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"AMERICA AND EUROPE: A NEW INITIATIVE"

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The European Community is one of the West's great political conceptions. Fortunately it was conceived in time to save Europe from itself -- from another round of disintegration. Now Europe is being pulled together rather than torn apart.

Today, the much broader significance of the European Community is unfolding. With the creation of a strong Europe, a new initiative passes to the West and we can talk in meaningful terms about an Atlantic partnership. I mean a partnership of equals.

We all know that we live in a world of delicately balanced nuclear reprisals. For better or worse, this is the present military situation. The West has seen to its deterrent and we live in the uncomfortable, uncertain peace of the impasse. But we of the West would be negligent if we rested at that point. Throughout the postwar period, tremendous Western energies have been devoted to building peaceful strength in the political and economic spheres. In the large, this effort can be seen as follows:

- the United States' initiative of the Marshall plan, leading to the Organization for European Economic Cooperation and finally to the much-strengthened Organization for Economic Cooperation and Development.

- the European initiative in the founding of the European Community comprising specifically the Coal and Steel Community, Euratom and the European Economic Community - (the Common Market).

Now that we have before us another great American initiative, a proposal for a dynamic liberalization of world trade, it is well to look back briefly at the road we have traveled:

The Marshall plan was the brilliant and timely recognition that without help postwar Europe was not destined to survive with its Western values and institutions intact. Through OEEC, Europe learned that detailed economic cooperation was not only possible but a necessity. Working specifically for

the elimination of quantitative restrictions on trade, or quotas, OEEC sowed the fertile seeds of trade liberalization in Europe. The General Agreement on Tariffs and Trade was operating concurrently for the reduction of tariffs, not only in Europe but on a world basis.

Now OEEC has been superseded by OECD and strengthened by the membership of the United States and Canada. It has provided us with the instrument for achieving more efficient monetary coordination and a wiser distribution of aid to the developing countries.

We do not yet know the extent of the role that OECD will play in the development of the new Atlantic partnership, but it may indeed be the cross-Atlantic organization where many details can be worked out. We have still to tap the full potential of this organization.

In the earlier postwar period, OEEC was working for the liberalization of European trade and attacking the payments problem. OEEC, however, was created to reestablish Europe economically. It was not created or equipped to address itself to the profound economic and political integration of Europe for which the need was becoming ever more apparent.

The establishment of the European Coal and Steel Community in 1952 launched the European Community movement. It was a limited economic venture because it covered only two industries. It was a dramatic political achievement because Europe faced squarely, in a European context, the problem of containing and thus eliminating the Franco-German rivalry.

The next step on the road to "Europe" was taken at a meeting of Foreign Ministers of the "Six" in Messina, Italy, on the 1st and 2nd of June, 1955. The Benelux countries presented a memorandum provoking further study of European integration. An inter-governmental study group was created under the direction of the then and now Belgian foreign minister, Paul-Henri Spaak.

Eleven months later, the committee presented a report which was the basic timber of the Treaties of Rome creating the European Economic Community and Euratom. A glance at some passages of that report will show us the miracle that has occurred in Europe:

The drafters saw Europe dwarfed between two giants, the United States and Russia, her "overseas interests weakened, her influence declining and her capacity for progress being wasted in division."

Three examples of Europe's plight were cited. Europe, it was found, did not possess a single automobile enterprise capable of making efficient economic use of the most powerful American production machinery.

No country on the continent was seen capable, without outside support, of constructing large transport aircraft.

In the domain of atomic science, Europe's knowledge was but a feeble fraction of what the United States had acquired.

Today, Europe can report that all this has changed.

In 1961, Europe produced 4,125,000 automobiles, compared with 6,640,000 for the United States. Efficiency of production and standards of automation in some factories are of the highest order.

Now it appears that the world's first supersonic commercial transport aircraft will come from the New Europe.

