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The White House meeting, reading clockwise: President Lyndon B. Johnson; Walt Whitman Rostow, special assistant to the President; Commission Vice President Fritz Hellwig; Commission President Jean Rey; Commissioner Jean-François Deniau; Raymond Rifflet, administrative assistant to Mr. Rey (partially hidden behind Mr. Deniau); Assistant Secretary of State John Leddy, and Ambassador J. Robert Schaetzel, chief of the U. S. Mission to the Communities.

Joint Statement

ISSUED FOLLOWING THE MEETING OF PRESIDENTS LYNDON B. JOHNSON AND JEAN REY, THE WHITE HOUSE, FEBRUARY 7, 1968

THE PRESIDENT AND MR. JEAN REY, President of the Commission of the European Communities, met at the White House on February 7. During his visit to Washington, Mr. Rey, accompanied by Vice President Hellwig and Commissioner Deniau, is also meeting with the Vice President, the Secretary of State, and other cabinet and sub-cabinet officials.

The President and Mr. Rey confirmed their belief in the need for continued progress toward the unity of Europe. The President reaffirmed the support of the United States for the progress of the European Communities. A strong and democratic Western Europe working as an equal partner with the United States would help to build a peaceful, prosperous, and just world order. Both the United States and the European Communities recognize their responsibilities to the developing countries in expanding export earnings and development.

The President reviewed his balance-of-payments program with Mr. Rey and emphasized the firm intention of the United States to take the necessary action to restore equilibrium. The President and Mr. Rey recognized the need for both surplus and deficit countries to continue and intensify their individual and common efforts to achieve a better equilibrium in the international balance of payments.

The closest cooperation between the United States and the European Communities is necessary to ensure that international adjustment takes place under conditions of continued economic growth with financial stability. In particular, they agreed that the achievements of the Kennedy Round must be preserved, that protectionist measures should be avoided, and that further progress should be made in the elimination of barriers to trade.

Mr. Rey told the President of his satisfaction with a meeting held on February 7 between his party and senior officials of the United States Government on matters of common concern pertaining to the economic interrelationship of Europe and the United States. The President and Mr. Rey agreed similar high level consultations would be useful in the future.

Problems of "Partnership"

THE "PARTNERSHIP" between the United States and the European Community that proved so successful during the Kennedy Round should not stop now, stressed Jean Rey, President of the European Communities Commission, during his official visit to Washington, D.C., from February 6 to 9.

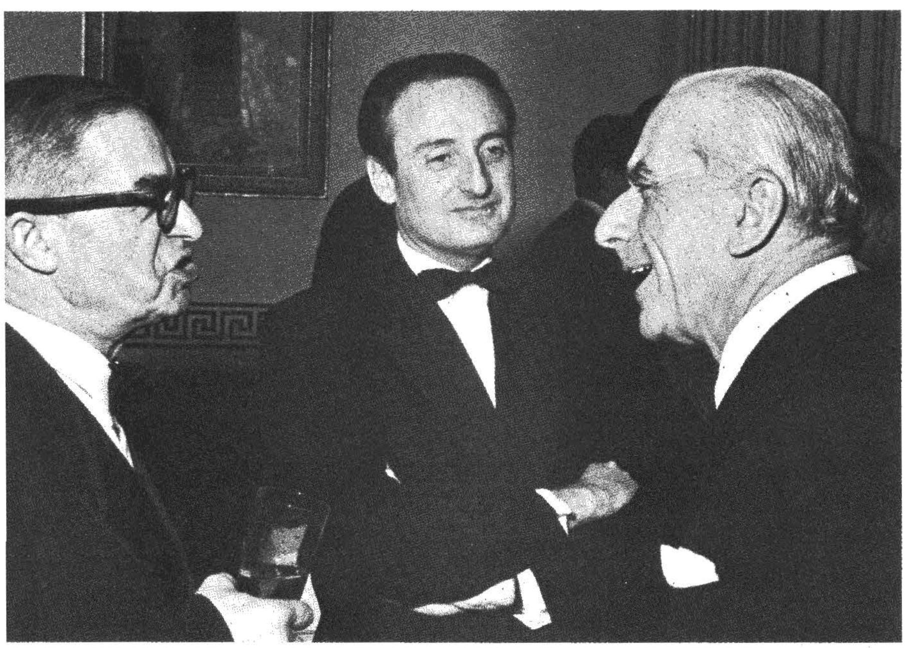
On the contrary, the success of those tariff-cutting negotiations has proven how much the two largest trading powers in the world can accomplish when able to deal with each other as equals, as "partners," and, Jean Rey said, these powers still have "much to do and to discuss together."

Jean Rey came to Washington at the invitation of President Johnson for the traditional courtesy visit paid by new presidents of the European Community executive to the President of the United States. He was accompanied by Commission Vice President Fritz Hellwig, Commissioner Jean-François Deniau, and seven other Community officials.

The visit was also an opportunity to exchange views on a wide range of topics about which both Europe and the United States are concerned and in which both have common interests. The trip coincided with serious concern in the United States over its adverse balance-of-payments position. It followed that the U.S. Administration's "action program" to correct this imbalance became a leading item on the agenda of talks between U.S. and Community officials.

In addition to being received by President Johnson on February 7, the members of the Commission met with Vice President Hubert H. Humphrey, Secretary of State Dean Rusk, Secretary of the Treasury Henry H. Fowler, Undersecretary of State Nicholas deB. Katzenbach, numerous other members of the Administration, and members of the U.S. Congress. During the short visit and despite a necessarily crowded schedule, President Rey and the other members of the delegation were able to convey in some depth their views on a number of serious outstanding problems in U.S.-Community affairs, both to the Administration itself and to the public. In addition to meetings with officials and the number of ceremonial obligations, President Rey also gave a luncheon talk and a press conference at the National Press Club in Washington, D.C., and appeared on national television.

The United States and the Community still have "much to do and to discuss together," Commission President Jean Rey emphasized in his National Press Club speech.



Commission President Jean Rey and Commissioner Jean-François Deniau chat with the Italian Ambassador Egidio Ortona at cocktails before the dinner given by French Ambassador Charles Lucet.

The main topics of discussion during his visit included the U.S. balance-of-payments problem and U.S.-Community trade, agricultural policies and trade restrictions, development aid and the current UN Conference on Trade and Development (UNCTAD), the nuclear non-proliferation treaty, and the general prospects for continued Community progress following the merger of its executives and the "crisis" over Great Britain's entry into the Common Market. Mr. Rey stressed three important themes: that the United States and the Community have common responsibilities; that the U.S. balance-of-payments problems, in as much as they concern the European Community, should be worked out through a procedure of common consultations; and that the European Community, despite any current crises, has progressed and will continue to progress toward its goals of integration.

Common Responsibilities

Mr. Rey said that despite inequalities in other fields, one field in which the European Community was an equal of the United States was trade. Therefore, common problems of trade and unsolved matters remaining from the Kennedy Round, such as non-tariff barriers and agriculture, must continue to be topics of discussion on a basis of equality between the two great trading partners. He urged consultations on these matters as often as possible. In particular, Mr. Rey proposed that agriculture was a good area for U.S.-Community discussion.

Balance of Payments

On U.S. balance-of-payments problems, Mr. Rey expressed understanding and sympathy with America's dilemma. Most of the proposed U.S. moves to correct its imbalance, he said, were internal matters for the United States to decide for itself. However, Mr. Rey made it clear that the Community did not believe that the U.S. problems stemmed from difficulties in trade, and particularly not from its balance of trade with the Community where the U.S. surplus was overwhelming and continually growing. "Is it really in trade where the United States must take measures to restore equilibrium . . .?" he asked. He warned of the danger that any protectionist measures taken in this area by the United States could easily start a "descending spiral" of retaliation by others.

He also said he felt that it was not a matter of Europe's proposing measures that would help the United States but that "rather, the problem is what we are prepared to accept . . . how to restore the balance-of-payments without hurting anybody . . . how to know in which cases U.S. actions will be exposed to retaliation and in which cases not." Urging moderation in U.S. measures, Mr. Rey stated that he felt his trip had given the U.S. authorities a "better understanding of the limits of what can be accepted and what would cause concern."

The Value-Added Tax

A number of questions were put to Mr. Rey regarding the Community's new turnover tax system based on the value added. He stressed that he thought the effects of the system were being exaggerated by the Americans and expressed surprise that when the French instituted their system [May 1954] there were no U.S. reactions at that time. The German system, Mr. Rey emphasized, would have a negligible effect on trade and it would

Commission Vice President Fritz Hellwig and Commission President Jean Rey meet U.S. Secretary of State Dean Rusk.

Vice President Hubert H. Humphrey and Earl Warren, Chief Justice of the Supreme Court, also welcomed Commission President Jean Rey to Washington.

have the same effects inside the Common Market as it would outside. Thus, the system was not at all discriminatory but general and in complete conformity with the rules of the General Agreement on Tariffs and Trade.

Development Aid

"Both the United States and the European Communities recognize their responsibilities to the developing countries in expanding export earnings and development," stated the Joint Communiqué issued after the meeting of the two Presidents.

Mr. Rey said the Community was awaiting the outcome of the UNCTAD II Conference in New Delhi before deciding on its policy toward its African associates and other developing countries. And, he expressed optimism about the possibility for an agreement on generalized preferences for industrial goods, preferences extended to the developing countries by the world's industrial powers. He felt that preferences for agricultural products were more difficult to accept.

The Community

Finally, Mr. Rey expressed optimism about the future progress of the Community in the face of the crisis that started on December 19 over Great Britain's entry. He assured his American audience that there would be no collapse of the Community and that the United States could still do business and place its trust in a viable system of integration. "We have had many crises in the Community . . . and we have always seen, despite political difficulties between our governments, that the process of integration keeps going on." He said, "We, as a Commission, oppose the idea that something useful could be done between the Five and Great Britain, without the French . . . our hope and belief is that our common Community approach will be the best one and that . . . there is reasonable hope, as in 1963, to come to a fair compromise . . . a solution acceptable to the French."

