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CHALLENGE AND OPPORTUNITY

Lectures on United Europe

II

THE ECONOMICS OF EUROPEAN INTEGRATION

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One of the aspects of the United States that impressed Alexis de Tocqueville, as it has impressed visitors from Europe to this day, was the extraordinary degree of prosperity that he saw around him. "No people in the world," he declared, "has made such rapid progress in trade and manufactures.... The Americans arrived but as yesterday on the territory which they inhabit, and they have already changed the whole order of Nature." 6/ In the century that followed, the speed of this progress became even more striking. Between 1900 and 1938, United States industrial production rose by 163%: by 1955, the gross national product per head of population in the United States stood at $2,353, as compared with $1,109 - less than half the American figure - in the European Community. 7/

Tocqueville attributed American prosperity in part to American energy and enterprise. "In the United States," he said, "the greatest undertakings.. ..are executed without difficulty, because the whole population is engaged in productive industry, and because the poorest as well as the most opulent members of the commonwealth are ready to combine their efforts for these purposes." But there was also, he saw, another reason. He was economist enough to be familiar with the concepts of specialization and economy of scale; and in another passage of his book he explicitly pointed out that "all commodities and ideas circulate throughout the Union as freely as in a country inhabited by one people. Nothing checks the spirit of enterprise." 8/

6/ Tocqueville, op.cit., p. 425.

7/ J. Trempont, L'Unification de l'Europe (Amiens/Bruxelles, 1955), pp. 20-8; R. Sannwald & J. Stohler, Wirtschaftliche Integration (Basel/Tübingen, 1958), p. 8. The GNP comparison is at 1954 prices and in real purchasing power: at official parity the contract is even greater.

8/ Tocqueville, op.cit., p. 108.

In other words, the States of the American Union enjoyed in their commercial relations with each other the classical benefits of free trade.

The theory of free trade was already of some antiquity when Tocqueville wrote. Indeed, in discussing American prosperity, he made what look like concealed allusions to Adam Smith, Book IV of whose <u>Wealth of Nations</u>, published in the late 1770's, is in many ways the <u>locus classicus</u> on this subject. Since Adam Smith, the argument in favor of free trade have been refined and qualified by a very considerable body of economic doctrine; but the core of the theory still stands. A distinguished British economist has summarized under two main headings the ways in which free trade may be held to raise the standard of living - "optimization of trade" on the one hand, and "maximization of production" on the other.[9/] Others have put similar thoughts in another way. Pointing out that free trade in fact represents an enlarging of the market, they have stressed the economies of scale that this should make possible, in mass production and distribution, leading to lower costs; they have argued that large-scale producers would have easier access to sources of capital, bigger research and training budgets, better facilities for planning ahead, and in general greater stability. Competition on a wider scale should meanwhile stimulate modernization and eliminate inefficiency; and at the same time greater specialization should lead to industries' being more economically located, and to each producing the commodities for which it is best fitted.[10/]

9/ J. E. Meade, <u>Problems of Economic Union</u> (London, 1953), pp. 9-10.

10/ Cf. J.-F. Deniau, <u>The Common Market</u> (2nd ed., London, 1961), pp. 11-17.

Different advocates of free trade have emphasized different aspects of these general arguments, and some of them are now a little discredited. Nevertheless, history lends color to the thesis. The suppression of trade barriers in France, in the United Kingdom, in Switzerland, and in Germany was certainly accompanied by many of the benefits that free-traders predicted; and insofar as improvements in transportation may be regarded as a means of suppressing trade barriers, the same is true of the spread of the railroads and the growth of steam shipping.

