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STATEMENT OF GEORGE W. BALL BEFORE THE JOINT ECONOMIC COMMITTEE ON THE SIGNIFICANCE OF THE EUROPEAN COMMON MARKET TO THE AMERICAN ECONOMY

The law firm of which I am a member serves as legal counsel in the United States for the Commission of the European Economic Community. It is also the United States legal advisor to the High Authority of the European Coal and Steel Community.

I want to make it quite clear, however, that I appear before this Committee in a purely personal capacity. I have not discussed my testimony with any of my European clients, and what I say to you today represents merely the private views of an American citizen.

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Unlike my distinguished friends who are testifying today, I am not an economist. I shall, therefore, leave to them the major burden of discussing the economic significance of the European Common Market to America. I believe I can contribute most effectively to the studies of this Committee by trying to put the Common Market in a political perspective and by suggesting some considerations other than economic that should be given weight in an appraisal of the benefits and dangers of the Common Market to the United States.

The point I wish first to emphasize is that the Common Market is political in purpose. Its economic objectives, while important, are nonetheless secondary. The gifted and dedicated men who were responsible for the Treaty of Rome, which serves the Common Market both as a constitution and a code of laws, were inspired by the desire to make progress toward political integration -- ultimately toward European federation. For them economic integration was the means to a political end.

One can say categorically that without this political end there would be no Common Market. The Six Nations which have joined in the Treaty of Rome would never have entered into such a revolutionary readjustment of their trade policies if the Treaty had contained no fundamental political content, if it had been merely a free trade area or a customs union.

Political Content of the Common Market

The political character of the Common Market becomes apparent when one examines the Treaty of Rome. Under its provisions the member states, over a transition period of 12 to 15 years, will eliminate not only tariffs but all other barriers to the free movement of goods, services, labor and capital throughout the Economic Community. But the Treaty recognizes that complete mobility of these factors of production can be achieved only with a substantial measure of integration, including the development of common economic policies.

For example, the member nations of the Community agree -

1) To work towards a common fiscal and monetary policy, and to provide mutual aid in the event a member country encounters balance of payments difficulties;

2) To take measures to equalize the conditions of labor at an increasingly high level and to apply the principle of equal pay for equal work by men and women;

3) To establish common rules and regulations governing cartels and monopolies;

4) To adopt a common agricultural policy; and

5) To undertake a common commercial policy -- according to a precise timetable and with specific goals -- including a common tariff governing imports from the rest of the world.

The Treaty establishes a European Investment Bank to supply capital for modernization, the improvement of production, and development of the retarded areas of the Community. It provides a Social Fund to relieve the hardships to workers from the temporary disruptions implicit in trade liberalization. It provides also for the permanent linkage to the Common Market of those overseas territories especially tied to one or another of the member states, unless those territories decide otherwise, and establishes a Development Fund for those territories.

One can say, in other words, that the Treaty contemplates not only a pooling of resources but a pooling of policies for the Six Nations acting as a unit. Those policies cover a wide spectrum of governmental decision.

Institutions of the Community

But the essential political character of the Community is most evident from the institutions created to oversee the development of common policies and to administer the Treaty. Those institutions, which reflect the familiar tripartite division of powers, hopefully represent to many Europeans the evolutionary institutions of a federal Europe.

The executive power of the government of the Community is shared by a Commission and a Council of Ministers.

The Commission, which has the day-to-day responsibility for the administration of the Community, is composed of "Europeans" -- men appointed for fixed terms who are required by the Treaty to act for the Community as a whole and not to seek or accept instructions from any national state.

The Council of Ministers, which must concur in many of the decisions of the Commission, consists of ministers representing the governments of the member states. During the early part of the transition period the Council of Ministers may act only by unanimity; as the transition period progresses, it may make many of its decisions by majority vote.

The judicial power is vested in a Court, which serves as the supreme judicial body with final jurisdiction to decide all legal controversies arising under the Treaty. It may hand down decisions binding not only on enterprises but even on member states.

The Court is building up a body of decisional law which will constitute a kind of European jurisprudence. It now has on its docket over 60 pending cases.

The parliamentary power is vested in an Assembly. For the time being members of the Assembly are elected by the parliaments of the national states from among their own members. The Commission, however, has been entrusted by the Treaty with the task of developing a plan for the direct election of the Assembly by the peoples of the member states.

The Assembly has many of the attributes of a European parliament. While it does not have the power to pass legislation, it regularly reviews the work of the Commission and by vote of censure can require the resignation of the Commission as a body. It is significant that in the Assembly the seating is by party groupings and not by national delegations.

The Court and the Assembly serve not only the European Economic Community but also the two other Communities which have been established by the six member nations -- the European Coal and Steel Community and the European Atomic Energy Commission.