And Europe possesses a vital, expanding atomic energy industry rapidly developing the knowledge which the drafters of the Spaak Report found lacking.

This is the story of a comeback -- the comeback of Europe from the wretched winter of 1946-1947 when Europeans dared not even think of comeback. They were preoccupied with survival.

The recent years of this comeback have been crowned with the achievements of the European Economic Community -- the Common Market. This community, one

of the "three", is dedicated to the idea that the old order was not good enough for Europe in the second half of the 20th century -- the old order that twice in a lifetime crumbled into war, and failed in peacetime to assure reasonable progress.

The Treaty of Rome was signed on the 25th of March, 1957. The European Economic Community was established on the 1st of January, 1958. Today we are only a little more than four years old. What have been our economic accomplishments in that period?

- Quota restrictions on industrial goods moving among the Member States fell by the wayside at the end of 1961. This was eight years sooner than required by the Rome Treaty.

- Customs duties on industrial goods, already reduced by 40%, probably will fall by another 10% on July 1 -- two and a half years ahead of the Treaty schedule. At that point, we will be halfway to the total elimination of internal customs duties on industrial products. Agriculture presents a more difficult problem but already duties on farm goods have been reduced by 30% to 35%, and should be reduced further at mid-year.

If this were the limit of our achievement, one could write off the European Economic Community as a customs union, a kind of trade club for the passing around of mutual concessions, but we are far more than a customs union. We are building a profound economic union, and the work is well along.

On the 14th of January, after 140 hours of exhausting deliberation, the EEC Council of Ministers approved a Common Agricultural Policy -- a single farm "law", if you will, for six countries. The creation of such a code at one stroke is probably unprecedented in history. Most farm legislation builds up by accretion.

This new code really opens a new chapter in European agriculture. Our intent is to increase productivity without causing overproduction. This is important to the exporting nations, because otherwise their opportunities on the European market would have worsened. A disturbing tendency to overproduction had begun to manifest itself in European agriculture, and now this can more easily be curbed. World surpluses already have played havoc with world market prices which have reached abnormally depressed levels, levels to which we cannot agree.

The approval of the Common Agricultural Policy brought together one of the finest collections of official European talent ever assembled, and lucky that it did for at times the obstacles seemed insurmountable. We had to face one of our most difficult tasks earlier. If the Common Agricultural Policy had not been approved, the Common Market would not be in its second four-year stage where we tighten and speed the process of economic integration. "Europe" would be marking time for another year, with her supporters uneasily wringing their hands.

Instead, the integration of Europe is on the offensive. In the second stage, many more crucial decisions are to be taken by majority vote of the states. We are escaping the paralysis of the veto, which is a sign of our progress to adulthood. At the end of the second stage, the balance is weighted against delay in pressing on to the third and final stage of economic integration. Only a unanimous decision of the Member States on a proposal of the Commission can retard the Community's progress. The veto vote, which could have been used to delay passage into Stage Two of the Common Market henceforth can

only be used to prevent delay. This is an illustration of how binding is the commitment the states undertook when they signed the Rome Treaty.

At the same time that it approved the Common Agricultural Policy, the Council approved the first regulations for applying those articles of the Rome Treaty which constitute the basis of our anti-trust law. This is another aspect of building the economic union, which includes creation of common policies as well for transport, monetary coordination and the free movement of capital, persons and services, to mention a few.

The new anti-trust regulations are of essential importance, considering that the Treaty of Rome is founded on the principle that the course of economic events is best guided by competition. Thus emphasis in our anti-trust philosophy lies in the abolition of those types of cartels whose effects most resemble those of customs duties and quotas, or those that impede the operation of a common market. This means international cartels for the fixing of prices or the division of markets as well as export and import cartels affecting trade between the Member States.

The design and goal of the customs union and the economic union become apparent: We are freeing the factors of production. The dusty corners of protectionism, an anachronism for closely compacted states on the European scale, are being ventilated. At least by the end of 1969, the wind of free competition should be fairly whistling!

