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NATION'S BUSINESS



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INTERVIEW OF ROBERT MARJOLIN BY JOHN GIBSON

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Hay Adams Hotel
16th & H St., N.W.
Washington, D. C.
Friday, September 27, 1963

The meeting convened at 10:00 a.m. o'clock.

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P R O C E E D I N G S

BY MR. GIBSON:

Q Mr. Marjolin, how do you see the prospects for trade between the U. S. and Common Market Countries during the next year or two?

A Well, forecasts are always difficult. If we look at the past, in the last few years the European trade deficit has been steadily increasing. I gave a lecture to the American Bar Association in Brussels on Tuesday night and I quoted some figures which I might give you.

Q Fine, yes.

A You want me to limit myself to trade with the U. S. or trade with the rest of the world in general, plus some specific figures about the U. S.

Q Well, I was mostly interested with the U. S., except where U. S. and Common Market trading interests come together. Now, I know this is a problem, particularly, I know that many Germans with whom I have had the most dealings are concerned because in many cases they complain the U. S. companies are moving into their markets.

A Yes, well that is, of course, more difficult to assess.

Q You go right ahead.

A Well, I would like to say that since 1958, since the creation of the Common Market, there is no doubt that

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the Common Market has been the strongest factor in the development of world trade. Our imports for 1958 to '62 from the rest of the world as a group have increased by about 40 percent, at a much faster rate than American imports or than British imports.

During the same period American imports rose by 27 percent and those of England by 20 percent. In the first half of 1963 our imports to third countries taken as a group have increased further by about 30 percent in the first half of 1963, compared to the first half of 1962.

Now this increase has been an especially rapid one so far as commodities coming from the U. K. and U. S. were concerned.

Our imports between '58 and the middle of '63, our imports from the U. K. have more than doubled, and our imports from the U. S. have increased by about 78 percent.

At the same time, from 1958 to 1962 our exports have developed much more slowly, by about 29 percent. And they have also increased more slowly during the first half of 1963. I have not got the exact figure, I would say the increase has been of the order of about three percent.

The result has been that our trade deficit has swollen as you might expect. Taking the rest of the world as a group, our trade deficit in 1958 was \$245 million.

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In 1962, it has been \$1,700,000,000. In the first half of '62 the trade deficit was less than \$1 billion. In the first half of 1963, it was \$1.6 billion.

So, everything considered, our trade with the rest of the world, has been a factor, no doubt, in supporting the economies of third countries.

Now, you are more interested, as you said, in our trade with the United States. Our deficit with the United States has more than doubled between 1958 and the first half of 1963.

Our trade deficit with the United States, the deficit of the Common Market, was about \$1.5 billion in 1958. It rose to \$2 billion in 1962. In the first half of 1962, it was a little more than \$1 billion.

Q That is '62 or '63?

A That is '62. It was a little more than \$1 billion. In the first half of 1963, it has reached \$1.3 billion. Therefore, insofar as you consider the past there is no question that EEC trade has been a useful tool in helping to maintain equilibrium, monetary equilibrium in the free world.

What I want to stress is that we do not consider that increasing imports is a bad thing, is something bad. And, we feel that on the whole it has been a healthy development. It certainly has lessened monetary tensions between

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the free world. But since people usually are not aware of that situation, I think it is useful to stress it.

Q Do you see this continuing into next year?

A Yes. What I would call pre-inflationary or even inflationary trends in France and Italy and also tensions in other countries -- I understand the Dutch are fighting, are trying to prevent larger increases in wages. I would think that is our trade position the coming year; it is very difficult to see beyond that.

Normally, from our point of view, it should deteriorate further.

Q Deteriorate from your point of view, but from the American point of view an improvement in opportunities to sell?

A That is right.

Q I assume by this, too, you mean both consumer goods, as well as producer goods?

A Yes. Well, I have not got the detailed figures, but the increase in imports of consumer goods has been especially striking.

