

EUROPE'S TRADE PROBLEMS AND U. S. FOREIGN POLICY

Address of Hans Benhard, Economist
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Gentlemen:

It is an honor to address the Commonwealth Club of California, and I thank Chairman Colonel Hughes, Executive Secretary Ward and Secretary Wilson for giving me the opportunity of submitting thoughts on Europe's Trade Problems and United States Foreign Policy.

As the outstanding, well-informed group on current problems in the American West, you enjoy the prestige of one of the real factors in policy formulation in the United States. You have set yourselves the task of evaluating facts. "I am a friend of Plato, but a greater friend of truth" - is another way of expressing your founder's motto.

If, in spite of inadequate qualification I have accepted your invitation I did so because I hope to be able to contribute a mosaic piece to your work by presenting the topic from the standpoint of an economist who, because of his American training grafted on a European background, sees Europe's and United States policies in the wider context of their being a phase of the Western Civilization's effort of trying to vindicate the "Ascent of the West" in the first genuine crisis of Western Christendom since the Voelkerwanderung - since the migrations from the second to the eleventh century A.D., which resulted in the downfall of the Roman Empire, and from which emanated the structure of our Western Society.

The challenge of Communism is the first serious crisis which has confronted the totality of the West since the West's inception. This genuine crisis cannot be expected to be met by either negative policies or through the aloofness of vainglorious self-assurance or whistling in the dark.

Let me confess right at the beginning that I lack one qualification which nowadays is widely accepted as conferring both authority and respectability - I am not an ex-Communist. I can, however, plead as an extenuating circumstance that I grew up in an era and area which the happenings in Russia gravely touched.

Before highlighting the salient points of my topic I would like to clear the ground by making certain assumptions. First, the military, political and economic consolidation of Western Europe is essential not only for the survival of the Continental countries themselves, but also for that of Great Britain and the United States. It is one of our most vital interests. - Secondly, this consolidation must be within the spirit and framework of the Atlantic Alliance. There is no substitute for European Union.

If we accept this view, there are three courses open to Western Europe:

1. To consolidate on federal lines - with or without Great Britain and Scandinavia.
2. To achieve united action through an association of governments.

3. To produce a workable amalgam of 1 and 2, which Great Britain could join either as a full member or as an associate member.

A federal solution including Great Britain is not in sight. A federal solution without British participation is unlikely. The second solution - an association of governments - does not meet the requirements of Europe, but it could be a last resort if all else fails. There remains the third solution.

The first part of the topic deals with Europe's trade problems. I presume that you who are specialists in foreign relations expect me merely to sketch highlights.

The trade problems of Europe, like those of many nations in the rest of the world, root partially in economic causes, but are essentially the result of political factors. The basic difference between the economic problems of Europe and those of the United States is that European countries suffer from poverty that results from a miserly nature, whereas the economic problems of the United States are an outcome of natural abundance that has not been brought into harmony with desirable methods of distribution.

Europe's trade problems were aggravated by the consequences of two world wars. The effects of World War I were the decisive factors which destroyed the status quo ante in the realm of international trade.

The Russian revolution of October 1917 was the first major and so far unrepaired interruption of mankind's consistent commercial progress since the time of Marco Polo in the 13th century A.D. By slicing from the earth's trading area a large piece, the Russian revolution reduced the size of the earth as far as international commerce is concerned. The population of the world has vastly grown since 1917, but a larger population trades now within a smaller area than before World War I because of the installation of the Iron Curtain.

Before World War I foreign trade flourished because international indebtedness was no problem. International indebtedness had an economic basis and had developed organically within the natural scope of economic laws. Credits were mostly given by the industrial countries of Western and Central Europe with abundant capital at their disposal to the Eastern European and overseas countries with small capital resources of their own. The trade balances of debtor countries were therefore favorable, and those of creditor countries unfavorable. In other words, the creditor countries received their interest and sinking fund claims in the form of raw materials. Political payments without economic equivalent did not exist.

This organically developed system of world trade was destroyed by the first world war.

In the United States, the industrialization of the country was completed during World War I, and the United States raised its customs barriers to an almost prohibitive degree, and consequently dropped out as a substantial consumer of European manufactured goods.

On the other hand, the United States developed into the largest raw material supplier of the world. Ever since the end of World War I the United States

was the creditor of the world. Nevertheless, the United States saw to it that its trade balances were active.

Before World War I, international trade was conducted according to the tenets of a free market economy, which assumed that all national economies were domestically integrated. This free market economy is gone forever.