Common Market in Furniture

by **CASIMIR KATZ**

Europaeische Gemeinschaft *first published this article by Mr. Katz, a German free-lance writer.*

FASHION'S NEW LOOK, a new "international" taste, has spread to the Common Market's furniture industry and is being reflected in an astonishing growth of furniture sales.

By 1965, just seven years after the signing of the Common Market Treaty, furniture production in the six member states had almost doubled, increasing to $2.25 billion a year. The furniture industry has continued to rapidly expand.

There are many reasons for the rapid advance in furniture production in recent years—among them prestige, the new look, and larger incomes. In the post-war period, of course, there was still a considerable amount of backlog demand due largely to war damage; but by the end of the fifties most of this had been met. More important has been the large number of dwellings that have been built in the last decade. In the Common Market countries the number of new homes completed was three times as many as in the decade before the war. The rise in national income, leading to an even greater increase in the amount of money available for the individual to spend, has also stimulated furniture buying.

Another decisive factor, however, has been the change in living habits in most European countries. Before the war, there was little demand for furniture in rural areas. Usually only in the Netherlands and Scandinavia were country people well-supplied with furniture, and this was largely because of the climate. In country districts people lived mainly in the kitchen, as did many working-class families in the towns.

The "front room," which frequently contained a plush sofa 50 years old or more and an equally antiquated cabinet was generally used only at Christmas-time or when visitors came. Many families in Italy and large areas of southern France had little or no furniture apart from iron bedsteads and hooks to hang clothes on. With the advent of television, however, the living-room came into its own. The television set is not kept in the kitchen, as the radio used to be, but in the front room; and the living-room now really lives up to its name, even in southern European countries.

What Appeals to Europeans?

Changing fashions in furniture and the desire for social prestige now have much more decisive influence. The younger generation is particularly keen on "contemporary" furniture, and modern kitchens are in great demand. Instead of "cozy" kitchens, people today want useful work-rooms containing furniture with clean lines—functional tables and cupboards, built-in stoves, sinks, washing-machines and refrigerators. The old kitchen dresser is definitely on the way out.

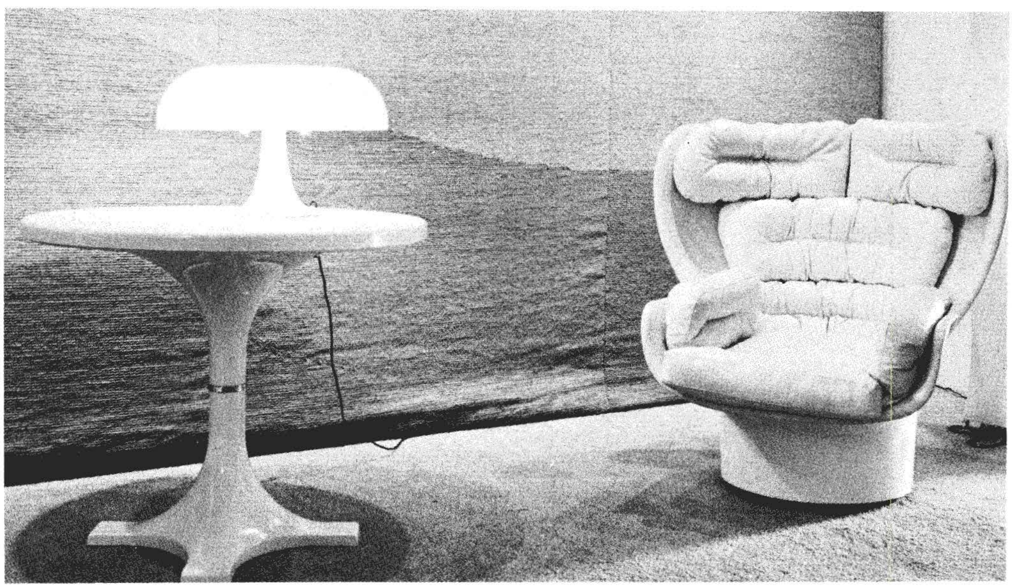
People used to inherit much of their furniture; any they bought was meant to last a lifetime. Today, they are more inclined to replace furniture when it becomes unfashionable. This tendency is not yet as widespread in Europe as in the United States, where every ten years houses are almost completely refurnished.

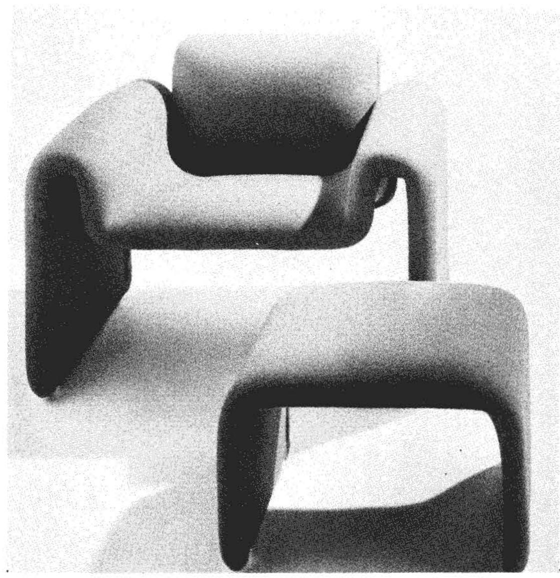
New "International Taste" Facilitates Exports

Until a few years ago foreign trade was not very important for the furniture industry. Exports represented between 3 per cent

Fashions and the desire for social prestige condition young Europeans' preferences in furniture more now than they did before the war, according to the author. Chair by the French designer C. D. Duponchel. PHOTO: *J. Collet, Paris*

The French firm Mobilier National *planned this office for a government official with furnishings in wood and steel by J. A. Motte.*





European furniture designers are experimenting with plastics, vinyl, steel, and other modern materials. The Italian chair (top left) was exhibited at the 1967 Salon des Arts Décoratifs *in Paris. The "Shepa" chair (top right), designed by G. Vanrijk is manufactured by A & L Verhaegen of Brussels.*

and 10 per cent of total furniture production, except in Denmark—renowned for its style of furniture—which sold about half of its output abroad.

Taste differences were one of the main obstacles to exportation. Furniture from Germanic countries, it was held, would sell only in countries with a Germanic language, and furniture from Latin countries only in Romance-language countries.

In this respect, there has been a great change in the last few years. Spreading outwards from Scandinavia, a new "international" taste has developed, which attaches more importance to the functional aspect of furniture than anything else. Recently, this modern line has even found firm supporters in Latin countries. Today the German industry's most important customers are no longer Austria and Switzerland but France and the Netherlands.

The rates at which furniture exports have expanded since

Many young Europeans replace velvet-covered sofas, damask upholstered chairs, formal dining accessories and other "inherited" pieces (top left) with less-formal modern pieces, as soon as their budgets can stand it.

The dining area (lower left), designed by Max Earnault, won the prix Mercier *at the 1967* Salon des Arts Décoratifs *in Paris,* PHOTO: *Andre Garde, Paris.*

the Common Market Treaty entered into force are astonishing. Between 1958 and 1965, Italy increased her exports by 348 per cent, the Netherlands by 199 per cent, and Belgium by 2,570 per cent. During the same period, German furniture exports rose by 306 per cent. Only French exports declined during this period by 5.6 per cent.

By using new materials made from wood, manufacturers have managed to avoid higher prices of raw materials. Chipboard, which first appeared on the market in the early fifties, has to a great extent replaced sheets and plywood. Some factories now use virtually nothing but chipboard. Plastic surfacings are also gaining ground, preferred especially by manufacturers who use mass production methods and need large surfaces of uniform quality. Plastic sheeting or film often resembles wood so closely that experts can barely tell it from a genuine veneer.

Many Small Manufacturers in the Community

There must be 5,000 furniture plants in the Community, but because the industrial statistics do not cover all of them, it is impossible to say. To these should be added 70,000-80,000 joiners' shops which, at least in the country, still make furniture in addition to house fittings.

There are no exceptionally large businesses in the industry. According to the latest industrial census in Germany, five factories in the wood-processing industry employed more than 1,000 workers in 1961; by 1965, this figure had risen to eight. During the same period, 27 factories in the German industry had between 500 and 1,000 employees. In the other Common Market countries, between 1 per cent and 2 per cent of all wood-processing works employ more than 200 workers. The biggest furniture manufacturer in Europe, whose turnover is $30 million, supplies less than 2 per cent of the German market. Thus, there is no single dominant firm.

Nevertheless, concentration is increasing in the furniture industry as in others. Labor shortages and competition make more and more extensive rationalization essential, and this demands constantly larger capital outlays.

But Problems Remain . . .

For craft establishments and small enterprises, the need to install expensive machinery presents a great financial problem. Rapid technical progress often means that equipment becomes outdated in a few years, and depreciation covers only a small proportion of these investments. In small firms, almost all profits after taxes are needed to support the owner's family, and the possibility of further capital formation is thus ruled out. Enterprises are thus increasingly running into debt and are often obliged, for example, to sell special items cheaply when machines are ready for replacement. Somtimes they reach the point when they simply cannot keep up any longer, and either sell out to a stronger competitor or go out of business.

Where mass-produced articles are concerned, larger manufacturers of mass-produced bedroom, kitchen, office, and school furniture, are likely to consolidate their positions further, especially because they are able to build up a strong sales organization. Small factories, on the other hand, very often sell only to a small number of stores, agents, or wholesalers, who are extremely well placed to bargain about prices. However, small businesses will still have opportunities in the labor-intensive manufacture of chairs and—above all—period furniture. These articles require smaller runs where craftsmanship is still a decisive factor. When buying these kinds of furniture, well-to-do customers will not haggle over the odd penny.

