

Speech by Professor Walter Hallstein, President of the
Commission of the European Economic Community, at a
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As a Law professor and President of the Commission of the European Economic Community, I feel some trepidation about putting a set of facts before members of the investment world. You have such an impressive reputation for cool, detached situation analyses. I recall the story of the investment man trying to concentrate on his Wall Street Journal as he rode into New York on the morning train. He was rather annoyed because across the aisle three professional men were commiserating with each other in rather loud and passionate tones. They were a psychiatrist, a doctor and a priest. The psychiatrist said: "I feel so depressed. I gave bad advice yesterday, and a mind was lost". The doctor said: "That's nothing, I gave bad advice yesterday and a life was lost." Then the priest said solemnly: "My friends, I gave bad advice yesterday and a soul was lost."

Lowering his journal slightly, the investment man fixed them with an icy glare and said: "Gentlemen, I gave bad advice yesterday - and today you will all have new customers!"

Perhaps, within this tale lies a great moral for us of the Western world. One of the incontrovertible facts of the 1960's is the interdependence of the nations of the Western world:

We have, of course, been forging instruments of collaboration throughout all the post-war period, which in total make up what we call the Atlantic alliance. I refer to such things as the Marshall Plan program, which helped Europe so that eventually Europe could help herself; the Organization for European Economic Cooperation and certainly NATO.

But while we have been creating instruments of collaboration for strength, the forces which would split us asunder have magnified tremendously. What shall be our policy to confront them? I think we shall find our answer in our recent history which showed us early that we cannot face a tyrannical, single-minded gargantua "at odds and split asunder" -- as President Kennedy has said. What we must do is draw on the great resources of creativity that have always characterized our Western

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civilization. We must meet the challenge creatively, dynamically and in unison. The instruments of the past must be refurbished for the future, and new instruments - more sophisticated ones - must be evolved.

Are we meeting the challenge? I am convinced particularly from my visit to the United States, that we are. Your Government is making a searching reappraisal of the strength and resources of the Atlantic alliance, and your allies in Europe are responding in kind. I believe that we can now begin to discern the new wave of creativity that, as I say, is necessary for the new challenges that confront us.

One of the new resources which we are calling into being, one of the sources of strength for the Western alliance, is undoubtedly the European Community. I say this not only because I am its advocate, so to speak, but also because I sincerely believe that it is of capital importance.

Legally speaking, as you know, the European Community comprises three "Communities" - the European Coal and Steel Community, set up in 1952, and two others, set up in 1958: Euratom, the European Atomic Energy Community, and the Common Market, the European Economic Community, of whose executive Commission I have the honor to be President. Let me rapidly try to give you what might be termed the "prospectus" of these three - which are really only three separate aspects of a single European Community.

The creation of the European Community was plainly a response to deficiencies which history had made eminently clear. In both economics and politics, the structure of the individual national state had proved inadequate to secure us the necessary magnitude of economic progress and political stability, as indeed had international cooperation of the traditional kind. That is why the Treaties of Paris and Rome, establishing the European Community, grant to its institutions a form of independent authority, that is to say that in a surprising range of activities the Community is empowered to act without necessarily having the agreement of all the national states. The Common Market Treaty, for instance, leaves us great leeway for pragmatic innovation as we observe the evolution of a common market for all goods and services. But additionally it imposes on us the establishment of common policies in such fields as internal trade, external trade, transportation, and agriculture.

The European Economic Community is popularly known as the "Common Market", which highlights the fact that we will eliminate customs duties as well as quota restrictions for trade. I must emphasize the distinction between a customs union, which primarily propagates trade advantages among the member states, and an economic union, which may do the same but goes much further to coordinate and unite to the greatest extent possible the economic policies of the member states. We are an economic union.

I do not need to tell you that, for better or for worse, economics and politics are inevitably intertwined. In our case, it certainly has been for the better. Never before in peacetime have European nations engaged in such an exercise of intricate political fusion. When you consider the difficulty with which legislation is sometimes fitted to the various regions of your own United States, you can envision the cooperation and goodwill required of six European states to act in concert. Our economic integration has already called for close political co-ordination in matters that range from harmonizing paid holidays for workers in the various states to the methods of negotiating international trade agreements. This is truly the beginning of the political integration of Europe. Our Treaty directs us to establish ever tighter lines of political co-ordination among the member states. In the ultimate over the years, we believe that you will see the homogene of something like a United States of Europe.

We have great resurces on which to build. Our Community has a population of some 170 million persons - not far behind the population of the United States. Our active working population is somewhat larger than yours - about 73 million compared with an average of about 70 million reported for the United States. These people live in an area of approximately 550,000 square miles, roughly one eighth of area of the United States. We are the world's largest trader, and the world's largest market for raw materials.

