

## EUROPEAN UNITY AND THE ATLANTIC ALLIANCE

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An Address by Professor Walter Hallstein,  
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at  
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I am honored by this opportunity to address you in behalf of the European Economic Community.

I came here to talk with President Kennedy and government officials at a time when statesmen and citizens on both sides of the Atlantic are turning their attentions to ways in which we can strengthen our Atlantic alliance.

It may be that the times have made a political anachronism of the phrase "on both sides of the Atlantic". Even in the physical sense, jet planes -- and, unhappily, intercontinental missiles, -- have made the Atlantic a much less formidable ocean. In the political sense, this ocean has been narrowing throughout all of the post-war period. We have bridged it with historic political institutions and creative statesmanship which in total we know as the Atlantic alliance.

Magnificent as this creation is, however, we cannot be self-satisfied with our achievement. We are not self-satisfied with it. This is quite obvious to one who moves about the offices and corridors of this busy government here in Washington as I have in the past several days. As one government employee put it, "I know we've been working overtime lately, but it isn't the long days that bother me, it's the short nights." In any event, one feels the hum of political industry. I can assure you that the same new spirit is alive in the governments of Western Europe where your allies are stimulated by the same challenge that faces us all. The institutions and aspirations of the Western world are undergoing severe trial. Nearly one hundred developing nations throughout the world have their eyes on this drama. We of the West know, as President Kennedy has stated concisely, that we cannot face this challenge "at odds and split asunder". This is why we have all dedicated ourselves to finding new strength through ever greater collaboration in the Western Alliance. The conditions which will prevail in the 1960's, and probably for decades to come, provide us with the theme of our endeavor -- "interdependence".

I would like to convince you that this key-word carries no connotation of weakness. I might recall that it parallels the caption of what may have been the first political cartoon in American history: "Join or die".

The discovery of interdependence, a concept which Europe denied for centuries with tragic consequence, undergirds our European Economic Community and is revealing to us strength and progress surpassing even our most ambitious dreams.

Perhaps it is an American audience which can best grasp the essence and goals of our new European community of nations. Let me draw a direct comparison with America:

Just imagine for a moment that you are a resident of Washington going to New York to look for a job. Imagine that before you leave Union Station you have to make sure that you have your passport; that you have a sufficient supply of "foreign currency" or traveler's checks; that you are not carrying items banned for "import" into other states. Imagine that as you cross state boundaries along the route, immigration and the customs officials invade your car for inspections. Imagine that at each state line you pay duty on certain goods you are carrying. Finally, imagine that in New York you are barred for employment anyway because free circulation of workers is not recognized.

I ask you, could the United States have reached its present economic strength under such conditions? Would it today be a leading world power? Of course, the answer is obvious. But the simplicity of all this escaped Europe for centuries. Only since World War II have Europeans begun to apply this lesson and mold their markets into one along the lines of the world's first great Common Market of 180 million people -- the United States.

This is just what the European Economic Community is now doing; achieving economic integration within just such a common market. In Europe, of course, our different languages and national traditions have deep roots. There is no reason why we should try to eradicate them. Our aim is to eradicate the contradictions in Europe's economy.

At this point, there may be some who feel I have been avoiding what frequently -- and largely erroneously -- is regarded as the major contradiction in Europe's economy. I refer here to the issue of the "Six" and the "Seven".

As you know, when the European Economic Community was established certain of our neighbors, notably Britain, felt they were unable to join with us. Britain and six other countries formed the European Free Trade Association (EFTA), a trading community similar to ours but lacking our political aspirations.

The EFTA seven now have become eight through the association of Finland. We have negotiated an agreement of association with Greece, and negotiations are now under way with Turkey.

A great deal of interest has been focused on whether Britain will join the Common Market. Her absence is sometimes referred to as the "split" in Europe. Certainly the dominant movement should be toward the greatest unity in Europe. But this does not mean that the mere existence of EFTA is a debilitating "split". Europe formerly was fragmented into multiple markets. These now have crystallized into two groups joined for economic collaboration. Neither is following economic or political policies inimicable to the other. Thus what we have witnessed is a logical economic evolution -- a consolidation, not a split.