Q This is because people have more money and their anticipations are increasing, too.

A Right. They have more money to spend, the industry of the Common Market is working at what you might call almost full capacity. And, therefore, the safety

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valve is imports. This is especially striking in the case of Italy, where imports into Italy have been developing very fast in the last few months. With the result that now Italy has a large deficit in balance of payments.

Q Do you see any move by these countries to reduce imports?

A Not directly, and this is a very good sign. For instance, when the French took steps two weeks ago to stop, or to slow down inflationary trends, instead of reestablishing import restrictions or increasing tariffs, they lowered tariffs, both in relation to other Common Market countries, and in relation also to the rest of the world, within the limits of course of the Common external tariff.

And, I gather from what I read in the press yesterday that the Italians are moving in the same direction, which is a good sign. It shows really that our commercial policies are of a very good character.

Q This is what the Germans did also about a year ago?

A That is right.

Q Of course, they followed this for a number of years.

Do you anticipate this attitude will show up in the Kennedy Round Tariff Negotiations?

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A Yes, in the sense that the idea of a global and important reduction in tariffs is fully accepted on the European side.

Q Well, this implies that it is hopeful that there is a similar attitude on the American side.

A I think that is probably the case.

Q What do you think of the prospects for American investments in Western Europe?

A May I ask you a question?

Q Certainly.

A You see nobody, of course, can deny the figures I have just given you. But sometimes the reaction is, of course, your imports are increased, but it is not because you have been liberal in your trade policy, just but could be because you have had a production boom and, therefore, it does not show anything even if you had been protectionist, since your production was developing you would have to import more. And, I think this is part of the truth. This is why in this talk I gave to the American Bar Association I tried to analyze why European imports have developed to such an extent.

Q Well, I did, in this connection, of American business with Europe, mean to ask you about the prospects for American investment by companies in Europe. I ask this in the context of the various reports and correspondence

which we have had.

A Well, you see I tried to list the reasons why there has been such a tremendous increase in imports. The first cause we know is the economic boom. But, in addition to that, you can say, I believe, without being inaccurate, that on the whole the commercial policy, of the E.E.C. has been a liberal one, within limits, like everything, always within limits. And I have tried for myself to find out what we had been doing since 1958.

First of all, the common external tariff as we fixed it in 1958 through this process of averaging turned out to be less protectionist than the national tariffs as they existed before 1958, not because we put ceilings for duties on all materials, for duties on semi-finished products but because also for certain commodities we fixed duties which were lower than the arithmetical average.

The result, insofar as we can calculate, is that the common external tariff is probably lower by about 12 percent than the average protection that existed.

Q Before 1958?

A Before 1958, yes. In addition to that, of course, we had to give compensation in Gatt to countries which could complain that we had raised the tariffs that had been consolidated before. Then came the Dillon negotiations,

and the common external tariff was further reduced.

Then, in addition to all that you will remember that just before the Dillon negotiations started, we agreed to suspend duties, industrial duties, in the common external tariff by 20 percent, as an anticipation on the results of the Dillon negotiation.

You know, this year we decided to maintain that suspension of 20 percent until we know the results of the Kennedy Round.

To all that, I would only add this, which is, of course, a point which is very much debated between us and the American Delegation in Geneva now: that our tariff, the common external tariff, by the way it was fixed, the averaging of national tariffs, is a very homogenous tariff. I mean it is not a deliberate decision on our part. It just happens to --

Q Happens to work out that way?

A Yes. I mean all our duties, for instance, on finished products are more or less within the bracket of 15 percent. We have very few tariffs above 25 percent and practically none above 30 percent. While, of course, the situation is quite different insofar as the American, and even the British, tariffs are concerned.

Q We do have some that are up in the 50 percent and above bracket?