In frank terms, the rule is compete in due time, or make way for those who will.

On the other hand, this is not shock treatment, nor is it a case of the big dogs unabashedly swallowing the smaller ones. First there is the element of gradualism, or our twelve-year transition period to the full economic union providing time for adaptation. Industries are being aided in the transition by

our \$1 billion European Investment Bank and workers by our Social Fund, which has generated some interest in the United States. Furthermore, the anti-trust policy will prevent unfair use of the new elbowroom of the Common Market. The New Europe will not be cartelized.

In economic terms, the achievements have been striking: In the four years of the European Economic Community (1958 through 1961), the average increase in the gross national product has been 5.7%, one of the fastest growth rates in the industrialized world. Industrial production has increased by 8.9%. Unemployment remains a problem in some localized areas, but for the most part the lack of skilled manpower has had a certain braking effect on production. And we have been enjoying relative price stability.

In 1958, the first year of the Common Market, intra-Community trade totaled \$6.9 billion. By last year, it had risen to \$11.9 billion. Imports from non-member states rose at a more modest rate, which was to be expected. Nevertheless, these increased from \$16.2 billion in 1958 to \$20.5 billion in 1961. Our exports to the world registered almost identical growth, increasing from \$16 billion in 1958 to \$20.5 billion last year. It appears that no other major industrialized country realized such a significant and well-balanced expansion of its external trade in the same period.

While these results may be impressive. We know of course that Europe was destined for a boom, not all of which can be attributed to the Common Market. It is true that trade among the six Member States was showing some increase before the establishment of our Community. The precise extent to which the Common Market magnified underlying expansionist tendencies through the elimination of trade barriers cannot be quantified. Nevertheless, we are sure the effect of tariff dismantlement was substantial.

Additionally, our economists have noted an important psychological factor: It is now certain that Europe is "thinking Common Market". Business and industry seem to have looked for new markets and developed new lines of distribution and advertising throughout the Member States. There have been new investments that already seem attuned to the eventual unrestricted market of 170 million or more consumers.

The Common Market technique of progressively reducing tariffs has proved to be an exciting new economic catalyst. It is provoking decisions to become competitive, to expand and to modernize -- decisions that otherwise might not have been taken.

Still we face many challenges. One of the greatest resides in the very words "Common Market." If we are to mean what we say by these words, we must assure that goods, services and persons -- all the factors of production -- circulate as freely among our Member States as they do within the United States. We have proved, through the elimination of industrial quotas and substantial reduction of tariffs that we can achieve a customs union. Tariff and quota dismantlement have to date encountered relatively few difficulties. In fact, it is conceivable today that we could reach our zero tariff stage in a total of eight years instead of 12.

But this new entity we are building, quite different from some sort of regional system for trade advantages, requires us to press onward from the customs union to the creation of an economic union characterized by numerous common economic policies. Our common farm and anti-trust policies are signal achievements, but much remains to be done as can be seen from a few concrete examples:

We will not have a true common market until state monopolies, such as tobacco monopolies, no longer discriminate against the products of other Member

States. In the "public buying" sector, concerning the purchases made by governmental organizations, it appears that nationals account for about 90% of the sales in the various states. Thus in these important areas of our commerce we must create that freedom to compete which is the touchstone of a common market. For all of our economic endeavor there is a final culminating goal and challenge: to accelerate the rise in the standard of living. The genius of the common market reaches fruition when its advantages redound to the average citizen.

In the final analysis, building an ever-improving economy is not enough. The engine must be fueled with something vital, and that something is politics. Affluence was never enough to hold any great society together. History is quite clear on that point. We cannot take the risk that we will be some happy exception to history. The New Europe must be a political success as well as an economic success. This is the great challenge of the coming years.