Is that all that there is to say about the question of integrating the whole of Europe -- not just the Community of the Six? Certainly not. From the very beginning, the Rome Treaty made it clear that our Community is an open Community, not an exclusive club. The Treaty, which in a sense is our Constitution, provides for two possibilities which are open to those others who would like to join us -- full membership on the one hand, and association on the other. Full membership means accession to all the obligations of the Treaty, not only its trade aspects and its economic clauses, but also its institutional structure, its political content and existing political bonds -- that is, the common policies which it demands -- as well as its essential political dynamism, that is to say its promise and its drive in the direction of political unity. Association, on the other hand, means only partial adherence, the acceptance of some of the commitments of the Rome Treaty, and in consequence the enjoyment of only a part of the privileges of full membership.

The role of your government in this issue is significant. It has given solid support to the E.E.C. since its inception. An expanded E.E.C. undoubtedly would present increased economic competition for the United States, because economic vitality is one of the precepts of our Community now and will be irrespective of its eventual membership.

It seems quite logical, therefore, however, that the United States ask its friends in Europe to balance this enlarged competition with solid contribution to political unity -- not just a magnification of trade advantages in their own behalf. Political solidarity is our second major precept, and also will be irrespective of membership.

The process of eradicating economic contradictions among the E.E.C. nations began eight years ago with the common market for coal and steel -- the European Coal and Steel Community. Four years later, we founded the European Atomic Energy Community, or Euratom, and the European Economic Community. Euratom is preparing a peaceful atomic energy industry unhampered by national barriers to the free movement of materials and labor. It is our "common market" for atomic energy.

The European Economic Community has now entered its fourth year of operation. Our institutions mesh with those of the Coal and Steel Community and Euratom. The three communities have a common European Parliament and a Court of Justice. The Councils of Ministers of the three communities essentially provide representation for the six national governments.

The E.E.C. Commission, over which I preside, can be compared with an executive branch. Its primary role is to initiate and stimulate Community action. It does this mainly by making proposals for action to the Council of Ministers. Each important action demands the cooperation of the Commission and the Council. The Commission proposes and the Council decides. Without a proposal from the Commission, there can be no decision. Without a decision, a proposal lacks legal force. Additionally, we might say that the Commission serves as an "honest broker" weighing the interests of the six governments and seeking the common denominator of prudent action. This common denominator, however, can never be less than the standards of achievement set for us by our

Treaty of Rome. The Commission is also the very "guardian" of this Treaty -- which is really the constitution of our union. Whenever the Commission finds an infraction of the Treaty it must take action. It can appeal to the Court of Justice -- our Supreme Court. For all these purposes the Commission has been vested with a unique quality -- and this is of singular importance: it is independent of member states. It can neither take nor solicit instructions from them.

Now let me say something about our achievements so far. We have made a vigorous start on removing national trade barriers between our member states. Internal customs charges have been reduced by 30%. We are forging common policies which give us exciting new freedom to approach the problems of Europe, and of the free world. We are already moving ahead of schedule in both of these areas.

A brief word about the process of dismantling barriers: Under the Rome Treaty which established our Community, internal tariff elimination may be completed in 12 years, and must be completed in 15 years. We are already one third of the way, with tariffs down 10% more than required by the Treaty schedule. We will end quota restrictions on industrial goods within the Community by the end of this year. The Treaty also says that by the end of this year we should begin to bring the separate external tariffs of the six states into line with our eventual common external tariff. We actually took that step at the end of last year. We have reduced our internal tariffs on agricultural products, much more difficult to deal with, by 25% instead of the 20% scheduled in the Treaty. Within 2 months, our member states must decide whether the next internal tariff cut will bring barriers down by a cumulative total of 40% by the end of 1961, or whether they shall drop 50%. If the latter is chosen, we will be three years ahead of schedule.

