

Address by the President of the European Economic Community

Professor Dr. Walter Hallstein

to officials of the AFL-CIO

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It's a real pleasure - and something of a relaxation - for me to meet privately with you in an atmosphere where I believe we can get to understand each other better. Full understanding and agreement on the common interests of Europe, America and the Western Alliance is, of course, the main point of my visit. It's the reason why I talked with President Kennedy and officials of your Government and why I hope to see as many representatives of labor and industry as possible. I want to express the interests and goals of the European Economic Community, and I solicit similar expression from you.

Frankly, I address you with both a hope and a fear in my mind. My hope is that the European Economic Community represents for you crucial political stability at the free world's front line on the continent. On the other hand, I fear, that you may also regard us as some kind of new competitive economic force detrimental in the long run to United States, and your, interests.

Let's go to the first point. We all agree that the free world must continue with every means at its command to resist the communist menace. We don't have to debate that old question of whether the Soviet Union carries on its military, political and economic offensive according to a strategic plan, or whether it simply tries to get a foothold wherever we -- Europe, America and the developing countries -- show signs of weakness. The important thing is that the Soviet Union, with its tremendous military and economic potential, does interfere in our world whenever it feels there is no risk of a serious military misadventure. In accordance with its ideology, its weapons are political and military, and in most cases they are both. The Western world, with its ideology of freedom, must respond in kind to the subversive Soviet efforts.

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Our power to convince the aspiring peoples of Asia, Africa and Latin America -- and indeed many in the western world -- lies in the promise that freedom is the best way of life and guarantees a higher standard of living than tyranny. This is a promise we must constantly keep. This is why economic co-operation for progress in the industrial nations of the free world has such political significance. My talks here convince me that to-day this is better understood in the United States than ever before, and you can be certain that we in Europe are equally determined to play our full part. What we must understand completely is our interdependence. We simply can't face the Communist threat pulling in different directions, following selfish interests and neglecting the main one. If we do, we will fail.

This brings me to my second and main point: the necessity for the free industrial nations to engage in courageous, friendly economic competition. Competition, we know, is the source of prosperity and progress in one nation as much as among nations. The old concept which took for granted economic disparity between the strong and the weak nations, particularly in the western world, is being discarded. In all parts of the globe, states are beginning to organize in groupings formed for political or economic objectives. We are witnessing a new phase of world economic evolution. I think we may say that a large part of this evolution was sparked by the establishment of the European Community, with the United States its proud godfather.

Since the launching of the European Economic Community, world commercial policy has taken on an entirely new character. I am firmly convinced that this great new weight will make itself felt on the "liberal" side of the scale, because a decisive part of the European Economic Community's commercial policy is dictated by its economic relationships with the rest of the world.

In the first place, the European Economic Community is an area poorly endowed with raw materials. This makes it the largest customer of the almost 100 developing countries. Our responsibility to these countries is rooted in the fact that we take more than 22% of all their

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exports, and in individual cases even up to 90%. We have taken this into due account. In all the Community countries the number of zero duty rates has enlarged with the first 30% move of the previous national tariff towards the Community's new common external tariff. Most of these apply to raw materials. But additionally, the duties between zero and 5% are also more numerous. They apply primarily to semi-finished goods. In Germany, with the common external tariff they have risen from 4.5% of all customs items to 15%, and in France from 7.7% to 20.5%. I'm revealing a secret when I tell you that now we are considering whether we could reduce even further the duties which are significant to the developing countries. Such a move would facilitate the import of raw materials that we need for our processing industries.

In addition, establishment of the common external tariff, at relatively low level should enable our competitors in the industrialized nations to maintain as high a level of exports to the Community as they now enjoy. In fact, our experience in the first months of this year indicates that the initial moves towards the tariffs of the member states towards the common external tariff did not change the favorable development of - for instance - American exports to the Community.

You may well want to know the grounds for this kind of optimism. I understand your interest, because on this side of the Atlantic I find a great deal of apprehension about the competitive position of American industry and its products. Let me illustrate with an example that bears on the question of American capital and American know-how moving into Europe.

There has been talk for some years about the benefit, or danger, of American investment in Europe - according to the individual points of view. Frankly, a directed slowdown of this investment would cause me great concern. It's not so much a question of magnitude, because these investments amount to little more than 1% annually of our overall gross investment. Nevertheless, if the flow of patent licences and technical know-how were to decline, this would considerably hamper common technical progress in the Atlantic world. I think this would be

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a very unfortunate turn of events. In this connection remember that there is a certain modest reciprocity. Investments are beginning to flow to the USA from our Community. They are not large yet, but still they are contributing to your industrial expansion and can only improve your dollar position.

Now to the second point. I know that anxiety is felt in American industrial and union circles that the United States may price itself out of markets. This is a delicate subject. However, we should not beat around the bush. It's true that the competitive position of many American goods in Europe is not strong. The reasons for this are partly historical. After the war, European countries, suffering disastrous dollar deficits, introduced protective measures of all kinds, especially directed at products from the dollar area. With Europe's demand thus reduced, United States firms were able to get by mainly with goods which were produced initially for sale on the domestic market. Because of the high standard of living in the United States, such goods were often too luxurious or too technically advanced to meet the requirements of the European countries with their much lower purchasing power. This was true not only for Europe but even more so for the developing countries, who therefore felt they could buy more cheaply in Europe. As one example we have seen this happen in the case of automobiles. Developments in 1960, however, have shown that American production is beginning to adapt itself -- and successfully, if we look at the acceptance of compact cars overseas.