The need to reconstruct the physical bases for industry and trade in Europe after the destruction during World War II spurred the governments and people of Western Europe to almost superhuman efforts. Trade liberalization efforts were not only more in the limelight, but were also conducted with greater purposefulness than measures to restore and later increase productivity. Trade liberalization was paramount because European countries had to clear the channels for the flow of trade by means of bilateral and payments agreements, even though the quantitative regulations of foreign trade, which were implied in this first drive to resume trade, were repellent to all West-European countries. The restrictive policies of the early period of European reconstruction after the latest war were nowhere absorbed into national long-term policies. It was confidently expected in all these countries that they were passing through a transitory phase toward freer, multilateral and non-discriminatory trade.

On April 16, 1948, sixteen European states, which were beneficiaries of the American program of economic aid, set up the Organization for European Economic Cooperation. Within the structure of this organization, a European monetary clearing house - the European Payments Union - was instituted on September 19, 1950.

The apparent limitations to the freeing of trade through liberalization led to the search for other methods. "Integration by sector" became for a time the new practical goal. The most prominent step was the signing on April 18, 1951, of a Treaty constituting the European Coal and Steel Community which began operations in 1953. The experiences of the European Coal and Steel Community demonstrate the peculiar difficulties of coordinating one sector of different national economies while leaving the other sectors, as well as the national monetary and social policies uncoordinated. Attempts to apply the sector approach to other economic fields that, like coal and steel, are apt to fall outside the scope of trade liberalization - for example, agriculture and transportation, are more difficult.

On March 25, 1957, Western Germany, France, Belgium, Luxembourg, Italy and the Netherlands signed in Rome a Treaty establishing the European Economic Community.

The essential feature of the European Common Market which the aforementioned nations envisage is customs union. Within 12 to 17 years the existing national tariffs are to be gradually abolished so as to form one market free from internal customs barriers. At the same time a uniform common tariff for external purposes is to be established. The duties are to be the arithmetic mean of those charged in the existing national tariffs. While the signatory countries retain their national sovereignty, they will form one country for economic and customs purposes.

The overseas territories of France, Belgium and the Netherlands are to be included in the tariff provisions of the Common Market.

A capital development fund of approximately \$ 600 million is to be established for the overseas territories.

Within the Common Market, including the overseas territories, there is to be free movement of people, services and capital. Enterprises are free to establish their business or branches anywhere in the area.

May I mention here a few words about the economic climate in which the Common Market is being generated.

By 1954, the countries of Continental Europe, including Turkey but excluding the countries of Eastern Europe, had regained their prewar (1937) share of world trade, with 28% of world exports and 30% of world imports. By world is meant our planet's surface area exclusive of the Soviet Union, Eastern Europe and Red China.

By the end of 1956, the countries of Continental Europe had further improved their position and accounted for nearly 30% of world exports and 32% of world imports.

Expansion of production, control of inflation and accumulation of foreign exchange will be much more difficult in future. The next years will see a slower rate of economic development in Europe because increases of labor force and productivity, which in the last five years enjoyed exceptionally favorable conditions, cannot be expected keeping up their heretofore rapid progress.

From a theoretical standpoint this is no calamity, as the rise in over-all demand has to be fitted to the reduced rate of increase in the supply potential. But from the standpoint of the European people it is a hardship. For the people who are affected by severe conditions have different opinions than the theoreticians, a fact demonstrated in these days here at home, where we, too, do not acquiesce in the effects of the tight money policy of an alleged economy of abundance merely because government economists lay stress on the success of the operation. People are concerned with their own fate as patients, and they dislike dying even if the operation is successful.

The strongest pressures for resources in the years to come can be expected from investment requirements. Gold and foreign currency reserves are low, notwithstanding the optical illusion effect of the favorable creditor positions of some countries on the record of the European Payments Union. The annual meeting of the World Bank and Monetary Fund in Washington later this month will be an eye-opener concerning the shape of not only Europe's but also the Free World's monetary mechanism, as currency stability is rapidly disappearing.

The need for limiting the rise in consumption, in order to allow adequate investment and balance of payment improvement, is to be one of the major issues of economic policy in Europe in the near future.

If the present state of economic inadequacy in Europe were to spread, the various national economies of Europe would be faced with the difficult task of securing sufficient supplies of capital at a time when the continued softening of currencies is leading to a shrinking of national savings. It would be unsatisfactory to attempt to meet capital requirements either by way of taxation which is bound to lead to the destruction of the system of free enterprise and to state capitalism or state socialism, or through expropriation by means of an inflationary policy without compensation.