Common Market Induces Greater Efficiency

Prices have remained surprisingly stable as a result of both lively competition between manufacturers and reduction of production costs by more efficient methods. Before the war, even the largest furniture factories were really no more than large-scale joiners' businesses. Today even factories employing only 20-30 workers have gone into conveyor-belt and other mass-production methods. Most plants now specialize in specific fields (in many cases, they had no other choice) and no longer attempt to produce every type of furniture by themselves. Individual parts are frequently purchased from larger firms.

Some Facts and Figures

High Growth Rates. The Common Market's furniture industry increased its output from $1.25 billion in 1958 to $2.25 billion in 1965 with an increasingly large portion sold abroad. The Dutch and Belgian furniture industry has had the greatest expansion in the period 1958-65; their production rose by 140.5 per cent and 133.2 per cent respectively. During the same period, Italy's output increased by 100 per cent and Germany's by 97.1 per cent, while France's growth rate was considerably lower—41.9 per cent.

The largest furniture producer in the Common Market is Germany, whose industry is the second largest in the world, after that of the United States.

Growing Exports. As an exporter, the West German furniture industry has long held first place. In 1965, its share of the Community market amounted to 56.9 per cent. France came second with 25.5 per cent, followed by Belgium with 6.4 per cent, Italy with 5.7 per cent, and the Netherlands with 5.5 per cent.

Of the Community countries, Belgium had the highest export ratio—25 per cent of production—followed by: Italy (12 per cent), and the Netherlands (9 per cent). Although now the world's largest furniture exporter, the Federal Republic of Germany in 1965 sold only 5.2 per cent of its production abroad. For France, the figure was 3 per cent.

Per Capita Expenditures. Furniture expenditures still differ considerably in different parts of Europe. In 1964, the per capita expenditure on furniture in Germany was $17.28, the highest in Europe. Since then, it has risen to about $22.50. The only other country that spends as much on furniture is Sweden which has a high standard of living and a climate that forces people indoors for more than nine months every year. Of the Community members, after Germany, France spends the most on furniture: $10.72 in 1964. The corresponding figures were: Belgium, $9.57; the Netherlands, $8.67; and Italy, $2.25. Italy's relatively lower incomes and warmer climate explains her relatively low per capita expenditures on furniture.

What Is the "TVA"?

by JOHANNES JANSEN

The tax on the value added (TVA) is roughly comparable to the manufacturers' excise tax in the United States. Johannes Jansen, head of the Indirect Taxation Division of the European Communities Commission, explains why the Six decided to adopt a common system of tax on the value added at each stage of production and distribution.

TAXES ARE NOT DESIGNED TODAY merely to raise revenue. Like all other modern states, the six members of the European Community use fiscal policy to stabilize their economies and to facilitate changes in the structure of society. Their tax systems vary, however, because of differences in their economic policies and in the practical possibilities of collecting taxes in their countries. The importance of fiscal policy in shaping business and living conditions today makes an alignment of the six Community members' tax policies unavoidable if they are to achieve the economic union described in the Rome Treaty. Therefore, the Six decided to take the first step towards tax harmonization.

On April 11, 1967, after years of preparatory studies, the European Communities Council of Ministers decided to institute a common turnover tax system. The tax will apply to the value added to goods at each stage of manufacture and distribution, rather than to their full value at each change of ownership.

Turnover taxes—consumption taxes added to the price of taxable products—are levied according to the "country of destination principle," which exempts exports and imposes tax liability on imports similar to the tax load borne by domestic products. Tax adjustments are made at the frontier to ensure that the same indirect tax is levied on imported goods as on comparable domestic products.

Without a harmonization of turnover taxes, it would mean that the completion of the customs union on July 1, 1968, would relieve the Community members' trade with each other of customs duties, but not of tax frontiers. At the customs border, indirect taxes would still be levied or reinmbursed and physical inspections performed.

Tax Alignment in the Treaty

The drafters of the Rome Treaty creating the European Economic Community regarded harmonization of turnover taxes and excise duties as a matter of primary importance. This emphasis was logical; by means of a customs union (or "common market") the Six were to achieve economic union gradually in progressive stages of economic interdependence. They were to start by removing all restrictions on their trade with each other. Since customs union was to be the instrument of economic union, the Treaty gives prime attention to the compensatory measures for indirect taxes applied at the frontier to intra-Community trade in goods.

Export rebates and import equalization taxes could easily be used to distort competition, a purpose incompatable both with the Common Market and with the Treaty. For instance, if a higher compensatory tax were levied on imports than was paid on comparable home-produced goods, the difference would have the same protective effect as the customs duties that were being eliminated. If the export rebate were too high, the difference would amount to an export subsidy.

To prevent this type of discrimination, Articles 95 and 96 of the Treaty stipulate that the export rebate and the amount charged on similar domestic goods may not exceed the amount of tax actually paid. Because these amounts could not be determined accurately in the "cascade system" countries (see below), Article 97 permits those countries to use average tax rates temporarily. Even if calculated accurately, average rates, by definition, cause discrimination by giving a low-taxed domestic product an automatic and unwarranted advantage over imported goods (unless the average rate of rebate exceeds the amount of tax actually paid).

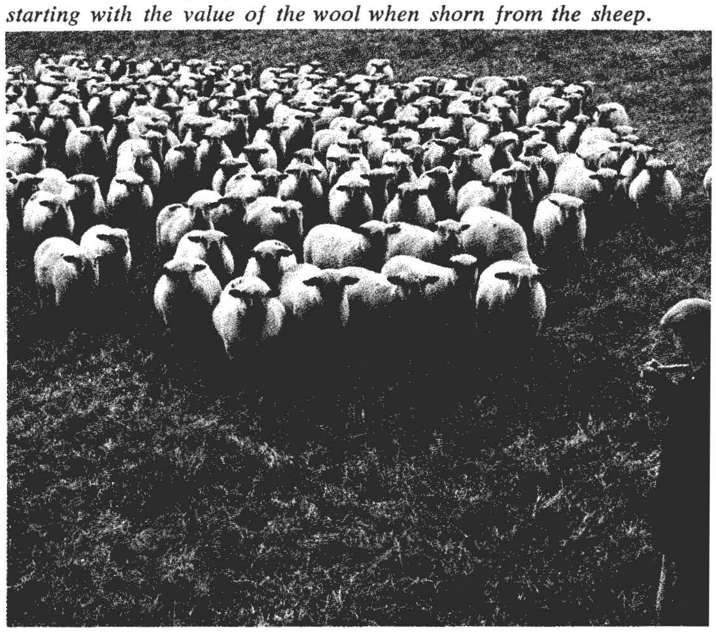
The Treaty mentions tax harmonization specifically in only one clause: Article 99 requires the Commission to make proposals to the Council of Ministers for harmonizing the national laws on indirect taxes (the most important are turnover taxes and excise duties). Article 100 of the Treaty provides the authority for action in the field of direct taxation. It instructs the Commission to propose directives to the Council for the "approximation" of the six national legislations that have a direct affect on the establishment or functioning of the Common Market.

Six Different Turnover Tax Systems

When the Common Market first began to function, turnover taxes did not cause very many difficulties, despite the existence of six distinctly different systems. Customs duties usually provided a large enough margin to cancel any competitive edge that lower taxes might give imports over comparable domestic products. The French TVA system allowed precise calculations, and in the other five countries, most compensatory import levies and export rebates were then below average.

The other five member countries' turnover tax systems, though different, are of two general types:

Once the TVA system is complete, the tax will apply to the value added at each stage of manufacture and distribution, in this case, starting with the value of the wool when shorn from the sheep.



• "cascade" systems: cumulative multi-stage tax structures used in Luxembourg, the Federal Republic of Germany, and (with the exception of retail sales) in the Netherlands

• "mixed" systems: used in Belgium and Italy. Basically, these are cumulative, multi-stage systems of taxation through the wholesale stage but incorporating taxes applied at a single point for some goods.

In a cumulative multi-stage system, the tax liability accrues at each stage of production and distribution, i.e., every time the owner of the product changes. The tax rate applies to the total value of the product at that point; and the total amount of turnover taxes paid on any product depends on the number of stages through which it passes, as well as on the cost of its components and the equipment and services utilized in its manufacture and distribution. Even in a single industrial sector, these costs can vary from product to product.

The built-in "cascade" effect of the system puts a lower tax load on goods produced and distributed in short chains, with few changes of ownership. The system favors vertically integrated companies, which retain ownership of the goods all along the chain, and thus poses a tax obstacle to specialization of production.

TVA: Economically Neutral

To eliminate these fiscal distortions of competition, the Council of Ministers decided on April 11, 1967, to institute a common turnover tax system based on the value-added method of taxation. Eventually, the tax rates will also be harmonized. The decision was made in the form of two directives to the member states which leave the national governments free to decide how to incorporate the system into their legislation. Other directives will later complete the harmonization.

The first directive outlines the general program for turnover tax harmonization, the methods of accomplishing it, and its purposes:

• to remove fiscal distortions of competition by instituting the common TVA system by January 1, 1970

• to eliminate all tax frontiers between the member countries in the long term.

By 1970, when all six Community members have switched over to the common TVA system, comparable goods throughout the Six will bear the same turnover tax load, and exact compensatory measures will be possible in both intra-Community trade and trade with the outside world. Tax frontiers, in the form of compensatory import levies and export rebates will still exist after January 1, 1970, in trade between the member countries, because the first stage of harmonization merely introduces a common tax *system*. Within the common *system*, each member country decides upon its own tax *rates* and tax *exemptions*. As long as differences remain in the effective tax loads, there will still have to be equalization at the frontiers in order to prevent distortions of competition.

These tax borders will be removed during the second phase. No time limit has been specified for the end of this stage; but, according to the first directive, the Commission must propose a Council directive by the end of 1968 containing the specific action for the removal of tax frontiers and stating how and when it should be done.