Fortunately for our political future, the seeds already are sown in the Treaty of Rome. I do not mean only in its pledge to "establish the foundations of an ever closer union among the European peoples", which is the first declamatory paragraph of that Treaty, but in the very warp and woof of this document which is our "constitution."

Happily, America has figured in one of the earliest, most important ramifications of our political character. I refer to the recently signed accord for the exchange of mutual tariff concessions. That accord was negotiated for the "European Economic Community", in precise terms an entity of states. As time passes, we will proceed increasingly to manifest a common external commercial policy. Commercial trade agreements will be made for the Community as a whole rather than for individual states. What historically has been the prerogative of national states is passing to a Community derived

from the sovereign will of the states. This is tangible evidence of political integration.

From here we must move out boldly, almost certainly going beyond what is politically possible under the Rome Treaty, which is our stepping stone. Different concepts of political unification are current. We must choose the sure one, and we will if we apply this rule: To resist with fervor anything that would vitiate the existing European Communities and their achievements. If we do not, the new Europe could suffer a grievous, perhaps a fatal, wound.

What the European Economic Community has achieved and what it promises for the future has interested others in joining us or associating with us. Greece is becoming an associate. Negotiations pertaining to British membership in the Community are in a relatively advanced stage, and negotiations with Denmark are advancing. It now appears certain that our Community is destined to grow, perhaps substantially beyond its present citizenry of 170 million and the vast resources these peoples already command.

In light of all that has happened in the past ten years, and particularly in the past four, old conceptions of Europe are no longer valid. The economic parcelization of Europe is coming to an end.

Already investment on an altogether new scale has become logical. The highest degree of technological improvement has been called forth -- and all of this because Europe has found in a common market an unprecedented potential for consumption.

The vital framework for this achievement is the European Economic Community which by its design is conducting us toward the final goal -- a single economy. Each step of the way is laid out for the Member States in the Rome Treaty, but the will to perform is a political will. That will has not been

found lacking and thus the capstone of our accomplishment is the creation in Europe of a hitherto unknown political solidarity.

When we examine the recent history of Europe in this fashion, we find that a great transformation has occurred, a transformation profoundly affecting the economic and political relationships between Europe and America.

For one thing, the first great American initiative on behalf of Europe that began with the Marshall Plan and spurred the European initiative of the Community movement is being justified. Europe is no longer an economic ward of America, but an ally in the great contest of our times which increasingly becomes an economic one. Perhaps one of the best indices of how much Europe's weight is being felt is the rising level of criticism of the Common Market coming from the East. If we could look into the hearts of our Communist detractors, undoubtedly we would find fear -- fear at the knowledge that we and not they are in possession of the real revolution.

The transformation that is being achieved in Europe opens up new possibilities with an importance reaching far beyond the boundaries of the Common Market. These possibilities have been given challenging form by a new American initiative on a scale comparable to that of the Marshall Plan initiative. I refer to President Kennedy's proposal that we create a partnership of "the two great common markets of the Atlantic."

A partnership, as American statesmen have stated well on recent occasions, can only be undertaken by relative equals. It cannot be founded in disproportionate economic ability or resources. We might add that a partnership should not only be with someone in particular -- but for others in general. For Europe and America, these others are all those nations wishing a beneficial, multi-lateral expansion of trade and a progressive raising of the standard of living, be these nations developing or advanced.

The enlarging European Community promises to qualify for partnership with America in population, production and growth. A philosophical foundation for this partnership already exists in identical moral values, similar political institutions and a common peaceful intent.

The issue is whether we will actually grasp unprecedented opportunities for expanding world trade, raising living standards and reenforcing Western ties -- or whether we decide that the accommodations required on both sides are too demanding. If we decide we cannot be partners, there is a risk that the two dynamic Atlantic economies will drift apart, bickering instead of bargaining.

Let there be no doubt: We must concert the efforts of the two common markets. The political cooperation which we both recognize as essential must be built on satisfactory economic relations. Thus we are faced with examining the means and the goals of such a partnership.