On the world scale, however, free trade has always so far remained a rather distant ideal. Its nearest approach was in the twenty years following the Cobden Treaty of 1860; but by 1880 it had already begun to recede once more, and after 1914 it became still more remote. Part of the difficulty, no doubt, was that different nations, as the German economist Friedrich List put it, "must modify their systems according to the measure of their own progress," adopting free-trade policies when these suited the state of their economy, and at other stages of their growth quite naturally seeking protection.[11/] This is still generally recognized as the normal right of developing countries in the world today. In itself, however, it is only part of the general difficulties which beset any quest for world-wide free-trade; and these difficulties have if anything increased over the last fifty years. In the words of Professor Jacob Viner, "The world has changed greatly, and is now a world of planned economies, of state trading, of substantially arbitrary and inflexible national price structures, and of managed instability in exchange rates. The classical theory is not directly

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11/ F. List, The National Systems of Political Economy (transl. S.S. Lloyd), p. 93.

relevant for such a world, and it may be that for such a world there is and can be no relevant general theory."[12/]

In the Communist world, clearly, free-trade is not to be expected: nor can Communist trade with the rest of the world be regarded as subject to free-trading conditions. Even outside the Communist world, moreover, Governments now play a much greater role in determining the conditions of economic activity; and to achieve the benefits of free-trade, as I shall hope to show in a moment, something much more ambitious than the dismantling of classical trade barriers must be undertaken. Finally, the modern world acknowledges a number of social and political responsibilities, as well as new economic obligations, which free trade by itself can scarcely be expected to meet. I am thinking in particular here of the need to aid less favored sections of the community and developing nations of the world; but the same is true of such delicate international economic problems as the organization of agriculture and the search for stability in markets where demand is elastic and production less adaptable, as in the case of coal, or where - as in the case of foodstuffs - supplies fluctuate unpredictably against a fairly constant pattern of demand.

In all these circumstances, despite the best efforts of Governments - and not least of the United States Government - the postwar liberalization of world trade has so far proved a very gradual and difficult process. The Bretton Woods Conference of July 1944 marked the beginning of a real new effort to free and expand international trade; but the instruments that it

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12/ J. Viner, International Economics (Glencoe, Ill., 1951), p.16.

created - the World Bank and the International Monetary Fund - while achieving remarkable progress, nevertheless fell short of their founders' hopes. In 1946, again, the Economic and Social Committee of the United Nations set up the preparatory body that drafted the Havana Charter; but its International Trade Organization was stillborn, and the General Agreement on Tariffs and Trade, the supposedly interim arrangement, did its best to fill the gap. That "best" was very remarkable, not only as a testimony to the devotion and ingenuity of those who served and still serve it, but also as evidence of a new liberal spirit on the part of its major participants, and in particular once again the United States. It is not to decry all this, however, to recall that in the early postwar years the results were still a long way from international free trade. It was partly for this reason that the same period saw various attempts to achieve free trade on a regional basis. Europeans, in particular, impressed as Tocqueville had been by the prosperity of the United States, began to wonder if they could not achieve a similar standard of living by establishing similar economic conditions - and in particular a market of American size. This was one of the considerations underlying the formation of the Benelux union: it also motivated the abortive attempt to establish a customs union among the beneficiaries of Marshall Aid; and it is one of the complex of ideas embodied in the European Community.

You will have noticed, I am sure, that in turning to the question of regional free trade I have tacitly inserted the notion of the customs union. As Professor Viner has said in his magisterial treatment of the subject, "The customs union problem is entangled in the whole free-trade - protection issue, and it has never yet been properly disentangled."[13/] Far be it from

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13/ J. Viner, The Customs Union Issue (New York/London, 1950), p.41.

me either to confuse the issue further or to tread upon ground already covered with such great insight and skill: but it will, I think, be generally admitted that given certain conditions - broadly that the customs union's "trade-creating" effects outweigh any "trade diversion" - the arguments in its favor are similar to those in favor of free trade. That is why, in referring earlier to commercial relations between the States of the American Union, I felt at liberty to speak of "free trade" between them rather than their "customs union."

Nevertheless, there remains a fundamental distinction, which has to do more with the starting-point of each rather than with its ultimate destination; and this distinction is neatly exemplified in the contrast between a customs union and a free-trade area. A free-trade area, as defined in the GATT, is one in which internal trade barriers are reduced to zero, but each participant maintains its own trade barriers and trade policy with regard to the rest of the world. In a customs union, while internal trade barriers are reduced to zero as in a free-trade area, all participants in addition adopt a common external tariff and a common policy for external trade.