Summarizing the apparent prospects for Europe's ^{economic/}outlook, it is safe to say that the problems of price stabilization will continue to plague most countries. The balance of payments problems of the United Kingdom and of France in particular are likely to be aggravated. One result of these pressures is the development of a cautious attitude toward policy changes on the part of most governments so that, until conditions are improved, they may tend to delay relaxing deflationary measures even where inflationary pressures seem to be easing. Thus in some countries, production is bound to remain below a level which it would otherwise be possible to achieve.

Because of this background and outlook, which I briefly sketched, it can hardly surprise that cynics termed the creation of the European Common Market the making of a virtue out of necessity. I think one could only wish that more virtue of this kind were put into effect elsewhere in the world and in other problem areas of "insoluble" difficulties. Mr. Bevan termed the plan "an escapist conception in which the play of market forces will take the place of political responsibility". European businessmen support the Common Market plan because of this very element which Mr. Bevan derides. European businessmen hope that the Common Market will create more economic freedom within the various nations, whereas Socialists expect the salvation of the world from government planning.

It is significant that, wherever in any European country socialism in even the mildest form came to rule, inflation pressures rose immediately to an extent that prices and costs increased more rapidly than before, and that balances of payment became passive. The countries least infected by socialism - West Germany, Belgium and Switzerland - are the ones which were the most successful ones in the control of inflation.

There runs today through Europe a clear demarcation line: Countries in which the socialist-inflationary element of economy has passed beyond the critical stage are on the debit side, as far as international payments are concerned; and countries in which, in spite of socialist inroads, market economy and monetary discipline are still prevailing, are on the credit side.

Regardless of what the motives for the establishment of the European Common Market may be, the fact remains that European nations are doing something about their problems by helping themselves. As long as European nations are busy constructing a common trading area, internecine warfare has no chance. Throughout the non-Communist world, respectful analysts recognized this new initiative by stating that the three principal dates in recent European history are the end of World War II in May 1945, the death of Stalin in March 1953, and the signing of the European Common Market Treaty on March 26, 1957.

The announcement of the Common Market perplexed America, and the surprise affected not only those Americans who had written Europe off or who intended to write it off as a drag on America, but amazed also those who were convinced of the indivisible American-European community of interest.

Here was evidence that Europe was not dead nor even decadent, but seemed to be getting younger. A rejuvenated Europe establishing a common market might be expected to do other progressive things.

At first, much of America's reaction to the Common Market was dominated by pessimists who, though quickly spotting the hole, had managed to overlook the doughnut, and whose Cassandra voices warned against the ominous possibility of the Common Market's being a forerunner of a Third Force, which could separate an ungrateful, emancipated Europe from America so that Europe might make a deal with the Soviet Union.

The controversy did not last long for, at an early date, the Departments of State and of Commerce pronounced the European Common Market as good for the United States and not at all diabolical.

Gentlemen: So far I have not said anything original, and I am aware that you are waiting for remarks which would make the sacrifice of your gracious captive audience worthwhile. You are more interested in prognosis than diagnosis, but as an economist of the old school and as a disciple of Professor Sombart, I shall not deviate from scientific method. I shall try to live up to your expectations and hasten to make myself unpopular through frank, but sincere diagnosis of some aspects of United States foreign policy, as this policy suggests itself at the time of the encouraging politico-economic development of the European Common Market.

Of course, we really could skip the second part of our topic because, after all, the United States has not done so badly in foreign policy. It removed the Fascist threat though, in fashioning a new order in the Far East, it lost China; while it otherwise furthered the interests of America enormously, it avoided a whole series of wars which in Sarajevo fashion could have flared up if mankind had not learned at least a little from sad experience in four war-ridden decades; and the United States has not only been rather successful in opposing the Soviet Union, but has also managed to kindle enthusiasm in democracy and the American way of life among a number of people.

We have done rather too much than too little, and - as Mr. Adlai Stevenson has so succinctly said: "While America is known to occasionally gag on gnats, it has also a reputation for swallowing tigers whole". However, the scientific methods of the Commonwealth Club are propelled by the maxim "How American is it to want something better", for which reason I will not only proceed but proceed also in the critical manner expected of me.

When we as Americans who wish their country to prosper and to excel and who seek to achieve this aspiration in a manner which is compatible with the tenets of the philosophy and ethical norms in which we believe - I say, when we consider what our policy should be in the face of constantly changing power constellations and ever fluctuating conditions - except for the ever constant misery of human nature - , we are exercising a precious prerogative of parliamentary democracy.

So much has been said and written about our foreign policy, especially in the last year or two, that it would seem superfluous to further add to the vast store of emulation, denunciation and advice disseminated on this favorite topic. On the other hand, it is a fact that evaluation and comment on foreign affairs often fails to make an impression and frequently remains ineffective because

of the prevalent practice of placing form over essence.