The drafters of the Treaty of Rome approached political integration through economic means. Being pragmatic men, they felt that by integrating the economies of the six member states through the creation of a vast market of 170 million people -- about the same as the population of the United States -- they could not only give momentum to the drive toward federation but create conditions in which solutions along federal lines were compelled by an inexorable logic.

Repercussions on the American Economy

For a group of the greatest industrial and trading nations of the world to commit themselves to an undertaking of such dimensions must necessarily have repercussions outside the Community itself. Certainly it will have consequences for American business and the American economy -- and, as I shall point out later, for American foreign policy as well.

While, as I have said, I am diffident about intruding in the esoteric area of economic prediction, I would like to put forward some suggestions based on random and unsystematic observations. During the past year and a half, I have talked with literally hundreds of businessmen and government officials both in the United States and the Common Market nations, and from these discussions I have formed certain impressions which may be of use to this Committee.

It is a truism, I suppose, that new developments tend to invite patterns of reaction that in a short time acquire a validity of their own. In approaching the Common Market and in assessing its significance for America, there is the temptation to accept the observations of the first men who happened to have addressed themselves to this question.

It has, for example, become fashionable, particularly in business circles, to assume that American industry will be at a hopeless disadvantage in exporting to the Common Market.

The argument is that when the internal tariff -- by which I mean the tariff applicable to the movement of goods across national boundaries within the Community -- is reduced to zero by the end of the transition period, producers outside the Common Market will be faced with an insuperable obstacle in selling goods over the common external tariff.

The Extent of Trade Disadvantage

I believe that there has been too much concern in America over the alleged disadvantage that will be suffered by American producers. In some instances concentration on this aspect of the Common Market has led to inadequate and inaccurate analysis.

There are several reasons for this conclusion.

First, while the common external tariff will be higher than the progressively diminishing internal tariff faced by producers within the member countries, in its net effect it will be no higher than the tariffs which American producers now face in selling in the Community countries. The Common Market complies with the provisions of GATT, which requires that in establishing a customs union the external tariff cannot be more restrictive in effect than the tariffs of the individual countries comprising that customs union.

Second, even this tariff level cannot be taken as fixed. The external tariff is subject to negotiation. What is now called in Europe the Dillon proposal for tariff negotiations under GATT will begin in the Fall of 1960. These negotiations, as you know, will be undertaken under the authority granted the President by the Trade Agreements Extension Act of 1958, which was designed quite explicitly as a mechanism for reducing the external tariff of the Common Market.

The willingness of our Government to employ the machinery of trade agreement negotiations without hobbling itself by an undue preoccupation with peril points and escape clauses -- in the long run perhaps, the extent to which the Congress permits it to do so -- will be critical in determining the character of the external tariff of the Common Market.

I cannot emphasize this point too much.

Third, I am convinced that in trade policy the basic thrust of the Common Market must inevitably be liberal. The commitment to a liberal policy is made explicit by the Treaty. This commitment is happily in accord with the views, as I have observed them, of the officials who have the responsibility for the administration of the Common Market.

Most important of all, the Common Market will be compelled to follow a liberal policy out of economic necessity, since the Community as a whole is dependent to a very high degree on world trade -- to a far greater degree, as a matter of fact, than is the United States.

My fourth reason for minimizing the trade disadvantage to American producers is that I would expect to see the progressive enlargement and ultimate elimination of quantitative restrictions with respect to external trade. I need not remind the Committee that since the War quantitative restrictions have been more formidable impediments to trade than tariffs.

Just as in the case of tariffs, the commitments under GATT will govern the regime of quotas that may be applied against outside trade; and the GATT rules call for the limited use of such quotas, principally in case of balance of payments difficulties. As the Committee knows, there have recently been important moves toward the liberalization of quotas on dollar imports in line with the improved exchange position of individual member countries. If present trends continue I am sure we shall see more such moves in the near future.

On the basis of these observations, I think it can be said with some confidence that through the first stage of the transition of the Common Market which ends in 1962, the commercial policy of the Common Market will be more liberal than the commercial policies of the individual countries before the Common Market came into existence.

While long-range predictions are hazardous, I see every reason why this trend toward liberalization should continue into the future. If, as may be expected, the economies of the Six are strengthened by the Common Market, their ability to undertake further liberalization measures will be equally strengthened. At the same time, pressures for protectionism should diminish; as European firms reorganize their production to respond to the intensified competition of the Common Market, they will acquire the ability and confidence to face competition from the rest of the world.

Given the continuance of favorable world economic conditions, the Common Market countries should have no need to resort to import quotas for balance of payments reasons. The internal forces within the Common Market inducing the improvement of fiscal and monetary policies support this view. For example, certain of the recent fiscal and monetary reforms of Community governments directed at improving their foreign exchange position have been inspired by the need to face the new realities of the Common Market.