Ultimately, as I have suggested already, even to reap the promised benefits of free trade it may be necessary to envisage action in a number of other fields. But the free-trade area formula by its very nature starts from a different hypothesis. It sees the relationship between its members as essentially that of independent partners, each seeking to reserve to itself as much as possible of its national prerogatives. The difficulty of doing so, however, is apparent in the familiar problem of "diversion of trade." What would be the consequence, that is, if the United States were a free-trade area rather than a customs union? If Louisiana had a much lower tariff than the State of New York? Clearly, if the difference in tariffs were greater than that caused by transportation costs, there would be a tendency for wide-awake businessmen to ship their goods into the United States through New Orleans - thus not only making the New York tariff meaningless, but also nullifying some of the economics of free trade by engaging in unnecessary transportation which was only artificially more economic than transit by the shortest route.

To counter this difficulty, the classical solution is the imposition of internal levies which compensate for the differences in the external tariff by making such re-routing more expensive. Economically, this has the disadvantage that it tends to crystallize an existing situation, and provides less stimulus to the transformations which give an economy its dynamism. Moreover, like all complicated systems, it may be subject to fraud. Above all, it emphasizes the differences between states rather than binding them in greater unity, and thus exemplifies the basic distinction between the theory of free trade and the theory of customs unions. For in a customs union the problem would not arise. The choice of New York or New Orleans as port of entry would be dictated - as indeed it is - by considerations of convenience and cost. As a result, there is one less barrier between the States concerned.

This simple example is in fact characteristic: for a customs union, as its name implies, makes for union - and this in several ways. I have referred already to Professor Viner's seminal work on the subject; and there is no need for me to reiterate the numerous examples that he has assembled to show the intimate connections between customs unions and political unions. It would be a rash man who would lay down that the one is necessarily the condition or the result of the other: it is never very clear whether "trade follows the flag" or vice versa. Most people would agree, however, both that some continuing political will is necessary to the maintenance of customs unions, and that successful customs unions have in the past led on to political unity.

To put the matter in these terms, however, seems to me somewhat artificial. It suggests that there is a fairly sharp distinction between "economics" and "politics" - whereas the very phrase "economic policy", and even more so the older term "political economy", suggest on the contrary that the two are almost inseparable. "Geopolitics" is now a familiar concept: perhaps we need a similar word "economo-politics" to describe the frontier region I have in mind. For not only may customs unions lead on to political unity: they may also involve such unity. Carry a customs union to its logical conclusion, in fact, and one finds that what it implies is economic integration; and this in turn, as I shall hope to demonstrate, is itself a political phenomenon.

Writers on customs unions have long tacitly acknowledged the reality of this process. In 1915, when Friedrich Naumann proposed a customs union between Germany and Austria, he pointed out that what he called the "economic state" thus created would try "to create a universally active exchange area. This involves an economic government directly responsible for certain economic legislation, while advising the national governments on the remainder. The direct functions of the economic government include customs, cartel regulations, export arrangements, patent laws, protection of trade marks, control of raw materials, etc. Its indirect sphere of activity includes commercial legislation, social welfare and many other things."[14/] In 1939, a British expert on the *Zollverein* likewise concluded that a customs union "can seldom be regarded as a permanent arrangement. Its members must sooner or later decide if they are to go backwards or forwards.... If they go forwards they unify their economic organizations as far as possible. Common tariffs are followed by common systems of internal taxation - the same excises, the same direct taxes, the same monopolies. They adopt the same weights and measures, the same coinage, the same railway tariffs, the same code of commercial and maritime law, the same legislation with regard to the regulation of industry and workers."[15/]

I myself should not personally carry the argument as far as this: nor should I agree on the order of priorities which it presupposes. A better formulation, to my mind, is that of a League of Nations study which was republished in 1947 by the United Nations. Its reasoning was summed up as follows: "For a customs union to exist, it is necessary to allow free movement of goods within the union. For a customs union to be a reality it is necessary to allow free movement of persons. For a customs union to be stable it is necessary to maintain free exchangeability of currency and stable exchange rates within the union. This implies, *inter alia*, free movement of capital within the union. When there is free movement of goods, persons, and capital in any area, diverse economic policies concerned with maintaining economic activity cannot be pursued. To assure uniformity of policy, some

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14/ F. Naumann, *Mitteleuropa* (Berlin, 1915), p. 249.