10 A Yes, a good many above 50 percent. I don't remember the exact figure. We can check it, but I think you have around 800 positions above 50 percent. So, you can say on the whole for good reasons and also because it just up and happened that way, the common external tariff is not a very protectionist tariff.

As a matter of fact, even without taking into account the 20 percent suspension, it is a tariff which is, I would say, slightly lower on the average than the American tariff and less protectionist. And it is also a tariff which is considerably lower than the British tariff. But I don't know whether that interests you.

Q It does. It also seems to indicate that bargaining is going to be fairly tough when it gets under way in Geneva. I said tough in the sense that you are not going to be in a great hurry to lower your tariff even further until the United States produces something in return.

A Well, we shall want certainly a spot of reciprocity, a certain homogenization of tariffs. How much, it is impossible to say now. We would like, of course, to get as large a homogenization as possible, but we are also very anxious to reach an agreement. Therefore, I mean it will have to be a compromise.

11 Q Of course, also many Americans would contend that in Europe the really meaningful restrictions in many cases are non-tariff restrictions?

A It is probably true. But as you know, the Europeans are of the same point of view, vis a vis United States. They say that that is the most restrictive is not the tariffs, but custom procedures and the Americans' selling price and the "Buy American" act, and so forth. So we shall have to thrash all that together, and try to eliminate many obstacles of trade other than tariffs.

Q What do you expect this future trading prospect between the two areas means to the American balance of payments situation, Mr. Marjolin?

A Well, there is no doubt that this large increase in our trade deficit in the last few years, and especially this year, has been a very helpful factor for the American balance of payments. But I would not like to go further than that.

The American deficit in balance of payments is largely due, as you know, to capital exports and I don't know really how you are going to stop it. My own feeling is that those capital exports are not going to last. That is my own view.

Q Irrespective of any national restrictions?

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A Irrespective -- but I mean this is a hunch more than a reasoned conviction. But with the American economy picking up, developing and also with the inflationary tendency in Europe, if I were an American, I would right now have a tendency to invest more at home and less abroad.

Of course, I make a difference here between direct investments and purchases of securities. Insofar as direct investments are concerned, it is quite clear that when an American firm has a branch abroad, and the market is good, they will go on investing, at what pace, it is difficult to say. It depends on the country or the branch of the firm. But it will go on.

I have this feeling, that if as we can expect, the American recovery develops, there will be a tendency for American capital to stay at home and even for European capital to come to the United States.

Q Would you care to say how important you think a tax reduction is in achieving this American recovery?

A I have said it publicly before, I think the tax reduction would be an excellent thing. I mean it would strengthen the basis for economic expansion in 1964.

Q Yes. On the issue of direct American investments, are there going to be any E.E.C. restrictions upon that?

3 A No. I don't think it is either the interest or the intention of the E.E.C. to put a restriction on American direct investments.

Q What is the feeling about the American moves to restrict capital outflows?

A Well, I think on the whole it was well received in Europe and personally I have just a little doubt about the tax on purchases of existing securities. I don't mean new issues, I mean existing securities. Because I could not see very clearly how it would operate. But it is just a question mark in my mind, it is not more than that.

Q I see, sir. Could we turn to the long-term international monetary --

A You are not interested in agriculture, I suppose? Because you know that is one of the main points of contention.

Q Yes, and the reason I didn't really ask you about it too specifically is that quite frankly I don't really see how this is going to be worked out. Do you see any light at the end of the tunnel on this?

A No, I don't. But I think it is important to realize. The E.E.C. imports of foodstuffs since 1958, imports of American foodstuffs, for use in the United States have more than doubled.

Q Since 1958?

A The figure in 1958 was around \$400 million and in 1962, it was \$825 million. Therefore, this is no guarantee for the future but this is an indication that in the past our import policies have not been unduly restrictive. It might be a factor of confidence, insofar as our intentions for the future are concerned. And we say that, in working out and carrying out our common agricultural policy, we intend to take fully into account the interests of third countries, and especially United States

Those past figures, let's say, are an argument we can put forward.