Insofar as means are concerned, there is need to clear up considerable unfortunate ambiguity. This is not an issue of an Atlantic "Community" -- noble as may be the intent of those who promote that idea. Obviously there is no question of the United States joining the Common Market, or of the Common Market joining the United States. Neither is necessary, nor is either really desirable. Those who say new organizations are necessary are missing the point of what the transformation of Europe means vis-a-vis America:

The United States is the most advanced and powerful of the industrialized nations. A commensurate Europe is swiftly becoming a reality, and the two are the world's dominant trading entities. Proceeding precisely from their respective positions of economic strength, the two now see the possibility of achieving an unprecedented liberalization of world trade and a much more efficient utilization of world economic resources -- all this finally and simply for the benefit of people.

Such prospects are possible now because of the coming into existence of the European Community. No, we do not need to create new forms of organization. We simply need both partners performing in mutual economic health and common interest as they did recently, to take one example, in the GATT agreement for a mutual reduction of tariffs with benefits redounding to all our trading partners.

The same cannot be said of the tools for this task, because we need new tools. The 19th ministerial session of GATT last November constituted the end of a trade era. It had become clear that the product-by-product method of negotiating tariff reductions was too complex. The ministers agreed to ask their respective states to add to GATT methods a new potential, namely the linear form of tariff reduction as applied by the European Economic Community.

The future effectiveness of GATT may well depend on the adoption of new techniques because a number of countries, particularly the developing nations, suggested that their future participation in GATT was linked to the certainty of obtaining "real trade benefits." This does not mean that the adoption of the linear technique will alone and automatically bring about the ideal liberalization of trade. It appears that this technique will require certain sophistication, but it is an important new trade tool and we applaud the prospect of the United States being equipped with it, as requested by President Kennedy.

As the two Atlantic common markets face the challenge of partnership, the experience of the European Economic Community may well throw light on the future:

Before we launched into tariff dismantlement, there were grave fears of the consequences. Experience proved these fears to be groundless. Business came to realize that we were not tearing down safeguards but opening new

opportunities. In the four years of the Common Market's existence, progressive tariff reduction produced no dislocation of the economy. In actual fact, trade among the Member States increased by 73% during the period.

Now the expansion of world trade is the important challenge before us. We cannot even measure the beneficial effects that would redound from the removal of prohibitive tariff barriers. We do know that tariff dismantlement within the Common Market is unleashing unforeseen potential for economic progress. By their Treaty, the Common Market states are pledged to work as well for the progressive liberalization of world trade. This is our commercial trading policy vis-a-vis the world.

A second great American postwar economic initiative resides in the proposal that the American President be empowered to negotiate drastic, staged tariff reductions -- and as well the progressive elimination of tariffs in areas where the enlarging Common Market and the United States would dominate 80% of world trade. The reductions envisaged in the proposal would be reciprocal and multilateral throughout the West.

For their part, America's trading partners know that she must have new bargaining potential if she is to lead in the new trading era.

As an American policy maker put it recently, the issue is whether our belief in open markets and their catalytic effect for economic betterment is to be substantiated in deeds or abandoned in "restriction and timidity." For my part, I declare for deeds.

If it becomes possible to proceed to the tariff reduction envisioned in the new American initiative, the experience of the Common Market may serve as a valuable guide. From the start, we have followed the principle in building our particular economic union that the ultimate gain through the creation of new economic conditions is best achieved in stages. Because of the damages

that might have been inflicted to certain industries, our Member States never would have consented to internal tariff dismantlement overnight. Thus the staging of drastic external tariff reductions will be necessary.

Additionally, we must recognize that, despite the success of the European Economic Community, this new entity has just entered the fifth year of its existence. We are pressing toward a single economy, but we are not there yet. Painstaking construction lies ahead.