15/ W. O. Henderson, *The Zollverein* (Cambridge, 1939), p. 343.

political mechanism is required. The greater the interference of the state in economic life, the greater must be the political integration within a customs union."[16/]

These quotations demonstrate, I think, that the theory of economic integration is not something new or something that has evolved *ex post facto* in the European Economic Community. But the Community is a very complete embodiment of this general philosophy, and each is necessary for full understanding of the other.

As I pointed out earlier, the European Economic Community is itself a part of the postwar drive towards unity in Europe; and in this sense it may be regarded as a means of establishing throughout the territory of its Member States as much as possible of the uniformity of economic conditions that normally obtains within a single country. But this situation, as I have suggested, may also be the logical conclusion of a full customs union; and one way of considering the Community is to carry this logic through to the end. Indeed, the technical basis of the EEC is in fact a customs union; but unlike most such agreements, it also provides - more or less explicitly according to the subject - for many of the other common measures which are necessary to its full development as an economic union, with all the political content that this implies.

Naturally enough, the customs-unions provisions of the EEC Treaty are among the most specific of its rules. It is comparatively easy, that is, to set a timetable for tariff reductions, which can be stated in percentages, while it would clearly be absurd to lay down, for instance, that

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16/ *Customs Unions: A League of Nations Contribution to the Study of Customs Union Problems* (New York, 1947), p. 74.

"economic policies shall be coordinated by 50% on such-and-such a date." In fact, the Treaty provides for customs tariffs between the Member States to be gradually abolished over a twelve-year transition period, made up of three separate stages of four years each. During the same period, the Member States' separate external tariffs are to be averaged out into a common external tariff surrounding the whole Community: this, according to the Treaty, is to be achieved in three steps, one at the end of each four-year stage, so as to avoid the difficulties characteristic of a free-trade area. This parallelism, as it may be called, between the different measures required by the Treaty runs right through its provisions.

Despite its name, a customs union cannot confine its attention to customs tariffs alone. It must also abolish, in trade between the Member States, that other classical barrier formed by quantitative restrictions. These too, under the EEC Treaty, are scheduled to disappear gradually during the transition period; and just as the Community's Member States are to apply a common external tariff, so they must adopt - by the end of the transition period - a common policy in their external trade.

Tariffs and quantitative restrictions, however, are only the most obvious of the means whereby Governments may nowadays restrict trade, distort competition, and in particular protect home markets and industries. Taxation systems, special legal requirements, subsidies and export rebates, credit guarantees, and even transport rates, may also - deliberately or otherwise - have the same effect. To make a customs union real - to make it a true "common market" - these measures must be adjusted to ensure that they do not perform the same task as tariffs and quantitative restrictions, but under another name. Nor, indeed, does this apply only to Government measures.

Private firms may, for instance, artificially improve their competitive position by dumping in a neighboring country: they may equally come to terms with their foreign competitors in market-sharing agreements or cartels which divide up the "common market" that the customs union aims to create; and monopolies, if they are large and powerful enough, may operate in much the same ways as cartels. To meet all these dangers, the EEC Treaty provides for rules of competition which apply to Governments and firms alike, and which seek among other things to prevent the restriction or distortion of competition between the industries and products of the various Member States.

But the Treaty's provisions, once more, cannot apply only to goods. In order to obtain all the advantages promised by a customs union, it is equally necessary to liberalize the factors of production - capital and persons. Free movement of goods is meaningless unless they can be paid for; so current payments must be freed. There would be little hope of international specialization and division of labor if investments were not free to move to wherever they were most productive; and the same, for economic as well as for human reasons, applies to the free movement of men and women. The EEC Treaty therefore provides for the gradual liberalization of capital movements, the free movement of labor, and the removal of restrictions on the right of establishment in business and the professions and on the freedom to supply services throughout the Community.