In the past, our economy struggled against the disadvantages such as war and the fragmentation of markets. Through integration we have moved ahead impressively. Our internal trade rose in 1960 to \$ 10 billion, an increase of 28 % over 1959. Our imports totalled \$ 19.7 billion, an increase of 20 %.

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Exports from the Common Market in 1960 were valued at \$ 19.6 billion, a 14 % jump over the 1959 valuation.

The contrast between our stage of development and that of the United States shows up, however, when we compare our gross national product with yours - keeping in mind that our populations are not widely disparate. Our gross national product last year was around \$ 180 billion, an increase of 7 % over 1959. But it must be measured against your gross national product which the Commerce Department reported at \$ 503.2 billion for 1960.

The significance of these business indicators is the following: Europe has left behind that period when our wellbeing depended directly on American aid. In the Common Market, we have found the instrument to assure economic progress and, to a large extent, political unification. Nevertheless, our standard of living remains much lower than yours, despite startling progress - a fact which is our heritage from the period of insular nationalism, frustrated competition and the recurrent injury of war.

I emphasize that we no longer need direct American aid, but I should not like this to be interpreted in any sense as a rejection of American investment, with all that it implies. You know, as I do, that American investment in Europe is minuscule - roughly about 1 % - when compared with our own annual gross investment. But this investment is extremely important to us when counted in terms of the technological stimulus it brings to us. Of course, the United States must do what it has to do in the tax and monetary fields, but we would be greatly concerned if the flow of technological innovation, knowhow and patent licences were to be diminished in any substantial degree by domestic tax imperatives.

My "prospectus" on the European Economic Community so far has emphasized the more conventional industrial indices. There is still another measure of our progress and economic self-confidence which I should cite and which we take as proof that the Common Market is here to stay: We have speeded up the operation of the Rome Treaty by reducing internal trade barriers ahead of schedule. I think it significant that this was

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not merely an administrative decision but a response to the desires of private business.

The European businessman, running ahead of the politicians, wants to enjoy as quickly as possible the advantages of an unrestricted common market. When the Treaty of Rome was written, there was great apprehension about the danger of lowering tariff barriers. Thankfully, most people now look at this not in the light of discarding safeguards but of seizing new opportunities.

We hope that our liberal actions create a wave of force that rolls beyond the boundaries of our own Community. You will recall that the EEC was the first to accept now Secretary of the Treasury Dillon's proposal for tariff negotiations to begin soon in Geneva. We further proposed that these negotiations be followed by yet another round to lower world tariff barriers to the fullest extent possible.

You may well say that up to now I have been showing you only the rosy side of this new creature - the European Economic Community. I know that there are some in this country who still fear that the EEC may operate to the disadvantage of the United States. I label these as the economically timid. They are over-apprehensive about the degree of competition they will face from a resurgent Europe uniting for economic progress. We can only ask them to acknowledge the improvement in your export record last year and cite such things as the overseas sales of your compact cars as evidence that the United States is too resourceful to wither before more spirited competition.

To be sure, the European Economic Community by nature poses certain structural problems not only for the United States but for all non-member countries. Low as we may establish our common external tariff for third nations, they still will be confronted by a tariff which member states will escape. On the other hand, I have pointed out that our economic union, founded on principles of internal and external tariff reductions, is the very source of our economic achievement. It is our means of establishing a common market of 170 million persons which will grow into an ever more profitable outlet for the goods of all nations. Ultimately,

I am convinced, this will be to the economic benefit of us all.

But the matter does not rest here. Aside from the economic advantages of the Common Market, we cannot ignore the political advantages that it brings with it.

Certainly your government has always been cognizant of this in the ardent support it has given our Community from its inception. Neither we, nor your government, expect Europeans to band together for purely economic advantage. Your overriding interest, and ours, is the achievement of a bona fide political strengthening of Western Europe.

This interest must be our guiding principle in the near future when the integration of Europe could take on new dimensions. I refer here, of course, to the issue of the Six and the Seven. Being economic leaders, I know that you have followed with interest the question of whether there will be a rapprochement between our European Economic Community and some countries of the European Free Trade Association, notably Britain. The two groups are frequently referred to as Europe's "rival trade blocs" or characterized as some kind of "split" in Europe. This conception is rather erroneous. You can test its falsity by asking whether the two groups are following economic or political policies antagonistic to each other. What we have seen is not a split but a crystallization of multiple trade interests into two instruments dedicated to different but analogous goals: the EFTA to greater trade, the Community to economic and political unity.

I would not venture to prophesy at this point what will be the outcome of the Six-Seven issue. We feel that our British friends are in a period of crucial reflection. We have the strong impression that their policies are evolving in the direction of closer association with the Community - or even, perhaps, membership in the Community. This matter, of course, would involve a deep and detailed commitment - and therefore a difficult choice. Need I say - need I repeat once more - that the door is always open?