A third point is the wage bill which I have already touched upon. Consider the steel industry which is the pace-maker for wage increases in your country as it is with us. From 1953/1960 Community steel prices increased only by 20% at the outside. In Italy they even fell by 10%, whereas in America they rose by 56%. A capital exporting country is bound to have commodity export surpluses, but the important question is whether such a country attains correspondingly high capital export surpluses in its balance of trade. If a sufficient balance of trade surplus is to be attained, prices in the capital export country

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must be more competitive than those in the other countries.

I mention all these points only to show you that we are well aware of your problems and that we share your anxieties in the fullest.

Our concern, I am proud to say, is clearly reflected in our commercial policy - a policy of prudently balancing the competitive position of our industry with our economic responsibility to our partners in the free world.

Just now I mentioned some of the arithmetic of tariff adjustment which is involved in our economic union. Now let me express in broader terms our tariff philosophy, which embodies principles that we hope will dominate world trade relations in the future.

I emphasized that the Community has always pursued a liberal policy. We have made offers for mutual reductions of tariffs in GATT which show that in the Dillon negotiations - which concern primarily the industrialized nations - we are prepared - for instance, so far as the United States is concerned - to give more than our partners are likely to be able to concede. Moreover, we have proposed that after the Dillon round there be negotiations on further, substantial reductions of duties. In this field, we have gained experience which should encourage all of us - including yourselves. The 30% customs reductions fully achieved within our Community has not given rise to serious difficulty anywhere in the industries of the Member States - with the exception of a few isolated cases in Italy. On the contrary: the protectionists among us have been amazed to find that the exports of all Member States have risen considerably. Altogether, trade within the European Economic Community expanded by 28% in 1960 as compared with the previous year. Take the example of France. Although French exports overall have risen considerably in recent years, France has been able to increase from 37% in 1957 to about 64% the share of its total exports going to Germany - a notoriously "difficult" market. You yourselves know the breath-taking speed with which United States exports to the European Economic Community have soared. In the past year

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compared with 1959, certain important categories of goods such as finished products and transport equipment have registered increases up to 95%. In my opinion, liberalism in world trade is progressing remarkably when we of EEC can face a \$ 1.5 billion Community balance-of-trade deficit vis-à-vis the U S without serious apprehension. Moreover, I'm certain that our imports will continue to increase in the near future.

Simultaneously, the gross national product in the Community has risen considerably. From 1950 to 1959 it rose by 74%. In several countries the increase of productivity between 1953 and 1960 exceeded 40%. But when you consider these figures, don't forget that the GNP in the USA is about three times as great per person as in the Member States of the European Economic Community. This is the reason why the advance of Community wages lags so far behind that of American wages. If productivity is only one third, wages must be considerably lower, unless prices are to become prohibitively high. Moreover, we find that the rise of productivity is slowing considerably because available productive capacity is fully used. Therefore, the increase of wages in the Community from now will show up in larger degree in rising prices.

Given this condition, you may wonder whether we ourselves are not afraid of balance of payments difficulties if the cost of the things we sell goes up. Well, this is a question too hypothetical to be answered right now. Most likely we will have to follow this development further before we can draw reliable conclusions. For the time being, we - like you - are rather more preoccupied by the balance of payments problem that has aroused so much concern here, that is the American balance of payments.

The Commission has been giving careful attention to this problem for the past two years. We were the first to point out that, because of the constant outflow of gold, the American export interests would have to be taken into account in negotiations on a free trade area going beyond the EEC and encompassing all the other industrialized European states. When we proposed, more than a year ago, that the

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Federal Republic of Germany should revalue the Deutschmark, we were guided to a large extent by similar considerations. We were very glad when our six Ministers of Finance recently decided at one of their regular meetings that they would recommend to the governments of the six Member States that they make advance repayment of \$ 3.3 billion of the post-war debts to the USA. Germany and France, the principal debtors, are already, in fact, beginning this repayment.

To sum up the rather complex issues which I have so briefly sketched, let me say this:

The American competitive position in Europe, as in the world, has its difficult aspects, but we should not magnify their gravity. I think your favorable 1960 trade figures bear out this contention. For our part, the economic position of our Community is a healthy one and we feel that we must launch on the adventure of stimulating greater competition to further the logical division of labour among the industrialized nations of the Atlantic world. We do so in the belief that free and peaceful economic competition remains the best stimulus for our common advancement. As we move forward, we need your continued support: for we know that now that Europe - thanks largely to American aid - is economically on her feet again. This implies new responsibilities for us all.

To conclude, we of the EEC know the importance of solidarity to integration -- solidarity within and without. I have already spoken of our relations with the surrounding world, so I only need say a few words about our internal solidarity. In this context we are particularly anxious to work as closely as possible with the Free and the Christian Trade Unions. They are among the champions and defenders of our work. We consult them when preparing negotiations, and in our Economic and Social Committee they express their opinions - sometimes very bluntly! - when the Commission is working out common policies in every field.

I hope I have convinced you that the European Economic Community has an open mind wherever common interests meet in the western world.

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As I said, we are believers in interdependence. That means collaboration for strength. It's in meetings such as this one that we can illuminate our common interests and talk them over frankly and profitably. That's why I am happy to have had this opportunity to meet with you. Let us pool our needs, our problems and our hopes.