United States Investment in the Common Market

So far the most spectacular effect on American business associated with the Common Market has been an acceleration of direct investment in the Community by American firms. This export of American capital and know-how is frequently explained on the ground that American companies are seeking sources of production in Europe because they fear they will be unable to export over the external tariff into the Common Market in competition with local producers.

I am persuaded that this is at best a partial, and in many cases a wholly inaccurate, explanation of the reason why American businesses are invading the Community. Even without the Common Market, some trend in this direction would likely have occurred at this time.

The Common Market did not create the dynamism which has been gaining force in Europe, particularly over the past 10 years. It is in a sense an expression of that dynamism. But it should greatly amplify and intensify it.

During the present decade industrial production in the Community has been driven by its own internal engine of growth. This is apparent if one compares the indices of industrial production in the Common Market and the United States during the period 1950-1958.

While American production has been marked by two recessions and an only moderate total increase, production in the Common Market has risen sharply and steadily during this entire period.

At least a partial explanation of this phenomenon can be found in the fact that the percentage of Gross National Product devoted to fixed capital formation has been not only higher for the Community than for the United States, but has been increasing at a faster pace. While the figure for both areas in 1950 stood at approximately 17%, by 1957 the Community percentage had risen to over 21% while that of the United States had not increased. It is scarcely surprising that United States capital has been attracted to Europe by such an investment boom.

American businessmen see in Western Europe not only an opportunity to share the fruits of an expanding economy but also the chance to play a part in the exploitation of a great new mass market -- a kind of new economic frontier being created by the Community. I am convinced from first-hand acquaintance with a substantial number of specific cases that this response to a new economic challenge has been the most compelling consideration in persuading corporate managements to seek production sources in Western Europe. Their reaction to the Common Market has been a positive response to a beckoning opportunity rather than the mere desire to protect entrenched export markets from being swallowed up by local producers that enjoy a tariff advantage.

Parenthetically, however, I suspect that corporate managements have frequently found it useful to emphasize the dangers of staying out of the Common Market, rather than the opportunities of getting in, in order to justify investment decisions to their Boards of Directors.

Not only is it likely that American capital will continue to move to the Community, but I think it probable that if present trends continue there may be a second wave of investment two, three or four years from now, of far greater dimensions than the present one. Many American firms today are content merely to establish beachheads of production in the Community. When they have acquired experience, when they have gained confidence -- provided, as I think it probable, that they have made money in the process -- they will be prepared to put much larger amounts of capital into the expansion of their operations.

Will the Common Market Divide Europe?

Let me turn for a moment from the commercial implications of the Common Market to its broader consequences for the unity of the Western World. The fear is frequently expressed -- more often in the OEEC capitals than in Washington -- that the Common Market will operate as a divisive force in Europe. This view has been given currency particularly since the breakdown of the negotiations last November looking toward the creation of a Free Trade Area that would extend the trade arrangements of the Common Market to the whole area of the seventeen OEEC countries.

There has, I think, been confusion in America as to the nature of the Free Trade Area proposal and some misconceptions as to why the negotiations failed.

The Free Trade Area -- and this point cannot be emphasized too strongly -- was a purely commercial proposal. It had almost no political content; it provided for only the most rudimentary institutional arrangements. I said a moment ago that the Community would not have come into being except for the political objectives which inspired it; it is equally true that the Free Trade Area proposal would never have been put forward except as a defensive reaction to the Common Market.

A second point of consequence, not unrelated to the first, is that the Free Trade Area did not even meet the test of a customs union since it did not require the member nations to adopt a common external tariff. Each would have been free to tailor its own commercial policy toward the outside world so as to gain the maximum national advantage.

This failure to require a common external tariff was important. It raised formidable technical and administrative problems since elaborate measures would have been necessary to prevent goods from entering the Common Market by transshipment through countries with the lowest external tariffs.

But apart from this, the refusal to agree to the principle of a common external tariff rendered the proposal unattractive to many of the most ardent supporters of the Common Market. They felt that the Free Trade Area countries would enjoy all the commercial advantages of free access to the Community while shunning the political responsibilities which the Community imposed. This would be particularly true of Great Britain which, under the Free Trade Area proposal would serve as the nexus of two trading systems, the British Commonwealth and the Free Trade Area.

The implications of this last point can be best seen in relation to the investment policies of American companies. There is no doubt that had the Free Trade Area been accepted by the Common Market countries in the form in which it was proposed by the United Kingdom, a large share of American direct investment now flowing into the Common Market would have gone to the United Kingdom.