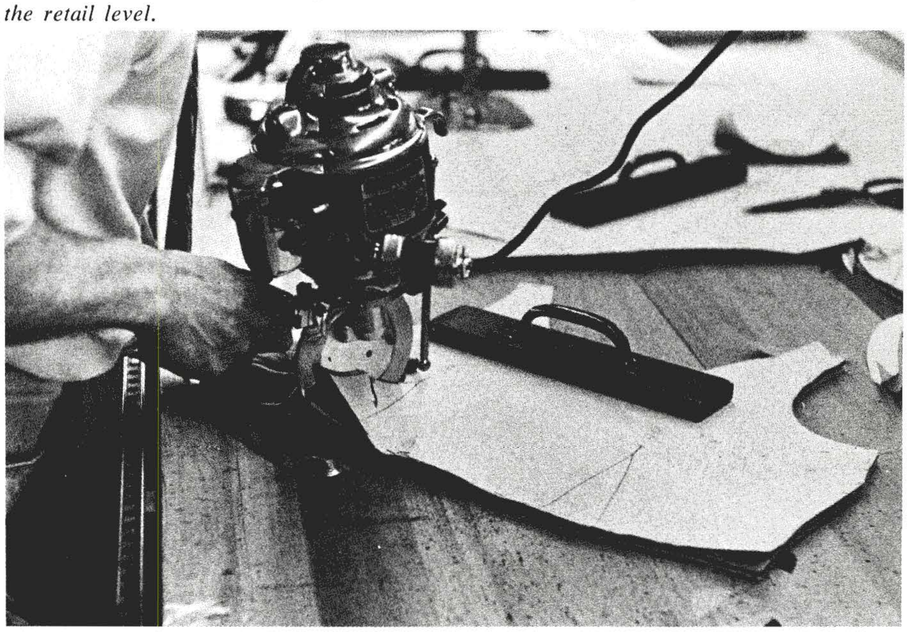
Why a Common System for the First Stage?

Why was a common system prescribed for the first phase of harmonization? This is a matter of some significance.

Economic neutrality, the first objective of harmonization,

The yarn manufacturer will pay TVA only on the value spinning adds to the sheep's wool, not on the cost of the wool plus the cost of processing.

The garment manufacturer will pay TVA only on the value he adds to textiles through the different stages of manufacture up to the retail level.



could just as well have been achieved had each country simply introduced a neutral system of its own choice. France could have kept the TVA system it had, and the countries that had cascade systems could have selected from among various types of non-cumulative and neutral turnover taxes that best suited its own needs.

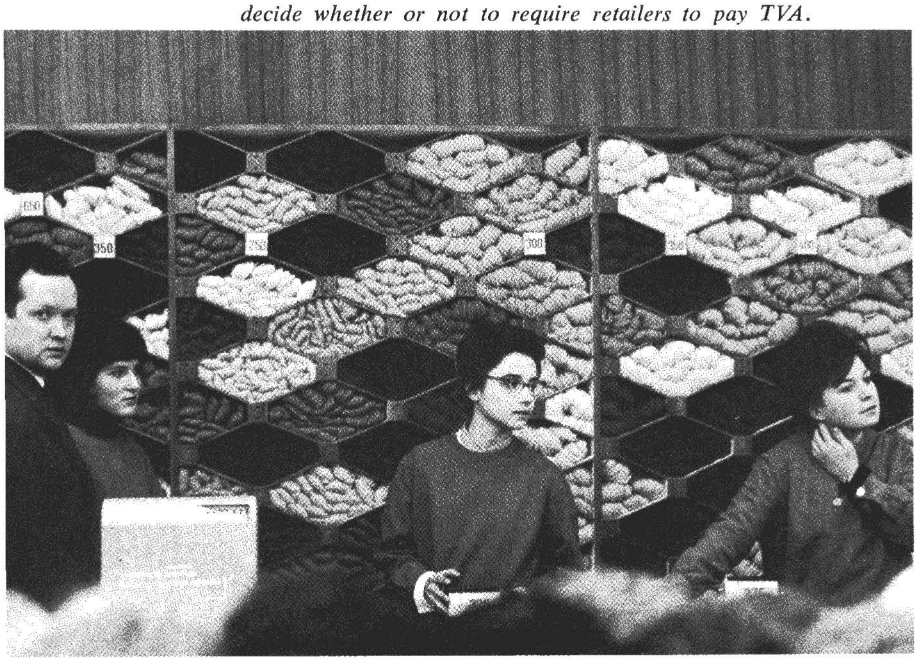
The European Commission actually did suggest this approach at first, but the member countries rejected it because only a common system can eliminate tax borders. Furthermore, the member countries were not at all inclined to amend their legislation drastically twice within a relatively short period—first, to replace their current systems by neutral systems and then, a few years later, to replace the new system with a harmonized common system. They therefore decided to institute a common system right away. Four criteria governed their choice of a system. It had to:

- affect competition as little as possible
- facilitate subsequent elimination of tax frontiers
- guarantee a relatively high tax yield
- work in such a way as to enable all member countries to collect the taxes due.

The Six agreed that the common system would have to be a general tax on consumption, normally payable on all goods and on services that have a marked effect on the price of goods.

The experts considered and rejected three possible types of turnover tax system. A single-point retail tax which would have been ideal as regards neutrality and elimination of frontiers would have put the whole turnover tax burden on the retailer, economically the weakest link in the chain of distribution and the most difficult point of collection. The rate of tax in the member countries would have had to have been relatively high —in France, for instance, about 20 per cent.

The Community's common system allows each member state to decide whether or not to require retailers to pay TVA.



Risk of Tax Evasion

A second possibility, the single-stage wholesale tax, would have fostered equal conditions of competition in the production and wholesale stages, but its impact on consumer prices could have varied with the retailers' margins of profit. However, the main objection—as with a retail tax—was a practical one: tax evasion. Most member countries thought it too risky to levy a relatively high turnover tax at only one point. The third possibility, a single-stage production tax, was rejected for similar reasons. A system of taxation on value added was therefore finally accepted. The second Council directive outlines the structure of the common TVA and its application.

Collection of a TVA levied up to but excluding the retail stage can best be explained by comparison with a single-stage retail tax, levied only on retail transactions. If the rate is 10 per cent, the retailer pays a tax of $10 on a turnover of $100.

With a 10 per cent tax on the value added, the retailer takes 10 per cent of his turnover and deducts from that amount the taxes his suppliers have already paid on the goods. If the retailer's purchases amounted to $80 of his $100 turnover, then he would owe the tax collector $2, or 10 per cent of $20, the value added by the retailer to the product. As with the single-stage system, he will have to pass on to his customers the full 10 per cent of $100 in order to recover the amount in tax that he has paid—indirectly, through his suppliers, $8, and directly to the tax authorities, $2. The tax is levied in the same way at the wholesale level, and at all the steps in production before the wholesaler.

The tax liability is thus spread over every stage through which a product passes before reaching the consumer. What the tax authorities collect in one amount under a single-stage retail tax has the same incidence as a TVA levied up to the retail stage. In either case, the retail price is taxed only once, so that both systems are non-cumulative and neutral with regard to competition. The only real difference consists in the methods of collection: at one point, in the case of the retail tax, and spread over all stages in the case of TVA.

Simplest System

It is generally agreed that if the scope of the tax is made as wide as possible, the TVA system represents the optimum in simplicity and economic neutrality. The scope of the tax should therefore extend from the first stage of production to the last stage of distribution. If retail trade is excluded, retailers might bypass wholesalers and go directly to manufacturers to save the tax on the value added at the wholesale stage.

Practical, political, or psychological reasons in some countries make it difficult to include retail trade in the tax system. This is why the Council's directive makes the common system compulsory up to the wholesale level only, and lets the member states decide whether to include retailers or to levy a separate supplementary tax on retailers. Investigations have shown that different treatment of retailers in the six countries need not necessarily lead to substantial distortions of competition in intra-Community trade.

Mr. Jansen will examine the incidence of the TVA in a sequel to this article.

COMMUNITY NEWS

COUNCIL RESUMES DEBATE ON COMMUNITY ENLARGEMENT EXPLORES BENELUX AND FRANCO-GERMAN PROPOSALS

The European Communities Council of Ministers met in Brussels on February 29 to resume debate on the British, Irish, Danish, and Norwegian applications for membership in the Communities.

Despite the European Communities Council of Ministers' decision of December 19, 1967, the United Kingdom, Ireland, Denmark, and Norway decided not to withdraw their applications for membership (see European Community No. 108, page 15). Five of the six foreign ministers at that Council meeting voted in favor of opening negotiations with the applicants; however, the sixth member of the Council refused. Jean Rey, Commission President, likened the political climate and daily working environment after December 19 to the "crisis" of 1963 that followed the French refusal to discuss further the United Kingdom's membership application. At other Council meetings in December 1967, some of the "Five" ministers of agriculture refused to break new ground or make decisions that would have benefited the dissenting member country. Among the decisions postponed was one providing for financing of the common agricultural policy after the end of the transition period.

To break the freeze following the Council's December 19 decision two proposals have been made:

- One by Belgium, the Netherlands, and Luxembourg in an *aide-mémoire* issued after a ministerial meeting of the Benelux Union on January 15. The memo proposed that the members of the European Community establish a definite consultation procedure with the applicants on matters both within and outside the scope of the Community treaties.
- The other by France and the Federal Republic of Germany in a joint communiqué issued on February 16 by French President Charles de Gaulle and German Chancellor Kurt Kiesinger in Paris. The communiqué proposed that the Community establish trade arrangements with the applicants "pending such time as . . . expansion becomes possible."