While we are considering the reduction and eventual elimination of customs duties, please make the distinction that we are not only a customs union. A customs union, in the strict sense, exchanges trade advantages among members. We are an economic union moving toward ever closer coordination of economic policy, in fields that range, let us say, from harmonization of paid holidays for workers to external trade policy.

We have been able to accelerate our Common Market because of the splendid progress of business and industry. This, I think, is one of the most striking testimonies to our success so far. Nineteen-sixty figures show that trade among our six countries rose 25% from 1959. Trade with the rest of the world was more than 18% higher. This last fact, I believe, proves that the Common Market is a world trade stimulus, not a constraint. This is not surprising. After all, we are the world's foremost trader -- its biggest importer of raw materials and, with the United States, the foremost exporter of manufactured goods. In 1960, our imports from the rest of the world totaled \$20 billion and our exports amounted to \$19.6 billion.

The Community's rate of growth is also impressive. In 1960, industrial production rose by some 12% over the 1959 figure, and gross national product rose 7%. These achievements exceeded our original hopes for steady growth as the Common Market gathers speed.

Despite this progress in dismantling traditional trade barriers, there are certain hindrances which must be removed. For example, it is no use lowering the tariff walls only to have your work undone by private trusts and cartels, state monopolies, subsidies and other forms of discrimination capable of restricting competition and fragmenting the single market we are trying to create. That is why we are planning what you might refer to as a common anti-trust policy.

Furthermore, we must make possible the free movement of labor, business enterprise, services and capital. In sum, we must liberalize all the factors of production.

We must go beyond the elimination of the barriers I have cited and harmonize economic policy throughout our Community. A lack of balance here would really imperil the Common Market. Therefore, we must take a regional view and help some who are less favored -- those who live in Italy's depressed South, for example. The balanced Community that we seek will also require common policies for agriculture, transport and foreign trade and eventually may lead us to some sort of common currency.

You might question, "why so much emphasis on 'common' policy? Why not more 'free competition'?" But, we are for free competition. Nevertheless for different reasons, common policy is necessary in many areas.

One example is obvious in the field of transportation: It would do us little good to remove tariff barriers to the free movement of goods among our six countries if we were to let discriminatory transport policies take their place. I refer to such things as the adding of burdensome transportation charges as products move across national frontiers. We must have a policy to prevent such hindrances to free, intra-Community trade. Agriculture provides another good example. About one fourth of our population is engaged in agriculture but there are significant differences in levels of productive efficiency, among our member states. To permit unbridled competition would do serious harm to many farmers, something we can't permit to happen. Therefore, we take the road of common policy, aiming at the most rational farm production but not forgetting our social obligations. And this in itself is a step towards making possible a greater degree of free competition, by preparing the conditions in which it is possible.

We call ourselves the European Economic Community which sometimes misleads those who are not aware that we have definite political goals. The Treaty which established our Community directed us to work toward ever closer relations between the peoples of our Member States, toward ever more unified action. This work is being carried forward on two complementary fronts -- the political as well as the economic. Sometime ago the heads of government of our six countries held important talks in Paris on the political integration of Europe. Political unity in Europe is moving and much of the impetus results from political spadework we have been doing at the grass roots of our economic community.

You here in Washington certainly can appreciate the high degree of political cooperation that has been involved in some of our projects. One of the Community's first acts was to provide that workers can enjoy their social security benefits even though they move from one country to another. Subsequently the

Commission proposed regulations which eventually will permit workers, more easily than ever before, to accept jobs in any Community country, irrespective of nationality.

Similarly, we have made initial proposals for the free establishment of business throughout the Community and have decided on priorities for the progressive easing of restrictions on the supply of services. Early last year the Community issued its first directives to free certain types of capital movement, and to liberalize the movement of others. It has not yet freed the movement of so-called "hot money" and for very simple reasons: to do so right now could lead to serious distortions in our monetary structure when we are trying to harmonize policy. We have a Monetary Committee now functioning very efficiently and there are periodic meetings of our National Finance Ministers. Prosperity is also on our side, but it seems prudent to avoid the shocks of unrestricted "hot money" movement until we are more certain how effective is the harmonization achieved so far. More coordination may be required, particularly in a period of recession.