Producers in the United Kingdom would have enjoyed the best of both worlds -- preferential access to the Commonwealth and free access to the Free Trade Area. While it is true that for many companies this would have been only a marginal consideration, nonetheless, all other things being equal, I am certain that in many cases it would have tipped the balance in the choice of location.

As soon as the failure of the Free Trade Area negotiations became probable more and more American companies elected to concentrate investment in the Community. This trend is becoming daily more evident. It is the source of increasing concern for non-member European countries which find themselves bypassed.

For such countries the impact of commercial disadvantage in selling to the Common Market consumers is prospective rather than immediate, but the loss of investment capital appears as a real and present danger. They are confronted with the disturbing spectacle of their Common Market competitors growing progressively stronger with capital infusions from the United States. To compound their concern, manufacturers in Manchester and Liverpool are receiving letters from sales agents and distributors on the continent with whom they have long enjoyed commercial relations, containing the melancholy advice that those relations are being terminated in favor of American companies which are prepared to invest capital or make other attractive concessions.

These are the considerations which have, I believe, proved the most compelling incentive for the recent meeting at Stockholm and the decision of seven OEEC nations outside the Common Market to form a free trade area among themselves. These countries are Britain, Austria, Switzerland, the three Scandinavian countries, and Portugal. The precise form of the Stockholm arrangement is not yet known and its larger consequences are even less clear. No doubt it is in part a defensive response to the Common Market and in part a serious effort to build a bridge to a larger European trading scheme.

It may prove valuable to the extent that it facilitates trade among its members, but if it remains as simply an additional preferential trading area on the periphery of the Common Market, it could result in an artificial distortion of the flow of trade without contributing to the resolution of the basic problem of European economic integration.

I think, however, that we would do well not to be too alarmed by its divisive implications. Nor should we be unsympathetic with the dilemma of the European countries outside the Common Market. For what seem to them good and sufficient reasons -- which differ from one nation to another -- they have felt unwilling or unable to assume the political obligations of the Treaty of Rome. Yet, at the same time, the coming into being of the Common Market presents them with a serious problem -- the same problem it poses for the United States, although in a more intense degree.

We can say that the difference between our attitude toward the Common Market and that of the non-member European nations is that we have accepted the proposition that European unification is in our national interest while they have not. But we cannot be too smug in making this assertion. After all, the non-member European nations are faced with a critical national decision -- whether or not to participate in an effort of European unification -- while we have always considered ourselves geographically excluded from this problem of choice.

Need for an American Initiative

Up to this point, we in the United States have watched the evolution of European political and economic integration as a kind of benevolent Uncle Sam, speaking encouraging words but resisting the temptation to suggest the precise course which this evolution might take. I think that on balance this has been a wise course of action. However, we may well have reached the point where a new American initiative is called for -- an initiative aimed at preserving and encouraging the progress towards political and economic integration which has so far been achieved, while avoiding the divisive consequences that could affect a range of considerations much broader than commercial policy.

It is not my purpose here to set forth in detail what I think the precise lines of our national policy should be. But the time may be ripe when we should propose some systematic arrangement for cooperation between the United States, Canada, the Common Market (speaking as a new entity in the Western World), the United Kingdom and other members of the OEEC.

Together these constitute the major industrialized areas of the Western World, and there are a number of problems which this group of nations could profitably discuss over a continued period -- problems economic in character but with political dimensions.

For example, when Professor Hallstein, the President of the Commission of the European Economic Community, was in Washington a fortnight ago, he made several public references to the interest of the Community in providing aid to the underdeveloped countries. I think the group of nations I have mentioned might well collaborate on this problem as well as on the associated problem of stabilizing world markets for primary commodities. The members of the group might usefully consult also on the questions of international liquidity and, finally, might seek greater agreement for an increasing liberalization in commercial policy.

I do not mean that we should propose the creation of a Free Trade Area for the Atlantic Community. I do have the feeling, however, that by continued and systematic consultation among the nations and groups of nations I have listed we could settle many of the tough commercial policy questions that are disturbing us, leaving to GATT their implementation in the context of a multilateral system.

In making this proposal I would not wish to be understood, by any stretch of the imagination, as suggesting a concert of the industrialized nations against the less developed areas. Rather I would see it as a mechanism whereby the industrialized nations can arrive at an extension and better distribution of their responsibilities to increase the standard of living and well-being all over the world.

It is ancient wisdom that we are always prepared to fight the next war with the weapons of the last. For a long time we have made our economic decisions within the framework of economic institutions and policies that were for the most part developed during a postwar period when rehabilitation and recovery were the prime need of the Western World. Today we are faced with a wholly different set of conditions and preoccupations. An approach responsive to modern economic realities might well be welcomed.