It can be very much open. But nevertheless it is there, because it marks the limit of the powers of

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the institutions which represent the Community.

Even the freest and most open of communities must decide how to deal with its frontiers. With regard to trade policy, this means the existence of a common customs system applicable to non-members. Those beyond the frontier are inclined to call this discrimination.

The structure of the European Community cannot be explained by economic aims alone. It has not been made what it is solely by our efforts to establish in the Community conditions as close as possible to those found in an individual national economy. It is equally - indeed largely - explained by the fact that the economic integration of Europe is not an end in itself but a means to the end of political unification. The final aim is political unity. Whether this is achieved through federation or confederation is a point on which we have so far expressed no view because discussion of this question threatens to divide rather than unite us. We would be happy to find a term that would express the idea of "community" and would effectively convey immediately

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everything that we desire and are now able to achieve.

When we speak of the Atlantic area, we are speaking of something different. No one is thinking of an Atlantic "Government". The ideological strength of the European Community springs from the concept of Europe. But the United States of America is not merely an Atlantic power, it is also a Pacific power and an American power. The arrangement we are trying to find is not intended to be discriminatory but, in accordance with the rules of GATT, to be of benefit to others as well. Also, we are realistic enough not to be thinking of a kind of federal entity in the Atlantic area - magnificent as that would be. In other words, Atlantic partnership will not find expression in a collective political personality, but will rather be built on two mighty pillars: America on the one side and an integrated Europe on the other. The essence of the new order of things lies in the constant exchange of ideas between America and Europe, on their increasing co-operation and co-ordination of action. Thus, there arises a pivotal question. It is on the answer to this

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question that our chances for the future rest. What do the two partners have in common, or rather what must they have in common to make their partnership possible? The answer is: a multitude of opportunities, a multitude of dangers, a multitude of problems and a multitude of aims. This is why they can and must come together.

As far as principles are concerned, the two partners share the concept of a vast Atlantic market - that is, the lowering of trade barriers, and particularly of customs duties. Such a development is certain to increase trade and make competition keener. It stimulates rationalization and modernization. It brings an expansion of mass production and leads to a better international division of labor. On the basis of the theory of comparative costs, it produces a higher degree of specialization. Production becomes better and cheaper. The gross national product and industrial production both rise. The standard of living moves upward. That this is true has once again been established - yes, proved - through the European Economic Community. In all of

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economic history, there have been few illustrations of this truth so impressive. I shall not weary you with statistics.

But there are certain conditions that must be fulfilled if all this is to take place. Among these conditions, two are essential. The economies to be brought into such a mutual relationship must be in physical proximity and they must be at least approximately equal.

The first of these conditions causes little difficulty. Economically, proximity is not a problem of geography, nor even a question of miles. It is a problem of the means and cost of transport. Modern technology has revolutionized our concepts and made all things relative. Under the eyes of the present generation, all men and all economies are drawing closer and closer together. The Atlantic is no frontier. It has become the Mediterranean of our age. Transport by sea is relatively cheap.

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There is no answer quite so straightforward on the question of equality.

There is, certainly, equality in the psychological sphere, in matters of spirit and mentality, in the inner approach. I refer not only to the unity of Western civilization. I have in mind also the similarity of economic theory, which is centered on expansion, the similarity of our dynamic view of life and of our attitude to the spirit of enterprise. Our attitude on enterprise reflects our view of individual responsibility and initiative and rises out of our basic agreement on the scale of values. How else can one explain the fact that the entire OECD recently reached agreement without difficulty that the global rate of growth over the next ten years should be fifty per cent? But is there equality of economic forces? This question is difficult to answer. In the first place, there are no generally accepted yardsticks for these matters. And secondly, in a dynamic economy, conditions are always changing. Therefore, the question should not be put in a static

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manner but rather like this: are the two economies - the American and the European - more or less equally capable of dealing with the opportunities and dangers that will arise in an Atlantic free trade area? There is no doubt that demand will rise. Europe has a long way to go in bringing its standard of living up to that of the United States of America. American competitors possibly will be better off at first, because they start with greater capital assets, because they can put to work their unused plant capacity and because they are already familiar with a market of continental dimensions. European businessmen are still engaged in changing over from their relatively small national markets to the one large European Community market. As compensation, the European businessman has - for the time being, at least - a better knowledge of the European market and better sales organizations there. Furthermore, the European businessman has more experience in the export field than the average American businessman. When it comes to inventive spirit in technical and economic matters, I do

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not suppose either partner has particular cause for concern. Any initial structural inferiority in Europe may be offset by the vigorous elan in European business development, which contrasts with certain signs of saturation in the United States. The influence of the difference in wage scales is usually exaggerated. The difference in wage scales expresses only a difference in productivity. Experience teaches that the industry with the highest wages has the greatest success in exports. What will matter in the long run is that both sides are confident of their ability to secure a fair share of the market.

Let me now turn to the technical side of the partnership. For an expansion of trade, one prerequisite is the mutual reduction and, where possible, the abolition of customs duties. Recent experience in the Dillon negotiations at GATT has shown that there must be equality of economic weapons and that the American partner must also be capable of ^{overall linear} ~~comparable~~ reductions. Once your Administration has such powers, a great step forward will have been taken. There will remain, however, a number of

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supplementary questions with regard to equality and reciprocity. The structure of the American tariff is not the same as ours, nor is the average level the same. American experts have calculated that after the Dillon negotiations, the average European tariff will be 5.7 per cent and the average American tariff 7.1 per cent. In addition, the highest American rates of duty are considerably higher than the top European ones and in several cases, they are prohibitive in character. This will, of course, give rise to more problems in the negotiations, but these will not be insurmountable.

