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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

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, no 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

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.