

Embargo: 18.00 hrs  
24 April 1965

ADDRESS

given at the opening of the  
HANOVER FAIR, 1965

by

Professor Dr. WALTER HALLSTEIN  
President of the Commission of the European Economic Community

Hanover

24 April 1965

It is a special pleasure for me as President of the Commission of the European Economic Community to open this year's Hanover Fair.

To all of you here I bring the greetings of the Commission and our best wishes for the success of this great enterprise which links together the peoples of the world. The first to whom I should address these greetings, these wishes, are the organizers of the Fair, the Land of Lower Saxony, its Government, its capital city and the Minister immediately concerned, Herr Kubel; but they are extended no less to the responsible member of the Federal Government, the Minister of Economic Affairs, Herr Schmücker, with whom we feel ourselves closely associated as with an economist, who with unfaltering conviction, far-sightedness and courage plays his part at the Council of Ministers of the European Economic Community in ensuring that the great concepts of international co-operation, economic progress and freedom of economic activity are always kept to the fore.

1. Fairs bring economic and technical development together as in a focal point. They provide infallible pointers to what an economy is and what it can accomplish. With its fair, Hanover is bearing witness in grandiose fashion to the tremendous, the almost infinite efficiency of the free world's economic system. Germany is a historic example of the fact that political freedom and economic freedom are indivisible. The "German economic miracle" is no more and no less than the decision - made under the first Federal Minister of Economic Affairs, Ludwig Erhard - to leave the economic process to the free decision of entrepreneur, worker and consumer.

2. As a place where businessmen from all over the world meet together, fairs also provide both a forum for and an invitation to talks on economic policy. Since today no less than one exhibitor

in four at the Fair comes from abroad - ten years ago it was only one in ten - such talks almost always touch on the great international economic problems. The talks on overseas trade at this Fair are a case in point. This exchange of opinions reflects one of the outstanding realities in the new pattern which economic activity in the world is assuming today, i.e. that internal economic facts and problems and world economic facts and problems, what is happening at home and what is going on abroad, are indissolubly linked. Let me follow up this global picture with one or two brief observations from the angle of the European Economic Community.

3. I shall begin with Germany, since it is the host country to this friendly meeting of businessmen from all over the world.

Will the favourable economic situation in the Federal Republic continue? My answer to this question is an unqualified "yes". The economy of the Federal Republic is at present in its fourth boom since the war. This year investments will reach a new record, and personal incomes will grow appreciably. Wages and salaries are again increasing strongly and, furthermore, private budgets will benefit this year from the tax reduction of about DM 2 000 million. Exports, too, will probably maintain their upward trend, so from the demand side the situation appears to be well set for a further growth in production.

Production itself has shown an exceptionally high elasticity in recent times - a proof of the drive and of the high productivity of managements and workers. According to reliable estimates, industrial output and the gross national product in real terms will continue to grow. Some slowdown in the rate of growth indicates that the possibilities of expanding production are limited, mainly

because of acute labour shortages. Imports too are sure to make a further considerable contribution to the supply of goods on the German market.

Now a few words about the price trend. Demand should not be allowed to increase too fast if price rises are to be avoided. This applies particularly to public expenditure. The EEC Council of Ministers has just recommended that in 1965 growth in this sector should again be limited to 5%. It is exceptionally important for stabilization policy in the Community that all public budgets in the Federal Republic, in particular those of the Länder and local authorities, should strictly observe this limit. But I hope that firms and the trade unions will also show a sense of responsibility and not take undue advantage of the situation. Price and cost rises can hardly be reversed in our present economic system and therefore impair the competitiveness of German industry far more than before. We should in any case do well to reflect on the fact that the surplus on the Federal Republic's current payments, which in 1958 amounted to DM 6 000 million, contracted to DM 4 000 million in 1964 and is, if anything, likely to give way to a deficit in 1965. There is certainly no reason to dramatize this development, but a highly industrialized country like the Federal Republic ought in the longer term to show surpluses on its current payments in order to be able to finance capital exports.

4. The fact that the economy of the Federal Republic has already become an integral part of a larger economic area, i.e. the European Economic Community; and the extent to which this is the case, can be seen today in Hanover. In fact the process of integration has developed so far that business trends in the other Community countries directly influence the economy of the Federal Republic and vice versa. What therefore is the economic situation in the Community?

Here we have seen a remarkable change in the last few years. As recently as 1963 and at the beginning of 1964 severe inflationary strains were visible in some of the member countries - they began in Italy and France and later spread to the Netherlands - and threatened the other member countries, including the Federal Republic. The most recent trend is rather the reverse, i.e. these countries are today exerting stabilizing effects on the development of the German economy. One essential reason for this was the rapid, energetic and joint action which the EEC Council of Ministers, acting on a proposal from the Commission, recommended to all Member States in April 1964. Following this recommendation, all Community countries gave priority in their economic policy to the stabilization of prices and costs. This applies particularly to Italy and France, i.e. the countries where inflationary pressures appeared earliest and where they were most serious. These countries resigned themselves to appreciable losses of growth in the interest of price stabilization. The policy adopted was so successful that in its latest recommendation at the beginning of this month the Council was able to suggest to Italy and France that they should give some additional encouragement to economic activity, in particular to investments. As I have already indicated, increased stability in the neighbouring countries is now helping to curb the upward price trend in the Federal Republic. German imports from the other Community countries in the fourth quarter of 1964 were more than one third higher than a year earlier.