Benelux Memo Accents the Political

The Benelux memorandum stressed the commitment of the three countries to the building of Europe in conformity with "the letter and the spirit" of the Community treaties and the necessity of preventing the widening of economic disparities between the Community members and the applicants. It suggested:

- continuation of the Commission's study of the membership requests with the applicants themselves. The Council could instruct the Commission to report back at regular intervals.
- consultations between the Community members and the applicants dealing with "questions that have been settled both in theory and in practice . . . as well as with the ones that have only been settled in theory." A suitable procedure for consultation might be found in the extension of the association between Great Britain and the European Coal and Steel Community to other matters of common interest.
- joint activities with any European state willing to participate in specific areas not covered by the treaties. The number of participants would vary with the type of project. As examples, the Benelux memo mentioned the development, production, and purchase of military equipment; cooperation in specific areas of technology and science, and aid to developing countries.

These proposals to revive the European unity movement, the Benelux countries said, "would be incomplete without a strengthening of relations in the area of political unification." The Benelux countries, the memorandum said, had decided to tighten political ties between their own countries and they invited other European states to participate in their efforts. More specifically, the Benelux countries plan to formulate a joint position on all questions of common interest to them, including foreign policy.

Franco-German Statement Stresses Trade

The Franco-German declaration reiterated the firm intentions of both governments "to devote all their efforts to completing and developing the Common Market," in particular the merger of the three Communities. It said that they hoped the Communities would eventually include other countries, especially the applicants, once they were "in a position . . . to enter effectively into the Communities or to establish with them some other kind of link." Until such time as the expansion of the Community "becomes possible," the French and German governments would be "ready to envisage the Community's concluding . . . arrangements for developing the exchanges of products between them . . ."

Commission President's Comments

Mr. Rey commented briefly on both of these proposals on February 21. He repeated the Commission's unanimous conviction that the moment had come to enlarge the Community, starting with the opening of a dialogue with London. The Commission, he said, thought the Benelux idea of providing something like a membership-in-stages was a good one. The Franco-German plan could not be evaluated, Mr. Rey commented, before its content was fully known.

Mr. Rey indicated that special attention at the February 29 council meeting would be given to finding out whether the Franco-German plan and the Benelux plan were complementary or alternative solutions.

PROGRESS REPORTED IN SPAIN-EEC NEGOTIATIONS

Spain has made specific offers for industrial and agricultural customs disarmament at its third meeting in the current round of negotiations with the European Economic Community. At the meeting in Brussels on February 7-9, the Spanish delegation also recalled the concessions that Spain would like from the Community in exchange. Statements issued by both parties after detailed discussion of Spain's offers indicated a rapprochement of positions, so that the meeting scheduled for March 27-29 could be the last in the current round of negotiations.

ANTI-DUMPING PROPOSAL ALIGNED WITH GATT CODE

The European Communities Commission decided on December 4, 1967, to align its proposed anti-dumping regulation with the code established in Geneva during the Kennedy Round of negotiations held under the General Agreement on Tariffs and Trade.

Although the Geneva Code generally corresponds with the Commission's proposal of May 5, 1965, it is more detailed and contains new provisions on the interpretation and applications of the traditional GATT anti-dumping rules. The Commission's revised proposal would apply from July 1, 1968, the date set by the GATT. This date is also the deadline for the completion of the Community's customs union.

The Commission's revised anti-dumping regulation gives a more precise definition of dumping, particularly indirect or concealed dumping. It establishes definite rules for determining the extent of damage, in particular the causal link between dumping and deterioration of production, and redefines "production" as regards both product and producer.

Other major changes and additions deal with limitations on economic safeguards, the procedure the Commission must observe when presenting notice of a complaint, and the procedure for exporters who voluntarily decide to revise their prices to eliminate the dumping margin. The regulation also would establish a procedure for the refund of duties to importers who can prove that the products had not been dumped, and it separates the provisions on dumping from those concerning bonuses and subsidies to which the anti-dumping code does not apply.

COMMUNITY'S GROWTH MENACED, COMMISSION TELLS PARLIAMENT

The primary responsibility for restoring balance in the international monetary system lies with the United States, a deficit country, and not with the countries running balance-of-payments surpluses.

Raymond Barre, a vice president of the European Communities Commission, emphasized this point when he presented the Commission's annual economic report to the European Parliament on January 23 in Strasbourg. Furthermore, he held, the Community members' responsibilities in the world monetary system entitle them to a bigger voice than they now have in planning reforms of the system.

Economy Shows Signs of Life

The Community's 2.5 per cent rate of growth during 1967 was the slowest for any year since the formation of the Common Market. Since mid-1967, however, the signs of revival in activity had become more numerous, Mr. Barre said. The Community's total output may thus expand by 4.5 per cent during 1968, a recovery that would also improve employment in most member countries. Imports would rise sharply by contrast with 1967, a year of near-stagnation, and would decrease the Community's surplus on current account.

Gains in productivity, the absorption of manpower reserves, and the reduction of excess production capacity would minimize the pressures on costs and prices as the economy recovered momentum. A pronounced rise in domestic demand could, however, disturb the balance of the Italian economy which has been growing steadily and quickly for several years. Similar risks could even arise in Germany, Mr. Barre said, because of its "fairly limited" manpower reserves.

Effects of Britain's Devaluation

Mr. Barre thought it unlikely that the United Kingdom's devaluation of the pound sterling would produce its full impact on the Community economy this year. The effects "will not become apparent before the second half of 1968."

In the long run, Mr. Barre said, the effects of the devaluation and the accompanying actions would be appreciable. Exports of goods and services to Britain represent a fairly small part of the Community's total exports, but Britain's share of the world market would increase largely at the expense of the Community. The United States program to reduce its balance-of-payments deficit could also inhibit the Community's economic development in 1968, he said.

A more serious threat to the Community's growth would come from an increase in interest rates, which would slow down private investment, Mr. Barre warned. The rising trend of interest rates that became apparent in mid-1967 had been strengthened by the increase in the British discount rate to 8 per cent.

The U.S. balance-of-payments program could aggravate these upward pressures, as "European subsidiaries of American companies may be forced to call more than they already do on local sources of finance to carry out their investment projects." Greater competition for a limited supply of funds could put extra strain on the member countries' capital markets.

Monetary Reform Needs Strong Dollar, Pound

Orderly monetary reform would depend on the restoration of confidence in the pound sterling and the dollar, which in turn depends on the wisdom of the policies pursued by the reserve-currency countries. "These must be sufficiently credible to discourage speculation," Mr. Barre commented. He welcomed actions by the United States and the United Kingdom to bring their balance of payments into equilibrium.

As long as the British Government continues other efforts to put the economy on a sound footing, "the devaluation of sterling offers Britain a great opportunity to re-establish a healthy balance of payments." With the surplus it should then be able to achieve, Britain could "redeem the heavy debts it was obliged to contract during its recent difficulties."

The restrictive measures in the U.S. program could fail, Mr. Barre indicated, if unaccompanied by appropriate fiscal and monetary actions. These actions alone would show that the U.S. "doctrine of absolute priority for internal objectives [had] made way . . . for a philosophy under which elimination of the payments deficit stands among the foremost objectives of United States economic policy. This objective is not out of range; it demands no unacceptable measures for the United States."

The United States, Mr. Barre recalled, had spoken of instituting an import charge and an export rebate to offset the allegedly adverse effects on the U.S. trade balance of the Community's added-value tax system (see page 00). If the United States took this tack, to obtain a limited economic advantage, Mr. Barre cautioned, it might arouse reactions in the majority of countries that could curtail free trade and international economic cooperation.

"The American authorities," Mr. Barre continued, "have also argued that the U.S. deficit is no more than a reflection of the European countries' surpluses (particularly the EEC countries'); they have suggested that these countries might contribute to the restoration of equilibrium in the United States payments by the adoption of policies designed to eliminate the surpluses."

Among the major objections to this line of reasoning, Mr. Barre mentioned that the EEC surpluses do not arise from a deliberately deflationary economic policy. Certain European countries have been running heavy surpluses which have not been reduced sufficiently by their capital exports, Mr. Barre said, but "this does not mean that [they] should adopt policies that would inevitably entail internal and external disequilibria." Furthermore, he stressed "it can hardly be argued that the burden of adjusting the American balance of payments should be borne solely by the countries enjoying surpluses, with the United States making no contribution through an appropriate domestic policy."

IMF: Gear Rights to Responsibilities

Within the International Monetary Fund, the Community members have requested amendments to the voting rules to give them a greater voice in decisions. "This request is in no way exorbitant," Mr. Barre explained. In recent years the Six "have financed the bulk of drawings made by their partners on the IMF. . . . The aim is to establish a balance between rights and responsibilities."

Mr. Barre said that the basic rules for the agreement on special drawing rights on the IMF, reached last September in Rio de Janeiro, included provisions for major decisions to be made by a qualified majority of 85 per cent. This amendment would give the Community, if its member countries agreed to vote the same way, the opportunity to exercise the same veto power as only the United States and the United Kingdom now have.

The successful results of the Community members' common approach to international monetary problems in the past two years "can be looked upon as an example for everything else that remains to be done in the Community to concert and coordinate the member states' economic and monetary policies," Mr. Barre said. The efficacy of the Community depends upon its solidarity. In concluding, he suggested that the Commission obtain this solidarity by establishing common guidelines, and by "showing through useful and sober proposals the advantages which the member countries can gain from their solidarity."

CORRECTION

"Who Spends the Money?" the first chart on page 19 of European Community No. 107 contains errors in the figures for France and for the Netherlands. The correct figures for France are: 51, 38, —, 11; for the Netherlands: 56, 3, 21, 20.

ECSC CONTINUES FINANCING PROGRAM

The European Coal and Steel Community made loans totaling $78,630,000 during 1967 from its fund of $94,790,000 earmarked for its financing program.

The Paris Treaty creating the ECSC allows the Community to lend money for projects to increase production, lower costs, or improve marketing of coal and steel products; to reemploy workers laid off as a result of new labor saving techniques and machinery; and to attract new industries to depressed coal and steel areas. After the merger of the ECSC High Authority last July with the Executive Commissions of the European Economic Community and the Atomic Energy Community, the single Executive, the European Communities Commission, took over the ECSC loan program.

