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COMMON MARKET • EURATOM • COAL & STEEL COMMUNITY

January 31, 1961

BACKGROUND INFORMATION

Robert Marjolin, Vice President of the Commission of the European Economic Community (Common Market), in a speech before the European Parliament in Strasbourg on January 19, reviewed the dynamic expansion of the six nations of the Community during 1960 and discussed prospects for the coming year. He noted that the gross national product rose seven per cent over 1959 and that industrial production went up 12 per cent in the same period.

Part of the Vice President's speech was devoted to the economic situation in the United States. Text of that section of the address follows.

"The moment has perhaps come to say a few words about the situation in the United States which will certainly influence - although it is difficult to say how far - the development of the situation in the community. A recession is at present occurring in the United States. It is still slight, but its existence is indisputable. It can be calculated that since the middle of last year - since July - industrial production there has sagged by around 5 per cent.

"What are the prospects for the expansion of American economic activity? I should here like to express a feeling of reasoned confidence in a satisfactory expansion of business in the United States. On the one hand, the American recession is so far very mild; on the other, the new administration, or rather those of whom it is shortly to consist, have made no secret of their firm intention of taking all necessary measures to bring to a very early end the decline which has just been observed.

"It may, therefore, be reckoned that in a few months American production will resume its forward march.

"However, I would not wish to leave this matter without saying a few words about the uneasiness which has become apparent here and there regarding the deficit on the balance of payments of the United States Government, a deficit which in 1960 topped three billion dollars.

"Our Commission considers that this uneasiness is greatly exaggerated, and a certain number of facts may be advanced in support of our opinion. In the first place, in 1960 the surplus in the United States balance of goods and services was higher than ever and, in fact, considerably greater than in 1959. During the

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third quarter of last year, this surplus, calculated of course on an annual basis, reached the considerable figure of seven billion dollars. It is difficult to entertain serious doubts about the currency of a country whose balance of goods and services shows a surplus of such dimensions. In the second place, the balance-of-payments deficit in the years prior to 1960 had been caused by United States aid to the rest of the world, by their military expenditure abroad and by the investments of American enterprises outside the national frontiers. The total volume of all this expenditure was appreciably higher than the surplus in the balance of goods and services. This gap was considerably reduced in 1960 and even seems to have disappeared or practically disappeared during the third quarter of last year - the last one for which we have figures - although we cannot yet be certain whether this success will be maintained in the future.

"Finally, the 1960 deficit was due essentially to short-term capital movements partly because of the difference in interest rates between the United States and Europe, the European rates being higher than the American, which has been caused in part by the belief of certain speculators - an unfounded belief - that the price of gold might be raised. Such movements cannot continue very long in the face of the determination of the American Government, supported by considerable gold reserves and even greater foreign exchange holdings, not to indulge in an operation which would not solve any problem.

"The decision taken a few days ago by President Eisenhower to prohibit the holding of gold abroad by American citizens is striking proof that the two great parties in the United States are in complete agreement on monetary policy. In addition, the divergences in interest rates between the United States and Europe have already been greatly narrowed and will be further reduced in 1961.

"It is therefore clear that the basic situation of the United States is strong and will be further consolidated when the American economy is again on the road of rapid expansion.

"All this, however, does not mean that no further efforts are needed to consolidate the monetary situation of the western world and that the countries of western Europe in particular - with the community in the forefront - are not required to examine how they might, by applying a particularly liberal commercial policy, help the United States to surmount present difficulties without, for the time being, complete reciprocity being demanded from it..

"In so doing they would only be modeling themselves on the conduct of the United States towards Europe during the years after the war."