In 1965 overall economic activity in the Community will continue to increase; it is only the pace of growth that might slow down. External demand, investment and private consumers' expenditure will provide further stimuli for the economy. Those responsible for economic policy, however, will still have to tread warily in adjusting overall demand if they are not to endanger the rather precarious balance attained in some countries. Otherwise, further price

increases and a consequent deterioration of competitiveness might be expected, and these could provide a fresh threat to the better trend that has been apparent over the last few months in the Community's balance of current payments.

5. The stimulating effects of integration are also felt in non-member countries. This is evident first of all in trade with our neighbours in the European Free Trade Association. While the latest figures show that international trade as a whole rose 46% between 1958 and 1964, Community exports to the EFTA countries increased by 78% and exports of EFTA countries among themselves by 87%. Despite the tariff cuts made within the Community and within the European Free Trade Association, and despite the divergence in major economic factors which has accompanied this development, trade between the Six and the Seven has, as you see, benefited quite considerably from the progress made in the Community. This can be seen in the statistical averages, but of course it does not necessarily mean that there have been no difficulties for individual products or particular businesses; and regional divergences in trade must not be forgotten either.

A successful conclusion to the Kennedy Round would ensure that this happy situation continued. Furthermore, the Community's negotiating mandate for the Kennedy Round includes proposals for special arrangements to help trade within Europe.

In other ways, too, the Community is concerned to improve relations with the members of EFTA. The Commission recently began negotiations with a view to settling its relations with Austria. These, we hope, will solve the problems posed for Austria by its special trade relations with EEC countries; Austrian neutrality will be respected in these negotiations.

The steps taken by the British Government in October 1964 to deal with the balance-of-payments crisis were examined by the Commission. We regretted that they were not preceded by any kind of consultation with Britain's trade partners. One Community country - Italy - has managed to overcome similar difficulties without restrictive measures. We shall in any case be happy when in the next few days the special duty is reduced to 10%, but we consider it indispensable that this duty should be abolished entirely and as rapidly as possible - particularly in view of the Kennedy Round.

6. And that brings me to the most important item in our external affairs: relations with the United States. For trade in industrial goods, a linear tariff cut of 50% is envisaged. The difference in the structure of the United States and Community customs tariffs makes it essential to deal at the same time with what are known as tariff disparities: we must take into account the fact that tariff cuts of the same percentage have very different economic effects, depending on the level of the rates of duty. The inclusion of agriculture in the GATT negotiations is a novel and in fact revolutionary aspect. In our view, what is needed here is that a standstill should be applied to margins of support in order to ensure that the existing chaos on world agricultural markets should not be aggravated.

It is the European Economic Community which by its very existence and success provided the impetus for the proposals made by the United States. The Commission is conducting these negotiations with the firm intention that they shall succeed. Evidence of this is provided by the great efforts we made to fix our common agricultural prices. Whether success is achieved will naturally depend on a balance being found to reconcile the interests of all those taking part and on effective application of the principle of reciprocity.

But there is something else, something which is particularly evident in the Atlantic area: problems of international economic relations are not nowadays solely problems of trade. Economic and monetary policy constitutes a second point of contact between American and European interests. The increasing international division of labour, which is a phenomenon affecting the industrialized countries in particular, causes the domestic policy followed in any one of them to be felt more quickly and more distinctly in the rest of the world.

Closer co-operation in the major problems of economic policy on both sides of the Atlantic is therefore necessary even today, and with the removal of obstacles to trade by the Kennedy Round this need will in future be all the more pressing. Mind you, there is no shortage of matters to test this co-operation at the moment. The extent to which international monetary problems are being discussed is sufficient proof of this. The American deficit on trade over the last seven years has been bearing heavily on the international monetary system. The inflationary strains to which America's trade partners have been subjected as a result of this imbalance have not made our own efforts to achieve monetary and price stability any easier.

Nevertheless, the United States has by no means been inactive. With the measures it has taken the Administration is tackling the problem at the right place: the overall deficit on the American balance of payments is not due to its foreign trade, for there is a huge surplus of \$6 500 million on the United States trade balance. In addition to the massive commitments on political grounds, it is exports of private capital from the United States that are largely responsible. Restraint in direct American investments abroad would



be helpful. A common attitude to this problem within the Community is also needed, and we are working on it. Our purpose, of course, cannot be to keep direct investments out of our countries. Europe and the Community have derived great benefit from such investments. They have often contributed to more rapid progress and helped to put an end to the long years in which there was a shortage of capital in Europe. What is really needed is to avoid excess.