Our Treaty embodies the genius of your constitution in that it combines precision with leeway for innovation. The Treaty leaves much to be worked out in the logical operation of the Common Market. This is the case with monetary and general economic policy. Here we have supplemented the ordained Monetary Committee with a special trade-cycle committee with tasks in its own sphere. The same applies to regional policy where the Treaty provides a European Investment Bank and a European Social Fund but does not lay down precise objectives. Our task is to fill in the blanks in the light of experience, and we are already doing so. The Bank has already made 14 loans to benefit the Community's less developed regions. The Social Fund began operations this year although its tasks have been limited, fortunately, because of the favorable economic situation. As the Common Market progresses and rationalizes production -- brings about the placement of industries in logical locales irrespective of boundaries -- we believe the Social Fund will be invaluable. It will permit us to retrain and relocate workers who may be unemployed in their local areas because of the operation of the Common Market.

In the field of the precise, the Treaty actually imposes on us the adoption of common policies for agriculture, transportation and foreign trade -- three difficult subjects, to say the least.

In agriculture, we have made initial proposals for common policy. Because of a decision of last year to accelerate creation of a common agricultural market, some features of a unified policy already are being applied. The whole of the Commission's proposals is far from accepted. In fact some of our proposals have been called protectionist, some ultraliberal. Maybe we have struck something which could be called the "unhappy" medium. I guess that one of the hottest seats in any government's cabinet is that of Secretary of Agriculture and probably your Secretary Freeman would find a lot in common with Vice President Mansholt of our Commission who gives special attention to agricultural problems in our Community.

Our task is also extremely complex in the field of transportation. We have made far-reaching proposals for the development and modernization of transport routes within the Community. These proposals, I believe, have a good chance

of being adopted. But beyond this, we must achieve even greater harmonization of the national transportation networks and find a reasonable balance between the different modes of transportation on a Community-wide scale. The Commission has just submitted to the Council of Ministers for study and discussion the general lines of a common transport policy. Here again is the type of problem requiring a lot of thought and attention from the transport regulating boards here in Washington.

Our Treaty also calls for a common foreign trade policy. Obviously, if we are to be a cohesive economic union, we must follow a single policy when we deal with the rest of the world. The keystone of this single policy will be a common external tariff applicable to the goods coming from countries outside our Community. The necessity for a single external tariff for a community of states can be seen in this example: if the state of Texas had its own external tariff -- let us say a very high one for Texas -- and Louisiana had a low one, customs stations would be necessary between them. Texas would have to require compensatory duties on goods entering from Louisiana or Galveston would go out of business and New Orleans would be booming. So the Common Market must have a common external tariff and trade policy paralleling the practice here in the United States.

The six countries began aligning their tariffs with the common tariff at the close of 1960. Incidentally, they made these alignments on the premise that the common external tariff will be reduced by 20%, a reduction the Community has offered in GATT conditional on reciprocity.

The first step towards the common tariff was taken at the end of last year, one year ahead of schedule. Broadly speaking, we have begun a process which will somewhat raise the present Benelux and German tariffs which surround a market of 70 million people and we will reduce the French and Italian tariffs surrounding a market of 90 million people. The average incidence of our common tariff is actually lower than that of the previous national tariffs.

Incidentally, we were so enamored of your great Common Market that one of our officials made a detailed study of it several years ago and, I must say, we were slightly disillusioned. He discovered an instance of internal trade discrimination. He found that Nevada had a curious law on its books declaring no obstacle to the entry of "fresh eggs". Now, the term "fresh eggs" is not unknown to us. There is a famous definition that says a fresh egg is one that was fresh when it was laid. But in the Nevada lawbooks was found a different definition. It stated that fresh eggs were those "produced in Nevada". That's something like a German regulation that proclaimed the free entry of cows -- providing that they had passed a summer at an altitude of more than 700 meters. This neatly opened the door for Swiss cows and excluded others. I suppose that these are instances of discrimination by definition, and you can do almost anything with definitions.