Looking back, I find that I have used the words "free", "freed", or "freedom" six times in th last three sentences. Stylistically this may be regrettable: but it is also rather significant. What is offered, in fact, by those aspects of the European Economic Community that I have so far described is a great expansion of its citizens' freedom: for it involves the gradual demolition of national economic barriers which between the six present members of the Community extend over some 1,700 miles of man-made frontiers. This process of unbuilding the barriers, as I have said, is a gradual one: it has to be, in order to give all concerned the time to adjust to the new situation and to exposure to full competition from other Community countries. But at the same time, it is a process to which a definite time-limit must be set, in order to provide the incentive for adjustment, and one on which, for the same reason, there can be no going back. That is why the EEC Treaty, in providing for a transition period, limited it to twelve years, with an outside limit of fifteen: that is why, in contrast to most international Treaties, there is no provision for opting out of the European Economic Community.

Even so, the EEC Treaty recognizes that there may be particular transitional difficulties; and to meet them it provides not only for special temporary safe-guard measures and escape clauses, but also for special measures of assistance. Broadly speaking, the latter are supplied by two Community agencies - the European Social Fund, for the re-training and resettlement of any displaced workpeople, and the European Investment Bank, whose tasks include aid for modernization or rationalization of production, as well as assistance to backward areas within the Community.

These provisions may be regarded as a human substitute for the famous "hidden hand" that Adam Smith hoped would smooth out economic difficulties: as such, they clearly go beyond the limits of classical economic theory. In other fields, too, the EEC Treaty recognizes those limits, and provides for positive policy-making in matters where the mere unbuilding of economic barriers is not enough. This is particularly the case in transportation and agriculture, where the establishment of a single market must be backed by additional safeguards and other measures if it is not to bring about social disturbance and distress, and where structural change must be aided and planned as well as simply set in motion. Here, therefore, as already in the field of external trade, the EEC Treaty calls for common policies to supplement the more elementary and limited effects of greater competition.

Even this, however, is no real departure from the general philosophy of customs unions that I have already outlined: for that philosophy itself admits that dismantling economic barriers, with or without special aids and safeguards, is only a part of the task. In the words of a well-known liberal economist whom I have already quoted - Professor James Meade - "we may conclude that the free movement of labor and capital within our economic union is in general to be desired in the interests of economic efficiency and of raising standards of living to the highest possible level. But in order that such an integration of the market for the factors of production, as well as for their products, should have this desirable effect, three conditions must be fulfilled. First, the individual member-states must not be too out of line with each other in their domestic policies concerning the distribution of income and property. Secondly, the individual member-states must not be too out of line with each other in their choice among direct controls, fiscal policy, and monetary policy for the stabilization of their domestic economies. Third, the individual member-states must not be too out of line with each other in those social and economic policies which determine their domestic demographic trends."[17/]

17/ J. E. Meade, Problems of Economic Union (New York/London, 1953), p. 82.

In fact, the EEC Treaty sets out among its objectives the "progressive harmonization" of economic policies, and establishes a special Committee to help coordinate monetary policy. Anti-cyclical policy, likewise, is to be considered "as a matter of common interest." The caution of the wording in these instances - as in those sections of the Treaty which refer to collaboration on social policy - partly reflects, no doubt, the reluctance of national Governments to tie their hands too tightly in advance. Partly, too, it springs from the general difficulty which I mentioned earlier - that of setting precise targets and timetables for matters that are qualitative rather than quantitative. But it also indicates, in my view, awareness of the fact that if the full benefits of economic integration are to be achieved, work in these fields too becomes inevitable. Since the EEC Treaty, as I have said, is a Treaty of procedures and principles rather than a set of precise and detailed instructions, it is capable of evolving the necessary particular measures as required - and they will be required. This is all the more so in that those who framed the Treaty already knew, from the experience of the Coal and Steel Community, that adjustment to the new conditions of an integrated market is very much easier and more painless if wise and well-coordinated economic policies ensure the "steady and balanced expansion" for which the EEC Treaty seeks to establish the basis.