Our two basic schools of thought in foreign policy tend to cling to rigid divisions set by idealism and realism. The idealists consider the realists as servants of national self-interest and as shopkeepers who would coexist with foreign devils and horsetrade with potential foes. The realists scorn the idealists as high-minded Don Quixotes, who are oblivious to practical necessities of life and to the shortcomings of human nature, and who are bent on crusades to vindicate righteousness.

Actually, neither idealists nor realists are in a position to advocate successful policies unless idealism is tempered by realism, and realism is augmented by idealistic motives.

It was natural that an endeavor to properly play the new role of the United States would lead to a preoccupation with the power elements and power aspects of political existence, and with a concentration on self-interest and power as the crucial factors in international relations.

However, today the United States and all mankind are threatened by nuclear weapons which are a direct result of foreign affairs. Therefore an understanding of the international relations in terms of national self-interest and power alone cannot possibly meet the "realities" of the present. Therefore we must seek a deeper insight into the political realities and national purposes, and go back to first principles in order to find guide lines for action.

In this sense, our foreign policy must be based on idealism, on the same ideals and beliefs on which the institutions and the aspirations of the United States are resting. The problem is how to be idealistic, how to practice justice and benevolence without sacrificing self-interest. The Western Alliance has to be more than an association of predominantly white-populated, prosperous nations which want to preserve what they have.

In whatever manner one conducts foreign policy, actions and omissions must be free from hypocrisy or from the semblance of hypocrisy. Much of our failure to realize our potential of leadership is due to the fact that we not only moralize too much and confuse legalism with morality, but that we often exhibit a self-righteousness which cannot fail to be obnoxious to other people. Several years ago, the wife of an American official exclaimed after a government celebration in Montreal: "Why, those Canadians are wonderful; they are almost like Americans", and her remark caused trouble because Canadians retorted that it was not in the sense and destiny of the world that all people had to be like Americans.

Nations have no permanent friends or permanent enemies, only permanent interests. We must identify our true national interests with precision. We must not only know what we are against, but also what we are for. To say that our national interests are our security and prosperity is true, but is not comprehensive enough to formulate policy. To say that we must contain or combat Communism until it collapses or withers away, is also true, but inadequate. Besides, if Communism were to

disappear, would the world then be peaceful and without irritation? For over half a century the British-French influenced part of the world based policy on the maxim: The cause of wars is Germans. The German threat is removed and the world is now held in the grip of a new fear.

While democracy is superior to other forms of government so far known, it shares the weakness of all human fabrications in that it is not perfect. One of democracy's weaknesses becomes apparent in the sphere of foreign affairs, as leaders depend on mass support to win elections. Their appeal is apt, therefore, to be more to the emotions than to the intellect. Issues have to be simplified for the presentation to the masses - at least this is the belief of politicians. The easiest way to simplify issues and to enlist support, is to translate arguments and problems into terms of right and wrong. Thus, it is implied that the Republicans in the United States or the Labor Party in Britain or the Centrist Party in Germany have morality and right behind them, whereas their opponents, American Democrats, British Tories or German Social Democrats are tainted with some kind of immorality. This helps to induce a comfortable glow of righteousness in the breast of the elector who, in casting his vote in this manner, feels that he has cast a vote against Satan and wickedness.

The consequences of mobilizing public opinion in conducting foreign relations by "open" diplomacy of this narrowly conceived kind can be very damaging.

"Open" diplomacy and the exclusively moral approach to foreign affairs means that leaders are constantly engaged in the facile task of persuading their own public opinion that they have the right with them and that nations which oppose them, must automatically be unscrupulous fiends. Thus, questions such as "Shall Germany or France control the Saar?" or "Shall India or Pakistan control Kashmir?" are no longer asked. Instead we have disputes over abstruse principles between unbending systems of self righteousness.

I am against Communism and have always been against Communism, because I am a Christian and a member of Western Society. Therefore I can do without the exhortations of press and radio which are trying to sell me the idea why it pays to be a non-Communist. The other day, an institute that molds American opinion, sought to convince me that Communism was bad because "Bakunin, the first Russian disciple of Karl Marx, had been an atheist". I confess that the atheism of Karl Marx's first Russian pupil left me cold. You see, I had already made up my mind more than thirty years ago when I fought against the Communist Spartakus Bund at Berlin and in Saxony. As far as atheism was concerned, I contemplated that the practice was still alive among American capitalists and that agnosticism was fully compatible with Bill of Rights and American Constitution; and I also mulled over the fact that it is difficult to distinguish between religion (the real McCoy) and religiosity (the social function), and I reflected on the practice of the land of devoting part of one day to religious pause and the rest of the week to the pursuit of happiness through methods which are not completely in harmony with the teachings of Christ - and as an economist it occurred to me how prudent General Motors was in precluding speedy receivership by not appointing a Francis of Assisi as general manager.