Q Of course, as you know, what worries many people is looking at figures and productions of, French wheat production and many other things, which in many cases looks like Common Market countries and even Western Europe in general is approaching a position of self-sufficiency in many products which they never particularly had before?

A Yes, but consumption is increasing, too. Not consumption of wheat, but consumption of meat, dairy products, for example, poultry and in general of all foodstuffs which are called rich foodstuffs, rich in fats and proteins and, therefore, I mean this constant increasing consumption should make it possible for the Europeans and the Americans, as well as Canada, Australia and so on, to reach reasonable agreements.

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I don't know what shape it will take. But an agreement which would mean that American exports to Europe will not be reduced while at the same time the European farmers would get increased markets. It isn't as if you had to deal with a shrinking consumption or a stable consumption.

When consumption is increasing, somehow you can reach an agreement to share the increase.

Q And this is the middle ground, the sharing of the increase?

A This is the middle ground, or at least, let's say, seeing to it that exporters of foodstuffs to Europe don't see their exports reduced.

Q I know, of course, many Americans think that the real big hope for the future is in feed grains.

A Yes. More than wheat certainly.

Q But then, of course, many also fear there will be moves within the Common Market to reduce American imports of feed grains?

A Yes. But the demand for feed grains in the Common Market is increasing very fast, which as I say is a factor one has to take into account when assessing the future.

Q Of course. Could we turn to the monetary situation now?

Now, do you think there is a need for a general study of a revamping of the international monetary system now in effect throughout the free world?

A Well, I think the turn things are taking is good. It is very important, I believe, and I understand this conviction is shared by the American authorities, it is very important not to tie together this study about the future of our monetary system and the present situation of the American balance of payments.

Q The present situation must be cured first, in other words?

A Well, I think that it does not mean that we should not study the future, while you are making all of these necessary efforts to reestablish the equilibrium of your balance of payments. I know this is the way your people understand it, too.

It should be clear that this study of the future is not a way of getting more help for the American balance of payments. That granted, then I think it is a very good thing to study the question of the need for liquidities in the next five, ten, fifteen years and see how we are going to face it.

Q Do you have any judgment as to what this study would show?

A I don't know.

17 Q My impression is that there is not a burning demand in Europe for major change at this moment. Am I correct in this?

A No, not a burning demand. The British, of course, seem to have a different view. I don't know what they are going to say this time, but they are more anxious for a study of the problem than the European countries.

Well, it is always the same thing. When you are in difficulties, you want to change. When there are no difficulties, you want to stay where you are. At the present time there are no real difficulties in Europe. As a matter of fact, in spite of this deterioration of our balance of trade, which I was mentioning before, our over-all balance of payments is still extremely competitive.

Q Some people in Europe argue that the European inflationary situation will gradually work to solve the American balance of payments problems. Do you share this?

A Well, it is one of the factors which makes me optimistic about the future of the American balance of payments. I have also been optimistic and I don't understand why the Americans themselves are as pessimistic as they are.

If you look at the wage cost per unit over the last few years, it has been practically stable in the United States, meaning by that your wages have increased by about the same percentage as productivity. While in Europe, in most European countries, the increase in wage cost per unit has been tremendously rapid, which means a constant improvement in the American competitive position.

And if inflation goes on in Europe, the inflationary tendencies develop, or are maintained, then that will go on. I don't know, I have not got the figures in hand, but I would say if you compare wages cost per units in the United States, and in Europe, over the last 2 or 3 years, the result has been equivalent to a revaluation of European currencies by 15 percent or something of that sort.

Q It works out to that much?

A Yes.

Q That is interesting. There have been various stories and reports from Luxembourg that the steel industry

in Europe is going to be slowing down its investment in the next year or so.

Is this true of other industries, and if so, does this portend a future slow down in industrial growth?