By our internal tariff reductions as well as our performance in GATT, I believe, that we are proving that our trade policies are liberal ones. Had the Community been an "inward-looking" body, it might have decided that the various internal tariff reductions which I have described were about as much as it could ask its member states to tolerate at that time. Instead, the Community proposed a general round of "Dillon negotiations" in the framework of GATT aiming at worldwide tariff reductions of up to 20%. Not only this, but the Community on

its own initiative proposed a further round of substantial tariff reductions -- a proof, I think, of our genuine willingness to reduce all trade barriers.

We have anticipated the result of the GATT negotiations by making the provisional reduction of 20% -- I touched on this before -- in the Community's common external tariff applicable to goods of third countries. This measure was unanimously decided by the Community's Member States at the same time they decided to accelerate the establishment of the Common Market by a more rapid reduction of the internal tariffs applicable to goods flowing between our Member States. The decision to accelerate strengthens the Community in all spheres. It certainly has helped to clear the way for the present discussion of steps toward unity in the political field. The faster we consolidate our own economic and political unity, the easier it will be for us to exert a liberal influence in world economic affairs.

When we survey the total of our external policy, few facets are more important than our relations with the developing countries -- the dynamic young nations now striving to advance their economies. For our part, we do not debate for a moment that we have responsibilities to these nations. Many of them are collaborating with us on the basis of past association. Part 4 of the Treaty of Rome establishing our Community declares that overseas countries which in the past enjoyed advantages in Europe may continue to do so. Nevertheless, the Treaty provisions concerning 16 African countries with historical ties in Europe were outdated before the Treaty became effective. The provisions, you see, describe "dependent territories", some which were under colonial administration when the Treaty was drafted. Now all these countries have become independent. Fifteen of them wish to remain associated with the E.E.C. for a period of five years expiring at the end of 1962. These nations derive benefits from association with the E.E.C. For example, they can receive grants from the \$580 million development fund of our Community which was established to aid our overseas associates. To date, the Community has approved 140 overseas development projects which will cost \$129 million. Additionally, our imports from the associated countries enter the Common Market free of duty, while these nations themselves can levy duties on their imports from us.

The eventual links between our Community and the associated nations, most of them in Africa, will be the product of independent political decision on both sides. The arrangement that evolves, most naturally, will have to meet the test of African interest. It may well be that the present framework of association will not encompass these interests. We must keep in mind that African development -- that of our associates as well as others -- turns on the economic fortunes of perhaps four or five crucial products. The African states may decide on economic association dictated by commodities -- for example, peanuts, coffee, forest products, cocoa or bananas. The French speaking African nations already have founded the African and Malagasy Organization for Economic Cooperation (OAMCE), which you might consider an African parallel to the Organization for European Economic Cooperation. Its goal is comprehensive regional planning.

Only experience will show whether the lines of association which we have worked out will suffice for the future. Already one hears talk of an African Common Market, a trading union which would be marked by a high degree of economic and political self-assurance.



As we and our friends in Africa consider the trading future of that continent, we must grapple with the central issue -- preferences. The Rome Treaty, as I have indicated, sets up a special trading area between the Community and our associates. The absence of entry duties offers the associates a preferential outlet for four or five products of major interest to them. Obviously, this means that products of other developing nations must be sold in the Community at higher prices. A question that must be considered is whether such arrangements should be taken over in their present form in future association agreements.

There are different views on this question within our Community. France, for example, trades almost exclusively with our associated countries. Germany and the Netherlands, on the other hand, have negligible trade with these nations. Their trade lines go out predominantly to non-associated suppliers of tropical products in Africa and Latin America.