Seen in this light, the lack of precision which some have criticized in these sections of the Treaty is in part at least a pledge of its signatories' confidence in its mechanism and in the gradual, ineluctable process of economic integration.

This confidence, of course, can only exist where there is similar confidence in the spirit of solidarity which the Treaty represents. Put briefly, this solidarity is the willingness of the Member States to pool not only their resources, but also their problems. In the political field, as I shall suggest later, it involves the willingness to renounce policies which would conflict with the vital interests of other Member States - a kind of "loyalty to the union" whose implications in international law are even now the subject of study by academic lawyers. In the economic field, it means both a readiness to trust the Community method as a means to the solution of their own individual difficulties, and a corresponding readiness, as members of the Community, to treat their partners' economic problems as "matters of common concern", and hence partly as a responsibility of their own.

Such solidarity, obviously, is not to be created overnight: but one clear instance of it is embodied in the EEC Treaty itself. This is the association of the so-called "overseas countries and territories" - the colonies and ex-colonies of Belgium, France, Italy, and the Netherlands - most of them on the African continent. By agreeing to their association with the Community, its Member States acknowledged a joint responsibility for these countries' development, symbolized in a very concrete way by the fact that Germany - who was in the fortunate position of having no such dependencies - made as great a contribution to the overseas Development Fund as did France, with whom so many of its beneficiaries had such intimate links.

I have said enough, I think, to show that the EEC Treaty, although like all treaties a negotiated document, nevertheless represents a consistent economic philosophy. In some ways, this resembles the classical philosophy of free trade: but it is not, as I hope I have made clear, merely a belated and anachronistic monument to Adam Smith. Nor, on the other hand, is it wholly or even in large part a dirigiste philosophy: it is much more flexible, and in important ways more liberal, than that. Broadly, it takes as its starting-point the theory of the customs union: but just as this leads on quite naturally to that of economic union, so the EEC Treaty provides for measures of economic integration, as well as for central institutions, which leave the classical notion of a customs union far behind. The political implications of this essentially evolutionary process I shall examine later. What I should like to do now is to report on some of its achievements in the economic field. In accordance with the foregoing analysis, these may conveniently be considered under two main headings - first, the dismantling of economic barriers, and secondly, the forging of joint Community policies.

The EEC Treaty came into force on January 1, 1958. Today customs tariffs between its Member States have been reduced by 40% for industrial products, 35% for non-liberalized agricultural products, and 30% for liberalized agricultural products. This is already ahead of the EEC Treaty-timetable; and a further acceleration, with a further 10% tariff cut, may take place on July 1, 1962. The first moves towards the common external tariff, likewise, were made twelve months in advance of the required date, on December 31, 1960, but at a level one-fifth lower than the Treaty demanded - a provisional reduction anticipating the negotiations in GATT which are now coming to an end. A second move towards the common tariff may also be prepared this year if a further cut is made in tariffs between the Member States. Finally, in the field of quantitative restrictions, the Community has moved ahead even more rapidly, abolishing practically all such barriers to the movement of industrial goods by December 31, 1961 - eight years in advance of the schedule originally laid down.

In addition to this action on tariffs and quotas, the Community has also paid attention to other forms of restriction or distortion of its internal trade. Export duties have been abolished. Taxes and fiscal duties whose effects are similar to those of protective tariffs are being adapted or reduced. State monopolies are likewise being shorn of their protective or trade-distorting features: a notable instance is that of the French and Italian state tobacco monopolies, changes in whose policies have greatly increased these countries' tobacco imports. Measures have been taken against dumping and certain state aids; and a thorough examination both of state subsidies and of national turnover taxes is in progress, while further work is in hand on the broad questions of harmonizing legislation. On July 1, 1961, the Community imposed its ban on discrimination in transport rates and conditions based on the origin or destination of goods; and at the beginning of this year it issued its first detailed anti-trust rules to prevent private firms restricting or distorting competition within the Community.