Perhaps you are feeling now that I have enumerated many instances of Western progress, only to surround them by a host of problems, swarming

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like irascible bees. Unlike the investment man in the little story I related to you, you may feel unable to find an encouraging side among the troubled prospects. I say, don't be dismayed. So far as the economic outlook for the Western world is concerned, we are witnessing a sometimes complex but altogether logical evolution. Your economic evolution in the United States was completed relatively early. You had the advantage of a common language, common political institutions and a vast, natural common market. Europe has much more to overcome in each one of these respects as it progresses beyond the structure of the national state. By no means do we intend to subvert our national heritages. We simply mean to find ways - in common - of overcoming their contradictions.

On a broader scale still, economic and political evolution is transforming the entire Western world. Consider the new Organization for Economic Cooperation and Development, a sophisticated instrument for putting our Western economic house in order. The fact that the United States and Canada will participate is of singular importance and will vastly extend our opportunities for economic collaboration. That such collaboration is necessary I do not need to remind so distinguished an audience as this.

As evidence of the new recognition being given to our interdependence, I might mention a few developments in the European Economic Community that may be of interest to you, particularly as members of the banking world. For one, the Monetary Committee of the EEC has just made a profound study which fortifies a conclusion we are all reaching - that the present disequilibrium in the international balance of payments calls for coordination of monetary policy throughout the entire West. The Committee recommended improved coordination of policy on interest rates as means of more effectively channelling capital movements. It called for the closest cooperation as we search for ways to supplement and strengthen the international monetary system - let us say, in the examination of proposals such as the much-discussed Triffin Plan.

In summary, the recommendations of the Committee amount to this:

more consultation on a broad front by the Western nations in order to make national economic policies more responsive to the requirements of the international monetary system.

We of the European Economic Community are well aware, for example, that it is foolhardy to think of America's balance of payments problem as a purely American problem. The dollar undergirds our Western monetary system and the dollar could only be weakened with grave consequences for the economic systems of all the Western nations. We know, too, that there are many things which we can and must contribute for better equilibrium in international payments. Persisting instances of trade discrimination must be eliminated. We must take a liberal approach to imports. Debt repayment must be accelerated, and this is already occurring. We must find the means of better coordinating western aid to developing nations so that we expend our resources in the most prudent fashion, assuring that the right hand knows precisely what the left is doing. We must maintain a high level of industrial activity in Europe through wise business cycle policy which will at one and the same time provide a prosperous market for America's exports and ease her balance of payments problem. The same endeavour will improve markets for basic materials from the non-industrialized countries, who need our aid but who in the long run need most to sell their products to have the revenues to develop their economies.

In connexion with business cycle policy I might pause here to mention something that may be of interest to you. We have a Committee of Experts on the Business Cycle. It operates on the premise that prudent analysis may permit us to avoid drastic fluctuations that in the past were too docilely accepted as a matter of course. As an example of this approach, the EEC's Committee of Experts held a meeting recently in collaboration with experts from the Ministries of Labor in the six member states. They considered a draft report from our Commission's staff on the manpower situation and the outlook for the labor market in the Community in 1961. The goal of the report is to propose ways of achieving equilibrium in our labor market. A final report on this subject is now being prepared for our Commission and I hope that eventually the contents will be available

for you in the investment world who are so well aware of the importance of labor supply in the West-European countries. To a large extent, our productive capacity depends on the availability of adequate manpower. For, as you know, despite some areas of unemployment, we are not a region of heavy labor surplus.

This, of course, is only an example of the fields in which we are beginning to face our difficulties by collaboration - to pool our problems, as it were, and to pool the resources for solving them. There are many others; and above all we are becoming more and more aware that in doing so we must by the nature of things consider our problems and responsibilities in Europe in conjunction with yours. That, in a word, is why we attach so much importance to the new OECD - what my friend Jean Rey has called "the economic conscience of the free world".

For, make no mistake, it is a matter of common defence of the free world that we are considering, even if we speak of it as an economic problem. But we have reasons for confidence. The advantages are on our side. Our antagonists are saddled with a doctrine of "historical inevitability". We have a mandate of creativity to prove to ourselves and, emphatically, to the developing nations that freedom will produce the best arrangement of society, will best answer the inherent aspirations of mankind. In simply stating this, of course, I pose a challenge. As my fellow Commissioner Jean Rey has put it: The challenge we now face is to prove that it is possible to be strong in a free world. It is not a simple thing.

I began this talk with a somewhat frivolous story - of the banker and his bad advice. I am sure that the present gathering is far too distinguished to need advice from me. But if I may conclude with one final remark it is this: that in the years ahead we - on both sides of the Atlantic - have some crucial decisions to take, and perhaps some crucial advice to give. Gentlemen, let us remember that in this case what is at stake is not one mind, or one life, or one soul - but the minds and lives and souls of the free world. Interdependence, therefore, is more than just a slogan: it is a vital necessity for us all.