The American balance-of-payments problem is at the same time a symptom of the weakness of the present-day world monetary system. The difficulty is - and on this there is today little disagreement - that the present system leaves each of the reserve currency countries more or less free to create international liquidity, and that we have now reached a point beyond which it would be dangerous to go.

The Commission is therefore in favour of a return to stricter monetary discipline in the form of a reformed gold exchange standard.

In its 1962 Action Programme, the Commission has already emphasized that a European monetary union could make a constructive contribution to such a reform. The Council decisions on common farm prices, which are expressed in units of account, are already pointing the way to monetary union; for the freedom with which rates of exchange could hitherto be altered cannot be reconciled with Community prices. The co-ordination and harmonization of economic and financial policy in the Community will further prepare the way.

7. In these and other troubles and anxieties of the industrial countries, we are still far from forgetting the developing countries. In conjunction with the United States, we have tackled the reform of GATT on lines which should help the poorer countries. The principle recently confirmed by President Johnson that development aid should be given selectively and in concentrated form is in line with the fundamentals of our Community development policy. The Yaoundé Convention of Association with seventeen African countries and Madagascar is intended to strengthen the economies of these countries and to fit them with due caution into an international economy based on the division of labour. This Convention was devised as a means of helping our African partners to help themselves. Commercial and financial aid and technical co-operation are so combined that economic structures are improved according to a long-term plan. In many cases, this requires bigger economic units than are constituted by these countries. This is why the Community has stated its readiness to conclude agreements on closer economic co-operation with other African states with comparable economic structures. On the strength of this, negotiations have been started with Nigeria and with states in East and North Africa.

Historical and economic ties, geographical proximity and political considerations caused us to direct our attention first towards Africa, where in addition the gap to be bridged was widest. Our financial means are also limited. But all this does not lead us in any way to circumscribe our area of responsibility on a strictly regional basis. The Community has already shown that it is outward-looking. Between 1958 and 1964 our imports from all developing countries rose by 44%, to reach a total of almost \$10 000 million; imports from the Associated African States on the other hand increased by only 26%; in the same period purchases from Latin America, to which we are linked by long-standing tradition, even went up by 55%.

8. All the observations I have so far made have one point in common: they measure economic events by the yardstick of a free economy, of a market economy. But there are also countries with a state-directed economy and state trading. We are glad that they too, in particular the state-trading countries of the East, consider Hanover as a traditional centre for contacts and information. Since 1958, imports into the European Community from Eastern Europe have doubled and have thus risen considerably more than total imports from all non-member countries. In this way the countries in the East have also drawn lasting benefit from the existence of the Community. True, the structure of these imports, three-quarters of which are foodstuffs, raw materials and fuels, does not promise any equally speedy increase in the future. On the other hand nine-tenths of our exports consist of industrial finished goods. On the whole, the limited capacity of the Eastern bloc countries to supply semi-finished and finished industrial goods and their strict bilateralism are the greatest obstacles to trade with this area.

This being so, questions of policy on Eastern trade have recently been the subject of lively discussion. The EEC Commission has proposed to the Council of Ministers that a common policy in this field be introduced at the latest by the end of the transitional period. For agricultural products there is already a Community system. However, the present situation, in which the predominantly agricultural imports from the Eastern bloc are subject to Community rules while the mainly industrial exports are still a matter for the different States, will not in the long run be tenable. Since the state-trading countries have centralized control of their foreign trade, we cannot deal with them simply as we do with other, free market economies. On the contrary, we must develop special methods appropriate to the particular characteristics of a different pattern of trade policy. For both economic and political reasons the appropriate methods must - and I am certain will - be found, however difficult this may prove.

9. "Trade follows the flag", they used to say in earlier days. Times have greatly changed. Now that war has become synonymous with self-destruction, it is no longer the measure of all things. In the past every peaceful order - as long as it lasted - was basically nothing more than the stabilization of what was rashly called "the right of conquest". Our hope is that a peaceful and reasonable equilibrium will supplant this barbaric principle. The United States, the greatest of the victorious powers of the Second World War, itself desires this transformation of policy.

A deep-seated relationship links this new sense of political purpose with the international economic order in the world. What has so far been done towards unifying Europe is the most effective illustration and the most forceful realization of the new ideal which inspires international politics. What we have been

doing is called "economic integration", and in fact it is providing a fundamentally new background to economic and social life in Europe. But if we look closer we recognize that the real essence of the process is political: political in its object, which is the merging of economic and social policies of the Member States in the Community; political in its organization, which is the forerunner of a European federation; but above all political in its motives, as the ultimate driving force is the will to peace - an alliance between political action, economic reason and social progress. For industry needs peace, only in peace can it develop to the full its power and its blessings.

"A Europe of free and equal men". Federal Chancellor Erhard has given this motto to those working for European unity. Let us now use it to rouse the whole world, a world which is growing daily smaller before our eyes. "A world of free and equal men" means security (without which there is no freedom); it means justice (without which there is no equality); and it means peace. That surely is the banner under which we have come together here today.

Yes, this Fair is a great demonstration of peace, outward-lookingness, good neighbourliness, and community between men.

In this spirit I declare the 1965 Hanover Fair open.