The Community's external tariff is crucial for the suppliers of tropical products. South and Central American countries, for example, face a considerable disadvantage in a sixteen per cent duty on coffee which is avoided by the associated African nations. The Rome Treaty attempted to achieve a balance of interests by granting customs quotas permitting a certain volume of imports into some Member States from non-associated countries at low duty rates, or without duty.

Still, the weight of advantage is on the side of the associated countries. France, for example, has granted to her former African colonies privileges more beneficial than tariff preferences. Some of France's former territories are the sole suppliers of certain important products. Non-associated producers, on the other hand, gain entry into the French market only if demand there exceeds the supplies available from the countries to whom France has extended preference. Additionally, France has a price support system under which her former African territories can market their products at prices frequently above those prevailing on the world market. This provides substantial bonus income to these countries, and is a type of development aid which is worth noting. Nevertheless, this advantageous position in the French market gradually will be eliminated as our Common Market progresses.

All this tariff arithmetic suggests that perhaps we should consider a free exchange of goods between the Community and the African countries. Short of that, we might arrive at a middle-of-the-road solution. For example, we might make substantial reductions in the Community's external tariff for important tropical products. The coffee duty to which I referred might be dropped from 16 per cent to 8 per cent. The associated African countries whose products now enter the Community duty-free would find their margin of advantage reduced by half. They should be compensated, however, in some other fashion -- perhaps by direct support payments.

Such a scheme as I have just suggested for consideration could contain other elements to make up any loss of advantage by the associated countries. The Community could establish stabilization and guarantee funds for the principal products of these nations. The Community could capitalize a fund from which our associates would receive support payments when raw materials prices decline severely. During high price periods, the associates would make payments into

the stabilization fund. Even such a fund would have difficulty stabilizing basic materials prices if a period of long decline appeared. Nevertheless, such a fund would go a long way in offsetting the damage the developing countries suffer from extreme price fluctuations. In the past half century, the returns on the sale of eighteen important tropical commodities have fluctuated nineteen per cent annually. There were price fluctuations of more than fifty per cent for coffee and cocoa in 1959 and 1960. Ironically, where profit was involved, it accrued to the industrialized consumer countries, not the developing nations.

You can discern from my remarks that the development of a long-range African policy will be a complicated task, but an urgent one. We have been discussing mainly the implications of trade in an African policy. Closely connected, however, is a political issue. These nations are seeking the most effective means of economic advancement. We must prove to them that we understand their problems and that we can establish bonds of mutual economic interest. If we permit a vacuum to exist, we can be sure that the forces of the East will quickly fill it.

Some may say: You propose a European policy for Africa but your Community does not comprise all of Europe, nor do you have special relations with the whole of Africa. We say that a European policy for Africa has been initiated in the form of the association of African countries with the European Economic Community. We do not feel that there is much logic in waiting until all the free countries of Europe are organized to develop a more comprehensive African policy.

The urgent thing is to begin the task. It may well find its eventual perspective as we in the West increase the effectiveness of existing instruments of international cooperation. An opportunity for cooperation may well exist in the new Organization for Economic Cooperation and Development. Certainly all of us in the Western Alliance expect the new OECD to tighten our lines of union, isolate and solve common monetary problems and increase and organize our contribution to the development of the less favored nations. Constituted as it is with the United States and Canada as participating members, OECD will give us new flexibility to attack such problems as disparate interest rates, fluctuations of "hot money", and other factors which bear on such important issues as the U.S. balance of payment and your loss of gold. I have thought of this organization as a kind of cooperative "Ministry of Finance". With the existing Development Assistance Group operating as an adjunct of OECD, we can coordinate Western aid more than ever before and work toward the goal of maximum contribution from every nation in the Western world.

My visit to the United States has been a rewarding experience for me because I have been able personally to convey to so many Americans the story and the historic significance of the European Economic Community. We have come a long way, supplanting age-old dissension with collaboration that grows stronger every day. Unity is a thing of the will, which means that we will surmount obstacles if we have the will. The same is true for the future of the Atlantic alliance. I am sure that history will find that the answer was "yes" -- that we had the will.