We have already referred to the fact that one partner - the United States - is a fully mature personality whereas the other - the European Economic Community - is still an adolescent in the process of maturing. This difference is fundamental. You cannot turn a boy into a man by treating him like a man - but you can hasten his maturity by demanding much of him. Our spirit is sufficiently sporting to take up the challenge. Nevertheless, one should not lose sight of the problem.

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Purely by way of illustration, I can perhaps make this point:

If the future arrangements are to provide safeguard clauses operated unilaterally by the United States, then the same right must be given to the European partner. In the hands of the European partner, however, so long as the economies of the six member states have not been really merged, such facilities may easily turn from a means of protection into a cause of internal disintegration.

This example leads me to the next question. Conditions of competition must be equal not only at the beginning of the new partnership arrangements; they must also not be distorted later on. This question arises for the simple reason that equality of conditions of competition is not a natural state of affairs, but rather the outcome of human action - in particular of political action. In a national economy, one meets the danger of distortion by subjecting all competitors to the same legislation. In our Community, we have evolved a similar system of Community discipline - which is why many people

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speak of a supranational Community. We have our own European anti-trust legislation. We have prohibited subsidies. We have laid down rules governing monopolies, and so on. How, then, is this matter to be settled in the Atlantic partnership which, as I have already noted, has no federal character? The solution very likely will have to be sought in an agreement on a code of good conduct, possibly by watering down certain rules of GATT.

This question is closely connected with another of equal importance. It concerns the nature of the future Atlantic understanding. This understanding must be such that businessmen can rely on its continued existence. Otherwise, they cannot make their calculations. We have been confronted with the same problem in the European Economic Community, and have achieved our solution through a plan for customs reductions, which at the same time fixes a timetable for step-by-step operation. In our case, these arrangements cannot be changed by unilateral action. It is largely to the immutability of our system that we ascribe the fact - which has proved decisive in the success

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of our undertaking - namely, that business has accepted our Community as a reality.

The system is strict. We have always understood that not only hopes but also worries have been aroused among those who live under our system and must make executive decisions. We therefore saw to it that tariffs would be lowered gradually and did not resort to shock treatment. Incidentally, the period for these reductions was too long, as can be seen from the decisions already taken to speed up the process.

Further, we have made it easier in two ways for those concerned to adjust themselves to the new situation. For we cannot deny that this new situation has been brought about by political decisions and that, consequently, there exists a sort of moral duty to do everything possible to prevent individual suffering as a result. We have created a Social Fund which meets half the cost incurred when a worker changes his locale or must be re-trained for other activities. We have also set up a European Investment Bank which provides loans and guarantees not

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only to assist underdeveloped areas but also to make it easier for firms to carry out modernization and conversion programs as well as to create fresh opportunities for employment.

We in Europe have noted that the American program contains a comparable arrangement in the form of adjustment aid. Moreover, this is not designed to protect firms in a poor competitive position, but rather to smooth the way for their transition or return to the competitive process. This is entirely in line with a fundamental objective of economic policy - that is directing the factors of production (capital and labor) to a point where conditions of production are most favorable. Experience has taught us that the fears and the desires for protection that followed the creation of the Community were very much exaggerated. We have not witnessed hundreds of thousands of workers being thrown out of their jobs. At the very worst, we have seen only a number of operators of business enterprises go under - and the best of these have had no difficulty in turning, quite

successfully, to productive and profitable activities. Be that as it may, in the interest of the successful conclusion of the overall Atlantic endeavor - in other words, the promotion of economic expansion - such an adjustment program must undoubtedly be preferred to unilateral safeguard clauses.

Before concluding, I should perhaps make two further comments on the effects of trade expansion. The first, which is connected with the American balance of payments problem, concerns the flow of investment capital to Europe. The problem is a relatively small one and affects only one-eighth of the capital leaving America - or some four-tenths of one per cent of the annual total of U.S. capital investments. The amount of American capital invested in Europe will probably be influenced less directly by the reduction of trade barriers than by the expected narrowing of the differences in the American and European rates of expansion. The fundamentally liberal policy of the Atlantic partnership suggests that the answer to this problem does not lie in artificial measures but rather in

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giving free play to natural developments.

Finally, European observers also expect that liberalizing Atlantic trade will have a favorable influence on the novel phenomenon of cost inflation. The chief factor in keeping wage levels geared to productivity lies in the exercise of good sense by both management and labor at the collective bargaining table. If negotiations are not sensibly handled, there is no way to avoid either an increase in prices or - if these are prevented by monetary policies - a decline in the rate of economic growth, leading to unemployment. In a free society, men will pursue sensible courses only out of conviction. But it is true that competition is an excellent method of convincing them of what is right.

I have been setting forth to you my opinions on some of the elements of Atlantic partnership at this stage of discussion. I am grateful for the exceptional opportunities offered me during this visit to the United States to discuss, to clarify and to correct my opinions in conversations with senior members of the Administration,

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with Congressmen, with Trade Unionists and the general public, as well as with representatives of American business. I am especially grateful to have had the opportunity to speak, which you have afforded me this evening. We have not yet reached the stage of negotiations between Europe and America. The institutions of the European Economic Community have therefore had no occasion as yet to adopt an official standpoint.

To sum up, I believe that expansion of trade is good American policy, good European policy and good Atlantic policy, that it strengthens the free world and thus makes a useful contribution to the preservation of our most precious possessions, possessions which we wish to insure for the future - freedom and peace.

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