The ECSC also helps to finance housing for coal and steel workers. In 1967 it lent $5,830,000 for this purpose.

Last year bond issues and bank loans provided $71,080,000 of the money lent. The ECSC provided $7,550,000 from its own resources, which consisted of contributions by the ECSC member governments, direct taxes paid to the Community by the coal and steel producers in the member countries, and carryovers from previous years. The ECSC charges current market rates for most loans but offers lower rates to industries willing to locate in former mining regions. These preferential rates for "industrial reconversion" loans are subsidized from the ECSC's own resources. Most of the loans made during 1967 were at interest rates of between 6.25 per cent and 7 per cent.

Of the $94,790,000 available to finance ECSC investments, $46,340,000 were earmarked for industrial projects. Among those approved was the construction of a coal-fueled electric power plant.

The chart below shows the amounts and the distribution of loans made since the beginning of the ECSC loan programs through December 31, 1967.

DISTRIBUTION OF LOANS

(1954-1967, in millions of dollars)

Type	*Amount*	*Per Cent of Total Loans*
Coal industry	229.67	27.93
Iron mining	30.25	3.68
Steel industry	356.36	43.34
Subtotal	616.28	74.95
Workers' housing	122.22	14.86
Industrial reconversion	74.15	9.02
Workers' adjustment aid	5.93	0.72
Research	2.96	0.36
Miscellaneous	0.72	0.09
TOTAL	822.26	100.00

ELECTRICITY DEMAND CUT

The European Community used 431.4 billion kilowatt hours of electricity last year, compared with 409.6 billion kwh in 1966. The 5.4 per cent year-to-year rate of increase in electricity output was the slowest since the recessions of 1953 and 1958. In the Community, 24.4 per cent of total output came from hydroelectric sources, 1.6 per cent from nuclear sources, and 73.5 per cent from fuel.

$2,300,000 FOR ECSC AID

The European Communities Commission is allocating $2.3 million for grants to resettle eight thousand German coal and steel workers affected by cutbacks and closings of four coal mines in the Ruhr Valley and one steel plant in Bavaria. The Federal Republic of Germany will have to allocate an equal amount to obtain the Community funds.

NEW COMMUNITY "TIE"

A London businessman, Thomas Blurton, plans to make sales calls soon on clothing stores in Brussels, armed with samples of an unofficial Community necktie his firm has just brought out. The tie shows the map outline of the Six in silver against a dark background. Mr. Blurton's company, which specializes in ties with family coats-of-arms, sells another tie that depicts the Community, in silver, together with the British Isles, in gold.

NEEDY NATIONS RECEIVE $462,000,000 FROM EDF

The second European Development Fund (EDF) which was established in June 1964, as of the end of 1967 had financed 223 development projects in developing countries at a cost of $462 million.

Total resources of the Fund under the Yaoundé Convention of 1964 are $730 million, of which $680 million is being distributed as non-repayable grants. The remaining $50 million is available as special loans at low interest rates. In addition, the European Investment Bank is empowered to make loans of up to $70 million, and at the end of 1967 its loans in Africa totaled $21 million. EDF and European Investment Bank operations in developing countries represent the joint effort of the six Community countries to promote economic growth overseas. In recent years this multilateral operation has represented about 10 per cent of the total development effort by the Six, most of whose aid programs are bilateral.

Countries benefiting from the EDF grants and loans are the 18 states in Africa and Madagascar, associated with the European Community under the Yaoundé Convention, and French and Dutch overseas departments and territories. The Ivory Coast has received the most money from the second EDF, $47.5 million. Madagascar ($46.7 million), Senegal ($45 million), and Congo-Kinshasa ($37.9 million) were the next largest recipients.

The first EDF distributed $581 million in development grants in the period 1958-64. In addition to having greater resources at its disposal, the second Fund differs from the first in that it puts greater stress on raising the associated states' output of crops for both export and domestic consumption. Whereas $252 million of the first Fund went to improve infrastructures and $142 million to production development, almost half ($223 million) of the sums spent so far by the second EDF have been devoted to promoting agricultural research, irrigation, improved stock raising, and crop diversification.

Infrastructure development still receives strong support, with a total of $157 million being spent in the period 1964-67. For example, more than 1500 miles of asphalt roads are being built in 15 countries. Surveys of twenty-seven other roads are being made, and ten bridges are being built. Other branches of expenditure under the second EDF through 1967 have been education and training ($45.7 million), health ($26.8 million), and industrial development ($5.9 million).

During January, financing agreements for another seven new projects valued at $11.3 million were announced.

An EDF-financed well in Mauritania, one of the "Eighteen." In this arid country, merely providing drinking water poses a constant problem.

EIB LOANS TOP $850 MILLION

A chemical-fertilizer factory for Turkey, improved telephone systems for Sicily and southwest France, and a railway modernization plan for the Ivory Coast are among 14 projects for which the European Investment Bank recently approved loans totaling $60 million.

By December 31, 1967, the EIB, at the end of ten years of existence, had agreed to make total loans of $809.6 million for development projects in the six Community countries, the associated countries Greece and Turkey, and the 18 associated states in Africa and Madagascar. Since the beginning of 1968, the Bank has approved $42.9 million in new loans.

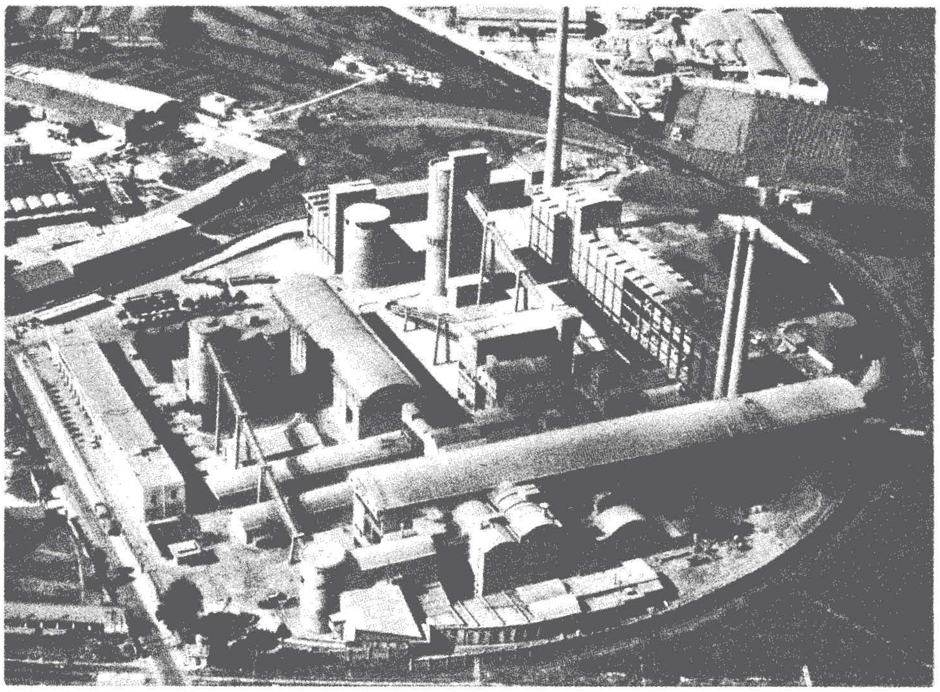
Industrial projects (particularly mining) have predominated among the developments assisted by the Bank's loans, followed by rail and road projects, agricultural improvements, and power supplies.

Italy, the main beneficiary of the EIB's operations to date, has received loans totaling $528 million. Up to the end of 1967, loans amounting to $97.6 million had been agreed on with Turkey. On January 3, four new loans amounting to $5.7 million were approved for factory construction and expansion.

Since the change of regime in Greece last April, no further loans have been made under the Community-Greece association. Up to the end of 1966, EIB loans to Greece had been agreed upon totaling $54 million. Since 1964 the EIB has been authorized to back investment projects in the African states associated with the European Community under the Yaoundé Convention. At the end of 1967, loans totaling $20.9 million had been approved for industrial and agricultural development projects in Cameroon, Senegal, Ivory Coast, and the Congo-Brazzaville. On January 11, the Bank announced agreement on another loan of $6 million to the Ivory Coast.

The terms of EIB loans vary. The repayment time allowed ranges from 10 years to 30 years, after a grace period; and the Bank normally charges interest at prevailing market rates. For African borrowers, however, it often reduces interest rates. The Ivory Coast railway loan, for instance, carries 3 per cent interest.

"Pump-priming" is the object of the Bank's loans, and they therefore cover only a part of the cost of any one project. The remaining financing is raised by other means, such as grants or loans from national governments and international agencies and the open capital market. The total cost of the 14 recent projects is $225 million, towards which the Bank's loans will contribute $59.9 million, or slightly more than one quarter of the cost.



Barletta Cement Factory, Apulia, Italy, an EIB borrower. The EIB lends enough money to encourage industrial and agricultural investments in economically beneficial projects. Private and government financing make up the rest.

EIB LOANS *(December 1967-January 1968)*

Country	*Project*	*Amount of Loan*	*Total cost of Project*
Germany	Building welded-steel tube works at Hamm for Hoesch company	$ 7,500,000	$ 45,000,000
France	Improving telephone system in Midi-Pyrénées, Aquitaine, Poitou-Charente	8,100,000	29,200,000
Turkey	Building chemical fertilizer factory at Samsun	5,600,000	15,230,000
	Building corrugated board and packaging box factory near Istanbul	740,000	2,150,000
	Expanding synthetic and artificial fiber spinning mill in Istanbul	450,000	1,070,000
	Providing productive facilities for Nylon-6 at factory at Bursa	2,000,000	4,770,000
	Building cement works at Hereke, Gulf of Izmit	2,500,000	10,000,000
Italy	Modernizing telephone system in Sicily and Calabria	16,000,000	76,800,000
	Expanding milk processing and bottling plant at Catania	1,000,000	2,000,000
	Building wine processing and bottling plant at Catania	600,000	1,300,000
	Building phosphoric acid plant at Gela, Sicily	4,370,000	15,200,000
	Building medium-diameter welded steel tubes at Taranto	2,750,000	9,600,000
	Building factory for producing lead tetramethyl mixtures at Bussi, Pescara	2,240,000	5,120,000
Ivory Coast	Modernizing 70 miles of the Abidjan-Ouagadougou railway	6,010,000	7,700,000
		$59,860,000	$225,110,000

HALLSTEIN CALLS FOR POLITICAL COMMUNITY; CONDEMNS "NIBBLING" AT INSTITUTIONAL POWERS

A plan for political activities in 1968-1980 leading to a European federation was outlined to the European Movement by its new president, Walter Hallstein, in Rome on January 20.