Good progress has also been made in the liberalization of the factors of production. The first directive on the free movement of capital throughout the Community was issued on June 27, 1960, and a second is now under study. The measures so far taken fall short of full liberalization, because of the danger from speculative movements of "hot money" while the financial policies of Member States are still divergent; but the Community's rules go further than the liberalization achieved by the OEEC - and further even than that theoretically set out in its Capital Movements Code. For the free movement of workers, a first Regulation came into force on September 1, 1961; and a

Community-wide system of guaranteeing the social security rights of those who move was established as long ago as 1958. Finally, on October 25, 1961, the Community's Council of Ministers approved twin programmes for removing restrictions on the right of establishment and the freedom to supply services, under which many industrial and commercial activities will be liberalized by the end of 1963.

The dismantling of economic barriers within the Community has already begun to make its effects felt. Trade between the countries now members of the EEC was already increasing rapidly before 1958: but from 1958 to 1961 it rose by 73% as against 27% for the overall increase in the Community's trade with the rest of the world. It would be rash, of course, to read too much into these figures: but when seen in conjunction with the countless moderinzation plans, specialization agreements, and six-country associations in every branch of industry and commerce, they seem to me to show that the economy of the growing Community is responding with remarkable *élan* to the new conditions created for it. The Community's gross national product increased by some 21% during the four years 1958-1961, and its industrial production by some 32%: present forecasts, moreover, suggest that despite a slight slackening of the phenomenal growth rate reached from mid-1959 to mid-1960, economic expansion is likely to continue over the first half of this year. Prospects for the second half are less easy forecast, since they depend not only on the economic and financial policies pursued by the Member States, but also on the business situation in the world and particularly in the United States: but a further 4 to 5% increase in the Community's GNP for 1962 is by no means beyond the bounds of possibility.

In these generally favorable circumstances, it has been possible for the Community, as I have indicated, to accelerate the dismantling of its internal economic barriers, and indeed to envisage the eventual possibility of actually shortening its transition period. Whether this will prove feasible it is of course too early to say: but what is certain is that so far the Community countries have had little need to invoke the various safeguard and escape clauses written into the EEC Treaty. Special measures have been taken, for example, in the case of Italian sulphur, raw silk, lead, zinc, and various chemicals: other cases include a temporary tax, in Germany, on Dutch bread and on Dutch and Belgian fondant paste, as well as a special régime for wine. The use of minimum import prices for agricultural products, likewise, has been comparatively limited. Nor, I may add, have the Member States conspicuously failed in their obligations under the Treaty: insofar as infringement of its rules may be regarded as the use of "unofficial safeguards"....such cases have been happily - and quite properly - few and far between.

Nevertheless, what I earlier called the human substitutes for Adam Smith's "hidden hand" have not been idle. The European Social Fund was brought into being in 1960, with resources of $30 million for the two years 1960 and 1961: it has received requests for aid totaling 25 million dollars. The European Investment Bank, with a capital of $1 billion, has so far made loans totaling more than $120 million, making possible a total investment of some $900 million - the bulk of it in under-developed regions of the Community. I may also mention in this connection the European Development Fund for associated overseas countries, which out of a total of $581.25 million had by the end of 1961 allocated nearly $300 million for aid to African and other developing countries.

Some of the activities I have mentioned already enter into the second broad aspect of the Community's operations - that is, the forging of common policies. This is a field, as I have said, where progress is more difficult to chart - and also more difficult to achieve. Paradoxically, indeed, the conditions of economic expansion which the Community has enjoyed may even have added to the difficulty, by making the coordination of certain aspects of economic policy - less evidently and urgently necessary. Joint action, that is, may sometimes be easier when danger threatens than in times of peace and plenty. Nevertheless, the Community's institutions are pulling their full weight in this domain too; and one index of the growing habit of joint consultation and coordination that they are fostering is the extraordinary number of daily contacts at all levels that are now taking place between officials and experts of our Member Governments, often under the aegis of the EEC Commission and in its Brussels offices. The Community's Monetary Committee has now been supplemented by a special Business Cycle Committee: Community Finance Ministers hold regular meetings: reports and recommendations on monetary policy, regional policy, social policy, fiscal policy - even on bankruptcy laws - continually help to bring minds and measures closer together. These are tasks which will become ever more necessary as the remaining economic barriers between the Community countries dwindle and disappear: but already - whether in formal conferences or in administrative committees - the groundwork is being prepared.