A Well, investments are still rising in Europe, industrial investments. What you might call productive investments, investments in plants and machinery as distinct from housing, infrastructure, records and electricity and so on, the network for distributing electricity and all that.

But the direct productive investments, plants and machinery, are still going up, but going up at a much slower rate than in the past. As a matter of fact, in the present boom, the present European boom, this is the weakest factor. The strongest factors are consumption, and government expenditures.

This year exports are picking up. But industrial investments are still going up, but at a slower pace. I would not hasten to pass a judgment on this situation. After all, there has been a big boom in investments in '60, '61 and '62, and it may not be unreasonable for consumption now to develop up to the point when full use will be made of the increased capacities which were created in the past years.

I must say I don't belong to the school which I would say contrasts, tries to establish a contrasting position

between consumption and investments. I mean, if consumption develops, the time must come when it will increase investments.

The tendency you noticed in the steel industry exists in other industries, to the same extent. The steel industry is in special difficulties.

Q Its relation to the whole world situation, yes?

A Yes.

Q Let me change to one other topic.

What do you see of the prospects for trade with the Communist countries?

A I don't know. It is a very small part of our trade.

Q Of course.

A I would say that if the political tensions existing in the world decrease, it is probable there will be an increase in trade. But the big question is what have the Russians got to give. What can they export?

Q So far they haven't given much indication that they have much.

A I mean, they seem to be short of food stuffs, the kind of consumer goods they could export are not up to the standards which we like in the West. They want to import capital goods which means that they haven't got enough for themselves.

Then they have some raw materials and some specialized products, but they have got coal, especially the Poles,

but I mean there is plenty of coal around. Of course, they have got caviar, Vodka and crab meat and furs, but I mean that doesn't represent.

Q That doesn't buy very much, does it?

A This is the problem. I think it is how much have the Russians, how much can the Russian sell? What have they got to sell, to export. This is the real limiting factor. And I don't see an indication that this limiting factor will disappear in the near future.

Q Do you think the community's mechanism is going to have to be used in order to solve the inflationary problems that are facing Italy and France? That is, can they solve them alone, or do they have to solve them within the framework of the community?

A Well, I would say at the present stage the French and Italians can manage themselves. You see, what the Treaty of Rome provides in such circumstances is mutual aid or import restrictions. But both the Italians and the French have such large reserves, still very large reserves, and there is no need for mutual aid, nor for import restrictions; they can still manage by themselves. I mean, they can still take themselves the necessary measures.

As to the future of what you call planning, it is not called planning anymore, it is called now medium term economic policies.

I would say the prospects are not bad. The way we have worded our proposals, I think, should make it possible to overcome traditional objections. What we want really is simply this: In all our countries the State, the Government, is playing a major role in shaping the future of the economy.

Q That is because there are so many government enterprises?

A Government enterprises and also because the budget is so big, the government expenditures are so large, and because the government is master, practically, of the credit policies and so forth.

So what we would like is just to know what the governments have in mind as to their own action, as to what they are going to do over a period of, not 10 years, but maybe 3, 4 or 5 years, not as something rigid from which they will not depart, but as a kind of a guideline and practically all of the European countries are doing it, but they are doing it in a way which is not always coherent.

Q They don't call it that either?

A They don't call it that way. But what we would like to see happening is coordination of thinking between the governments, based on an appraisal of what the future economic development is likely to be.

Q Doesn't this tie in with trying to help France

and Italy, or is this too long range?

A I think the problem the French and Italians are facing is a short-term problem. They have to take energetic steps to kill the inflationary tendencies and that has to be done within the next few months. It is not a matter of years, it is a matter of months.

Q When I asked about the future of planning, I was also thinking, what is the affect of Mr. Erhardt's evaluation to the Chancellorship likely to have in all of this?

This might be something you might not want to comment on, on the record.

A Well, we don't expect any change.

(Whereupon, at 11:10 o'clock a.m., the above interview was closed.)