Regarding the elimination of certain tariffs, this too can be related to the Common Market experience because we are progressively abolishing our internal tariffs. At the Treaty-Writing stage itself, we found it essential to provide for the harmonization of competitive conditions. As a prerequisite to exposing themselves to total trade competition from fellow members, the states insisted on setting up a parity of competitive conditions. That means that the individual states progressively abandon special aids or subsidies for the industry insofar as they falsify competition. In the same time a big adjustment program is realized to help those industries badly affected by the lowering and final elimination of tariffs. Its principal instruments are the European Investment Bank with a capital of 1 billion dollars and the European Social Fund.

The abolition of certain customs duties on the international level undoubtedly will require preparation. As I said in 1958 during European negotiations which were tending then toward a full-fledged free trade area wider than the existing Common Market:

"The elimination of tariffs cannot lead to economically reasonable results or be maintained in the long run unless it is supplemented by a series of economico-political measures".

If one envisages the elimination of certain duties, it would seem logical to proceed to an examination of certain rules of fair play, found essential even within our Community where so many measures for economic harmonization exist. This is a task that perhaps could be taken up in OECD, wholly within the existing competence of that organization.

The expansion of trade is inevitably linked with the issue of growth. One of the ways in which the West can respond to the challenge of the Communist states and their declared determination to outstrip us economically is through superior economic growth.

The gross national product of the Soviet Union and its European satellites last year amounted to approximately \$280 billion. This is about the same as that of our Community and the United Kingdom combined, which together had a gross national product of \$261 billion. For the same period the U.S. gross national product was \$521 billion. In the past 4 years, economic growth in our Community was substantially greater than that in the Communist bloc. Our industrial production expanded by 29% whereas that of the Soviet Union rose by no more than 24%. It seems reasonable to assume that the European Economic Community will exceed the 50% growth goal set by the OECD for the decade 1960-1970, and that the achievement would be all the more certain for the United States and the EEC if their economies were linked in the enterprise through a trade partnership.

Aside from such exciting new accomplishments as liberalizing world trade and spurring Western growth, Atlantic partners could address themselves to a number of questions that are pressing for examination: whether it is possible

to come to some arrangement of world agricultural markets which would lead to the reduction of surpluses and an improvement of prices?; whether some even more efficient coordination of development aid can be achieved?; and whether the industrialized nations can agree on policies that would help those developing nations so dependent on the sale of tropical products.

The successful establishment of the European Economic Community is causing many nations to reevaluate their trading policies. Europe is especially happy that the United States, after such an examination, has decided to reject economic isolationism, for it would no more fit the times than political isolationism. It is a courageous decision, but it will bring its own rewards of great importance to America.

- The American balance of payments difficulty -- of concern to the entire West -- can in part be remedied through increased exports. To stimulate exports, America should be ready to strike mutually advantageous bargains for tariff reductions and trade with other nations.

- America's world stature is rooted in her economic preeminence, and this is inseparable from growth. Growth flows from expanded trade, as the Common Market experience has reconfirmed. Again, American growth is a Western concern. Growth inevitably will be stimulated by an increase of exports and imports.

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The new endeavors before Europe and America today fall logically into the mainstream of postwar Atlantic history:

Europe initially was prostrate and near destitution. The first initiative to revive her came from America. Europe rose to her feet, contemplated her past folly and calculated a wiser future. Now an economic transformation has taken place: The "Old Continent" is more aptly called "The New Europe."

Economic achievement has contributed immensely to European political stability, though more remains to be done.

Now America and the New Europe must establish a new basis for their continuing economic relationships. If they do not, they run the risk of letting trade matters become a source of dissension rather than of unity. This would be folly on an Atlantic scale, with the damages accruing to all the free nations, the logical common beneficiaries of the new Western economic initiative -- if it is well managed.

We must manage well, because there remains the same threatening voice that through the recent years has echoed, "You can't succeed." We must deaden the sound.

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