You will probably recall that the American Petroleum Institute spent a lot of money for exposing the dastardliness of Communism through advertisements which

contained the finite message: "I had to pay a dollar for a gallon of gas in Russia". One would have to pity the American people if they based their anti-Communism on the difference in the price of gasoline, for if this were the criterion, it would follow to be socially correct to embrace Communism when the Soviets manage to manufacture gasoline at competitive American prices.

The valid reasons against Communism are those which, in the metaphysical realm, concern Man's existence as an image of God and thus insist on Man's central position in the order of things (as contrasted to the priority of economics) and on the recognition of Man's individuality and dignity; and, in the sphere of ethics, those which strive to bring about representative government and a just social order.

If one quarrels about the Saar, one better says that one is fighting for the Saar and not for self righteousness; for in the one case one can transact business when one is tired fighting, while in the other case one is dedicated to the upholding of a principle which requires unending sacrifices and perhaps even the necessity of dying for the sake of it. When change of course is likely to be regarded as a confession of error, rather than as a currently necessary adjustment to ever changing circumstances, an additional ballast is attached to policy making, and unwillingness of leaders to risk their popularity by bold action is the result.

From intensive observation of the American business domain I know that a great many people have waxed rich because of their conviction that nobody ever went broke who underestimated the intelligence of the American people.

It would be a mistake to apply this saying to the political field; it is a national scandal that many of our politicians damage the cause of the United States in the eyes of the world by talking to the voters in the leading democracy of the world in the language of a baby-talk whose major effect is to discredit politics.

Likewise, pronouncements are not policies, and dispensation of wisdom remains sterile when too abstract.

Ever since the coining of the catchword "Trade not Aid" in 1952/53, much lip service had been given to abstract discourses on the necessity of trade liberalization, but Congress kept relying on the views of the people back home, who are not convinced, and who think - erroneously to be sure - of their pocket books before agreeing to sacrifices for the sake of advantage to the Commonwealth. Up to three months ago, the situation seemed to get ever more hopeless. Then Mr. Clarence B. Randall, the special assistant to the President, presented in language as simple as that of Christ, but as comprehensive and illuminating as all the academic textbooks on foreign trade, a "Decalogue of Foreign Economic Policy", and since June 13, 1957, there is spreading through America renewed intelligent discussion of America's Must-Policy of adjusting United States foreign trade practices to the need of the present. Here is proof that in the field of honest conduct of politics nobody ever regretted having overestimated the intelligence of the American people.

The Atlantic Alliance was for Western Europe a prerequisite of survival. This connection is no longer as close as it used to be. When the Soviet Union

achieved atomic equality with the United States, the Atlantic Alliance was no longer for the nations of Western Europe a protection exclusively, but was also considered by some a liability. The Kremlin made it clear to Western Europeans that if there is a chance for them to survive in an atomic war, it may lie in not being too closely identified, or not identified at all with the United States.

As long as the main deterrent to Soviet aggression remains the atomic bomb delivered by plane, the military strategy of the United States is in need of military installations in Western Europe. And the nations of Western Europe have a corresponding interest in providing them.

To the extent to which intercontinental missiles will replace airplanes as a means of delivering the atomic bomb, the interest in American military installations in Western Europe will diminish on both sides of the Atlantic.

What should United States relations with Europe be?

The answer is clear: The Western Civilization, led by the United States, has to succeed in maintaining the ascendancy of the West or it will be destroyed. Basically, historically, traditionally, the United States and Europe are blood-brothers. Europe and America must collaborate as carriers and guarantors of the Western humanist hope.

However, not economic betterment, nor the immediate military interest nor power policies of the New World, but a common cultural and political tradition and a common hope for a life in freedom link America and Europe.

The European Common Market is the forerunner of a European-American community of interest and spiritual bond, of a possible future development stage of Western Civilization which could be called *E u r a m e r i c a*, and which will defy the prediction of the decline of the West.

The European Common Market is a symbol of this ultimately possible form of our partnership. The Common Market is not the erection of an untrammelled isolationist regional entity, for that would run counter not only to Europe's own interests, but also to the historic mission of Europe and Western Christendom, as it would deliver the continent to the mercy of Asia.