Dr. Hallstein, President of the European Economic Community Commission from 1958 until last July, was elected to succeed the French politician Maurice Fauré as president of the European Movement. The European Movement is a private non-official organization of legislators, labor leaders, and other influential advocates of European unity.

European political unification could be achieved only by community institutions, not by conventional bilateral diplomacy, Dr. Hallstein stressed. A European political community would complete what the economic unification plan for 1958-70 had started. It must not force the economic community into a position of dependency, he said, but develop along parallel lines.

"Around 1980 . . . the merger of all economic, military, and political communities can take place. This would mean establishing the federation of Europe." Dr. Hallstein left it to the future and the legal experts to decide whether this could be brought about by a treaty between the member states or by an act of a European constituent assembly."

Steady Integration

The methods of operating, rules, and institutions of a political community "must aim at permanent evolution and revision of the constitution in favor of a steadily rising degree of integration; in fact, it must make such a development ineluctable." These instruments must include a consultation mechanism of unlimited scope, "capable of functioning fast enough to deprive less enthusiastic supporters of integration . . . of the usual pretext that the urgency of the matter made it impossible to consult the Community in time."

Organic progress towards full federation could be made only if during the seventies the European Community exerted its full influence on the governments and propelled them in the right direction. The constitutions of the existing Communities should be strictly observed, carefully cultivated, and consciously developed for this reason. But here, Dr. Hallstein said, "the Community is in a sad state. . . . The tendency to water down the existing institutions, to weaken them and to submit them again to the play of diplomacy must be reversed." The national bureaucracies might, "if not checked by tight political leadership, nibble like so many ants at the institutional order established by the Treaties, to the point of destroying it. . . . If we are not careful, the combined bureaucracies will soon restore a situation where they can indulge in the vice of traditional conference diplomacy which settles for agreement at the lowest common denominator. How often have the Communities . . . been almost incapable of action in their external relations," he commented.

"To this very day the Ministers of Finance still meet outside the Council of Ministers. The Council of Ministers has hardly ever had a debate on the budget that went to the crux of the problem."

Direct Elections, A Key

The Community's political impetus would have to be maintained by:

- strengthening the legislative and budgetary powers of the European Parliament
- providing for direct elections of the members of the European Parliament (They are currently chosen by the national parliaments from among their membership.)

Walter Hallstein addressing the 20th anniversary meeting of the European Movement, the Hague, November 11, 1967, prior to his election as president of the organization.

- bringing the Parliament in on the choice of members of the European Communities Commission
- agreeing to submit political disputes to the European Community Court of Justice for settlement
- treating the Commission more like a political entity—the governments should begin by appointing only leading politicians of ministerial rank, and not "experts," no matter how high their qualifications
- applying the rule of majority vote in the Council of Ministers, without being deterred by any gentleman's agreement.

The geographical enlargement of the Community would become more urgent as integration spread to defense and diplomacy, according to Dr. Hallstein. His federation plan called upon every willing state in free Europe to make an effort during the seventies to decide and arrange for its future relations in or with the Community. In preparation for an all-European meeting in the eighties, he suggested extensive contacts with Eastern Europe.

Defense Community with Power

For European security and defense, Dr. Hallstein suggested the formation of a European community for:

- strategic planning—to function as a European general staff responsible for conventional and nuclear weapons and for every geographical area of European military interests
- armaments—to develop an effective system for the standardization of weapons
- nuclear defense—to be able to organize defense against possible threats from a nuclear China or any country that accepted weapons from China.

Only a full federal constitution, giving the institutions of the European federation sufficient powers in the field of European security policy and in defense, would allow the completion of so comprehensive a defense community.

Europe was "bound to oppose the non-proliferation Treaty in its present form," Dr. Hallstein said. "Its section on control arrangements destroys the achievements of Euratom. A more serious defect is its lack of any clause upholding Europe's nuclear defense interests," he explained, adding: "Not even for its own defense would Europe be entitled to have nuclear explosives at its disposal." The "power pattern" of the Treaty he said, "is objectively the continuation of the policy of Yalta, the shameful division of Europe into spheres of interest. This is not changed by the purely verbal and therefore completely insufficient consolation which the Treaty offers by its reference to disarmament."

NEW DEAL FOR FARMERS WON'T MEAN 'FARM FACTORIES'

The European Communities Commission hopes to finish work this year on an "overall concept" for the common agricultural policy, according to Commission President Jean Rey. It will include proposals to improve life on the farm by reforming the pattern of farming, Mr. Rey said on January 26 when he spoke at the opening of Europe's largest winter agricultural exhibition, the "Green Week" of Berlin.

If the agricultural policy lacks scope and a readily apparent overall concept, it was because the Community's first and most urgent task had been to create conditions that would permit the establishment of a common market, Mr. Rey said. The necessary machinery was soon developed and applied in practice, but these market organizations are not the Community's "politically decisive achievements." The two elements "of outstanding value in promoting and supporting agricultural integration and, consequently, the overall integration of the Community" have been "the joint financing of agricultural policy and the fixing of common prices."

Both political and practical difficulties have arisen in connection with the common agricultural policy. Mr. Rey mentioned the situation of the Federal Republic of Germany which not only had to accept prices for important agricultural products but also makes an especially large contribution to the financing of the common agricultural policy. On the other hand, the Community has demonstrated its "solidarity and sense of responsibility" in compensating German, Italian, and Luxembourg farmers for cereals prices from the common agricultural fund. By 1970 this fund will have paid out a total of about $434 million. The high cost of financing the common agricultural market, Mr. Rey said, meant that the Community would seek "means of adjusting supply and demand" so that this "also results in a reduction of the financial burden."

This Belgian woman, like many other farmers' wives, still does laundry in a wooden, hand-cranked tub; she cannot afford an automatic washer and her village has no laundromats. Bringing living conditions on the farm more nearly in line with those in the cities is one goal of the Community's forthcoming plan for restructuring the farming economy.

Farm Reform Plan in 1968

Still unsolved, Mr. Rey said, was the problem of improving farm income and living standards fast enough to keep up with the other sectors of the economy. Market and price policy alone could not raise the income-per-farmer ratio. Farming units would have to be enlarged. The problems, the same everywhere in Europe, lay mainly in the unsatisfactory relationship between production capacity and labor employed; income per head was too low.

Before the end of the year the Commission hopes to propose an overall concept "to create an agricultural industry that will fit into the economic and social conditions of 20 or 30 years hence." However, the Commission President added, "This does not . . . mean that we need assume that the agricultural policy of the future will mean a change-over to agricultural factories. Considerations of social policy alone should suffice to ensure that we try to keep the family as the basis of agriculture in the Community. The task is, however, to bring this policy into line with the economic and technological requirements. We shall certainly not achieve success unless we ignore the taboos and look for new forms of cooperation between production units."

Imports Increasing

The Commission President noted that non-member countries had criticized the Community's "protectionistic" agricultural policy. But the Community's agricultural imports have increased faster than world trade in these products, Mr. Rey observed, and, as the chart shows, faster than farm trade between Community members.

ECC agricultural imports

in billions of dollars	1962	1963	1964	1965	1966
Intra-Community trade	2.2	2.5	2.8	3.3	3.6
Imports from all non-member countries	8.9	9.4	10.1	10.6	11.2

SOCIAL FUND'S 1967 GRANTS

The European Social Fund spent $14 million in 1967 to retrain and resettle 46,000 unemployed workers. The Fund reimburses the member governments of the Community for half of their expenditures on approved projects.

Italy received $2,580,000 more than it paid into the Fund, Germany $609,000 more, and Holland $110,000 more. Net supporters of the Fund's operations were: France ($2,710,000), Belgium ($565,000), and Luxembourg ($23,800). Since the beginning of its operations in September 1960, the Fund has spent more than $54 million for projects which involved 554,000 workers.

EUROPEAN SOCIAL FUND 1967

Country	*Amount*	*Beneficiaries*
Belgium	$ 660,000	920
France	1,750,000	1,625
Germany	5,080,000	13,859
Italy	5,370,000	28,511
Luxembourg	4,000	4
The Netherlands	1,090,000	1,107

EUROPEAN PARLIAMENT IS WORRIED ABOUT EURATOM

The European Parliament is worried about the future of the European Atomic Energy Community in view of the "negative aspects" of a decision made by the Council of Ministers on December 8, 1967.

In a resolution unanimously adopted on January 24 in Strasbourg, the Parliament said that the decision "suppresses the existing means of technological cooperation without effectively launching new means of Community technological cooperation." The Council's decision allocated $40.7 million for research at Euratom Joint Research establishments during 1968. It postponed until after March 1 the decision as to which of the associations and contracts (for which the Commission had requested another $40 million) should be included in the 1968 program.