In those fields of policy where the EEC Treaty is more specific, moreover, the Community's progress is correspondingly easier to define. In the matter of social policy, a timetable for equalizing rates of pay for men and women was agreed upon at the beginning of this year; a little earlier, the Commission drew up a series of proposals for vocational training; and elaborate studies are under way on almost all aspects of working conditions and wages within the Community. On transport policy, the Commission has made a first set of recommendations for modernization and development, most of which are now being implemented; it has drawn up a series of proposals for the broad lines of the common policy which the Treaty calls for; and it has secured the agreement of the Member States that they will consult together beforehand on any important measures of transport policy that they envisage from now on.

I have left until the last, however, that field of common policy where the Community's progress has so far been the most striking - and not the least difficult to achieve. That, I need not remind you, is the thorny problem of agriculture.

Five years ago, when we negotiated the EEC Treaty, we all knew that to achieve a common market in agriculture was vital to the future Community. Agriculture accounts for about 12% of the Community's gross national product, and employs nearly a quarter of its working population. To leave it out of the process of economic integration would not only be grossly unfair: it would also be fatal to the balanced and comprehensive development of our economic union - and hence to any real prospect of building political unity. But we also knew that agriculture raised political and economic problems in their most acute form, and that no previous efforts to perform the task we had set ourselves had come anywhere near success. In these circumstances, it says much for the ingenuity and persistence of my colleague Dr. Mansholt - Vice-President of the Commission, and chiefly responsible for working out its proposals on the subject - that early on the morning of January 14 this year, after a final all-night session, the Community's Council of Ministers finally reached agreement on the first measures of a common agricultural policy. Nor should the courage of the Ministers be under-rated - nor, indeed, their endurance. 45 separate meetings, seven of them at night: a total of 137 hours of discussion, with 214 hours of sub-committees: 582,000 pages of documents: three heart attacks - the record is staggering. It is also, I think, rather moving in its testimony to the whole spirit of our enterprise.

Of course, this is only a beginning. There are further problems ahead, in agriculture as elsewhere. I for one should not be surprised if we have further all-night sittings when we come to settle price policy for farm products, when we come to formulate a common energy policy, or when we reach the stage of concrete decisions in our common policy for external trade. But all worthwhile decisions are difficult: indeed, it is by difficulties that we make progress, just as it is by means of friction that a vehicle moves forward.

Thanks largely to the decision on agriculture, our Community moved forward this January into Stage Two of its transition period. A contrary vote by any one Member State would have sufficed to postpone Stage Two: but now, the Community is past the so-called "point of no return". Further progress, into Stage Three and on to the end of the transition period can only be slowed down, that is, if the Commission proposes a delay and if all the Member States unanimously accept the proposal. Moreover, the principle of majority voting in the Council of Ministers, already in force for a number of important decisions, is now extended to a number of others: and in Stage Three it will be extended further still. If, therefore, the customs union of the EEC was its most obvious feature during its first four years, it is the economic union which from now on will characterize it more and more.

Already, however, it is clear that even the words "economic union" are inadequate to describe the European Economic Community. This is perhaps most apparent when one considers its relations with the rest of the world. Recent months have provided fresh confirmation, indeed, not only of its economic success, but also of its political significance and its growing power of attraction. Great Britain and other European countries, originally a little skeptical about whether the enterprise would work, have now decided to seek full membership of the Community; others, chary of this political commitment, are exploring the possibilities of association with it. Most recently of all, the United States, always an active supporter from afar, now seems to be moving towards a new "open partnership" with the European Community and other countries of the free world: a partnership which may transform the whole international scene. Treating of another subject, Alexis de Tocqueville wrote, "Withersoever we turn our eyes we shall witness the same continual revolution throughout the whole of Christendom."[18/] For my part, I believe that we are witnessing a "continual revolution" today, and one in which the European Community has no small share. The political nature of that revolution is my next and final subject.

18/ Tocqueville, op.cit., p. 5.