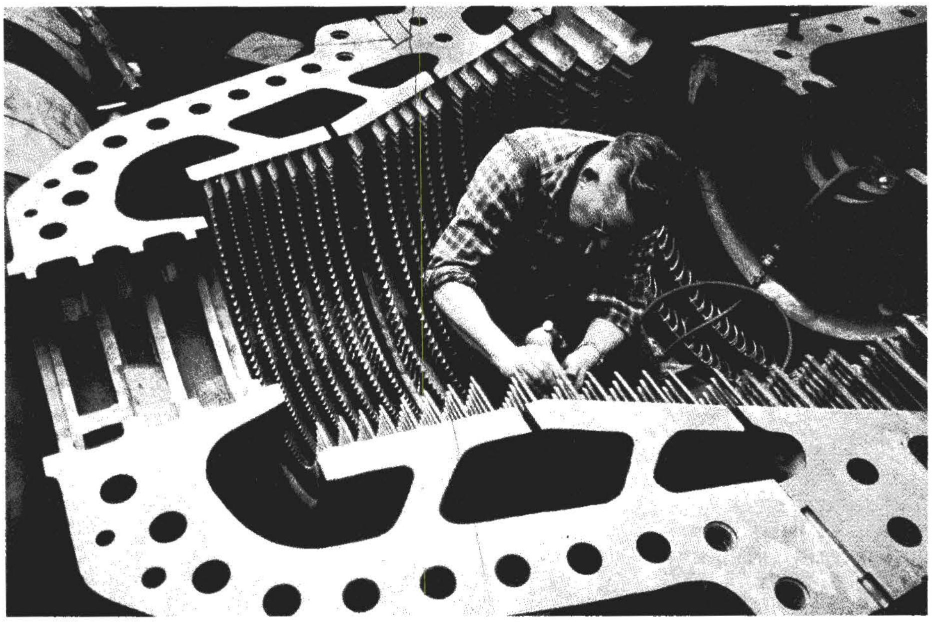
During floor debate of the resolution, Commission Vice President Fritz Hellwig said that it was incorrect to surmise that the associations were being brought to an end. The 1968 budget, he said, provided funds for Euratom personnel to continue working in joint teams and for the dissemination of information arising from this work. The Commission remains co-proprietor for the Community of industrial property and investments contribluted by Euratom, and the Commission retains responsibility for the supply of fissile materials and control over their use for all the associations. In the meantime, the Committee of Permanent Representatives was examining the question of Euratom's financial contribution to the associations.

FRENCH WORK LONGEST WEEK, LUXEMBOURGERS EARN MOST PER HOUR

Industrial workers in Luxembourg earn the highest hourly wages in the European Community while the French work the longest hours, according to a study by the European Community Statistical Office (No. 8/1967).

Average hourly wage rates in October 1966 ranged from $.56 in the Italian textile industry to $1.46 in the Luxembourg steel and other metal industries. The average working week also varied widely between different industries in each of the Community countries as well as from one country to another. All rates quoted in the study were averaged over the whole work force in each industry, and the full study differentiates between men and women.

The highest average hourly wage (all industries) paid was in Luxembourg ($1.29). Germany ranked second at $1.15 an hour, followed by Belgium ($1.00), the Netherlands ($.95), France ($.81), and Italy ($.67). These averages, however, do not indicate the relative living standards in the six countries, since they are gross rates before taxes. Social security and income taxes are especially high in France and Italy.



A skilled worker at C.E.M. Eléctronique *plant at Le Bourget, France. Industrial wages still vary from country to country in the Community and they are highest in technology-intensive industries.*

Wage Rates

Between April 1964, when the Statistical Office first made Community-wide studies of wage rates, and October 1966, average wage rates had risen 13 per cent in Luxembourg, 15 per cent in France, 18 per cent in Italy, 20 per cent in Germany, 23 per cent in the Netherlands, and 24 per cent in Belgium. During the same period, however, living costs also rose: by 10 per cent in Belgium and the Netherlands, and between 5 per cent and 7 per cent in the other Community countries.

Average Hourly Wages—October 1966

	Germany	France	Italy	Neth.	Belgium	Lux.
Extractive industries	$1.25	$0.93	$0.77	$1.24	$1.16	$1.46
Manufacturing industries:	1.12	0.80	0.67	0.90	0.85	1.33
Food	0.99	0.74	0.65	0.90	0.88	0.90
Textiles	0.96	0.64	0.56	0.84	0.84	—
Paper	1.06	0.77	0.69	0.97	0.96	—
Chemicals	1.16	0.90	0.70	1.00	1.12	0.98
Steel & other metal production	1.25	0.83	0.77	1.12	1.23	1.46
Non-electrical engineering	1.19	0.90	0.74	0.97	1.05	1.10
Electrical engineering	1.04	0.87	0.68	0.87	0.94	0.97
Building and construction	1.25	0.81	0.72	1.06	1.06	1.01
All industries	1.15	0.81	0.67	0.95	1.00	1.29

Average Weekly Hours—October 1966

	Germany	France	Italy	Neth.	Belgium	Lux.
Extractive industries	42.2	47.0	34.4	43.3	41.1	45.7
Manufacturing industries:	43.8	46.3	38.0	46.0	44.5	44.5
Food	48.2	48.3	36.0	47.5	45.8	50.5
Textiles	42.7	43.8	36.9	45.3	43.5	45.6
Paper	45.0	46.7	39.7	45.8	45.7	—
Chemicals	45.0	45.2	37.3	45.8	44.1	47.3
Steel & other metal production	43.5	47.2	39.1	43.7	45.5	42.3
Non-electrical engineering	44.1	47.0	39.6	46.4	44.3	46.8
Electrical engineering	42.5	46.6	38.4	45.2	44.5	48.8
Building and construction	44.9	50.7	32.0	45.9	44.2	52.6
All industries	43.9	47.3	37.0	45.9	44.2	45.7

The incidence of high-wage and low-wage averages tended to be the same in all six countries. The mining, petroleum, printing, and metallurgical industries generally paid the highest wages. The lowest rates occurred in food, textiles, and clothing, where women comprise a large part of the work force.

Average Hourly Wages —Manual Labor

	Belgium	France	Ger.	Italy	Lux.	Neth.
Men	$1.06	$0.88	$1.21	$0.72	$1.37	$0.92
Women	0.72	0.66	0.85	0.53	0.76	0.57

Gains et durée du travail—octobre 1966 Série Statistiques sociales no. 8/1967.

Working Hours

Available data on the length of the working week did not permit a precise comparison of all the member countries; because, for all countries but Italy, they related to the theoretical working week, which makes no allowances for absences, such as illness. For Italy, the figures show the average hours actually worked.

Despite this difference in methodology, Italian workers clearly worked the shortest week in the Community. In almost all Community countries hours were relatively long in the construction and food, drink and tobacco industries, and relatively short in the clothing and shoe industries.

RECENT BOOKS ON COMMUNITY TOPICS

EUROPEAN COMMUNITY periodically lists books dealing with Community and Atlantic topics. This presentation does not indicate approval or recommendation of the publications.

Why Growth Rates Differ: Postwar Experience in Nine Western Countries. By Edward E. Denison, assisted by Jean-Pierre Poullier, The Brookings Institution, Washington, D.C., September 1967.

An endeavor to measure the determinants of national income in post-war years in the United States, Belgium, Denmark, France, Germany, the Netherlands, Norway, the United Kingdom, and Italy. Western Europe has grown much more rapidly than the United States since the last war, but not for the reason most often cited: the "lifting of trade barriers appears to have been a small factor," the authors state. A major factor has been the reallocation of resources from low-productivity occupations into "the mainstream of the modern economy," and more specifically, the transfer of workers from agriculture to industry. Differences between European and American growth rates were "much enlarged by gains from economies of scale," but consumption patterns in Europe also changed as personal income expanded. "To a great extent, Europe has moved ahead faster than the United States because it was so far behind," the authors conclude.

Representative Government and European Integration. By Willard N. Hogan, University of Nebraska Press, Lincoln, 1967.

An examination of the process of transnational political decisions for its effect on representative government. The author emphasizes the European unity movement since the end of World War II. In the acts of the various European communities, he seeks practical answers to the question of exercising democratic control over transnational political authority.

American Marketing in the Common Market. By Vern Terpstra, Frederick A. Praeger, Inc., New York, 1967.

A study of American marketing in continental Europe, particularly in the six Common Market countries. In considering how the formation of the Common Market has affected American companies' approach, the author also touches upon Americans' relations with European companies. By treating the six territories of the Common Market as one marketing area, the Americans "are probably contributing more to the realization of the Common Market than are most European firms," the author concludes.

Building the American-European Market: Planning for the 1970's. Edited by Gene E. Bradley, Dow Jones-Irwin, Inc., Homewood, Illinois, 1967.

Presents the judgments of business and government leaders in Western Europe and the United States on current issues in the Atlantic Community. Reports by the Atlantic Council cover the role of the corporate executive, technology, management attitudes and practices, big business, the crossflow of investments between the United States and Europe, and international political relations. Each report is introduced by a noted authority in that particular field.

INDIA SEEKS URGENT TRADE TALKS WITH EEC

Trade discussions between India and the European Community opened in Brussels on February 13 concerning Indian jute and coconut products and handicrafts. At the end of January, the Indian Government had told the Commission in a memorandum that it urgently wanted to reach a trade agreement with the Community to reduce its trade deficit with the Six.

According to data compiled by the Community's Statistical Office, during the first seven months of 1967 the Community sold $260-million worth of goods to India. Community imports from India during the same period amounted to less than $106 million.

LUXEMBOURG PROPOSES MONETARY PLAN FOR SIX

Pierre Werner, Prime Minister and Minister of the Treasury of Luxembourg, has proposed an action plan on monetary policy for the members of the European Community.

The plan revolves on five main points. The Community should:

- enumerate the monetary operations that a member country may carry out only after consulting with other member countries
- agree on the definition of a "European unit of account"
- enumerate the member countries' reciprocal obligations in maintaining fixed relationships between their currencies, with or without reference to the European unit of account
- coordinate the internal monetary cooperation of the Six with that exercised at world level by the International Monetary Fund
- formulate a general framework for an intergovernmental agreement concerning the extent of the member states' obligations of mutual assistance in the event of balance-of-payments difficulties.

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