

The Economic Club of New York

Partnership in the Making:
A European Point of View

Dr. Walter Hallstein, President
The Commission, The European Economic Community

April 24, 1962

Hotel Astor
New York City

Dr. Walter Hallstein, President

The Commission, The European Economic Community

I hope no one will accuse me of meddling into U.S. internal policy if I take a position here on the issue of Atlantic partnership. A partnership is by definition a two-sided affair. The relationship involves co-operation and thus the obligation of each partner to have his opinion.

This proposed partnership of ours is very broadly analogous to what we call economic integration -- the establishment of a unified economic area containing conditions suggesting those of a single national economy. This is the economic essence of what is being created in Europe as the European Economic Community. Thus, perhaps, our experience, the experience of a friend, can be helpful for future Atlantic planning.

With the above I have really already said why I am speaking of a partnership which is “in the making.” This talk is part of a common endeavor to find the proper content and form of our evolving partnership -- in a sense it is already partnership-in-action. Therefore what we propose for the future is not a completely new structure but the organic development of a relationship which already exists.

What is our view of the relationship?

By call the future order a “partnership” we have already made a fundamental choice. We have done this for compelling reasons. We have chosen between 2 concepts which are theoretically possible. Using a terminology which is in process of formation, we can call one the idea of an Atlantic Community and the other the idea of Atlantic partnership.

I say: when we formulate the difference in this way we are using a terminology which is in process of formation. For instance, we have a fairly precise definition of the term “Community,” as used in connection with economic integration, if we take as our example the European Economic Community. Its decisive criterion is political.

First of all the European Community has institutions. There is a European “government” -- in other words a system of responsibilities, competences and procedures which enable the body thus created to have a policy of its own -- a policy different from the policies of the several Member States, and which is not simple the sum of these policies.

A second related factor is that the Community has a common frontier. The attitude to this frontier, the orders given to frontier officials, can be very liberal. It can be very low. It need not be a Great Wall of China or a Berlin Wall. But it is nevertheless there, marking the limit of the powers of the institutions of the Community. Even the freest and most open Community in the world must establish its policy with respect to its frontier. The trade policy this means the

existence of a common customs system applied to non-members. Those beyond the frontier are inclined to call this discrimination.

The structure of the European Community is not explained by economic aims alone. It has not been made what it is solely by our endeavor to establish in the Community conditions as close as possible to those found in an individual nation economy. It is equally, indeed largely explained by the fact that the economic integration of Europe is not an end in itself but a means to the end of political unification. The final aim is political unity. Whether through federation or confederation is a point of which we have so far expressed no view because discussion of it threatens to divide rather than unite us. We would be happy to find a more precise term which would express our particular idea of “Community” and which would effectively convey all that we wish immediately and are able to achieve immediately.

The aspect is completely different when we look at the Atlantic area. Nobody is thinking of an Atlantic “government.” The ideological strength of the European Community springs from the concept of Europe. But the United States of America is not just an Atlantic power; it is also a Pacific power and an American power. The substance of the arrangements we are trying to find is not intended to be discriminatory but, in accordance with the rules of GATT, to benefit others as well. Also, we are realists enough not to think of a kind of an Atlantic federal entity -- magnificent as that would be. In other words, Atlantic partnership will not find expression in a collective political personality but rather will be built on 2 mighty pillars: America on the one side

and an integrated Europe on the other. Our constant exchange of ideas, increasing co-operation, and co-ordination of action are the essence of the new order of things.

If these are our intentions a central question arises upon the answer will depend our chances for the future. It is: What have the 2 partners in common, or what must they have in common to make their partnership possible? The answer is: A multitude of opportunities, a multitude of problems and a multitude of aims. That is why they can and must come together.

As far as essentials are concerned, the 2 partners share the concept of a vast Atlantic market, that is, the reduction of trade barriers, and of customs duties in particular. This increases trade and heightens competition. It is a stimulus to rationalization and modernization. It expands mass production and leads to a better international division of labor. On the basis of the theory of comparative costs, it produces a higher degree of specialization. Production becomes more efficient and less costly. Both gross national product and industrial production rise, as does the standard of living. Developments in the European Economic Community have once again provided proof of all this -- there are few equally impressive examples in economic history. **I will not weary you with statistics.

However, there are certain conditions which must be fulfilled if all this is to happen. Amongst these, 2 are essential: The economies which are to be brought into such a mutual relationship must be in physical proximity, and they must be at least approximately equal.

The first of these conditions causes the least difficulty. Economically, proximity is not a problem of the means and cost of transportation. Modern technology has revolutionized our concepts and made all things relative. All men, all economies are being drawn closer and closer together in our generation. The Atlantic is no frontier. It has become the Mediterranean of our age. Transport by sea is relatively cheap.

The answer to the question of whether there is equality is not so straightforward.

There certainly is equality in the psychological sphere, in matters of spirit and mentality, in our basic approach. I refer not only to the unity of Western civilization, but I have in mind the sameness of economic theory, which is centered on expansion, the similarity of our dynamic view of life, and the attitude to the spirit of enterprise which at bottom is no more than one particular aspect of individual responsibility and initiative, and therefore in the last resort stems from our fundamental agreement on the scale of values. This has found its most topical expression in the fact that it has recently been possible without difficulty to lay down an over-all 50% rate of increase of the national product throughout the OECD in the next 10 years.

But are the basic economic forces equal? This question is difficult to answer first because there is no generally accepted yardstick for measuring such things and secondly because in a dynamic economy conditions are constantly changing. Therefore, the question should not be put in a static

manner, but as follows: Are the 2 economies - the American and the European - possessed of relative abilities for facing the opportunities and the dangers which will be present in an Atlantic free trade area? Beyond doubt demand will rise. Europe has an enormous gap to make up if its standard of living is to be equal to that of America. Possible American businessmen will have an initial advantage because they will start with greater capital assets and are already accustomed to a market of continental dimensions, and they also may make use of unused plant capacity.

Whereas its European counterparts are still making a transition from their small national markets to the one large European Community market. To compensate for this, European businessmen have, for the time being, a better knowledge at least of the European market and they have a better sales organization there. Furthermore, the European businessmen have more export experience than the average American businessman. But as to inventive spirit in matters technical and economic, I do not suppose that either partner has particular cause for anxiety. Any initial structural inferiority in Europe may be offset by the vigorous élan in economic development, which contrasts with certain characteristics of the U.S. economy.

On the other hand, the significance of differing wage levels is unduly exaggerated. The difference expresses only the difference in productivity. Experience shows that the industries with the high wage levels are the most successful in the export field. What will matter in the long run is that both sides are confident of their ability to secure a fair share of the market.

Let me now turn to the technical side of partnership. The mutual reduction and, where possible, the abolition of customs duties is a prerequisite for expansion of trade. Recent experience in the Dillon negotiations in GATT has shown that comparable tools are essential - namely that the American partner must also be capable of making linear reductions. Once your Administration has such powers, a great step forward will have been taken. In connection with equality and reciprocity there will still be a number of supplementary questions. The structure of the American tariff is not the same as ours. Nor is the average level the same. American experts have calculated that as a result of the Dillon-negotiations the average EEC tariff will be 5.7% and the American 7.1%. In addition, the highest American duties are considerably higher than the highest European duties - and in several cases they are prohibitive in character. This will, of course, give rise to some problems in negotiations, but will not be insurmountable.

A difference of more fundamental nature, however, is the fact that one partner - the U.S. - is a mature political entity whereas the European Community is an adolescent still in the process of consolidating crystallizing itself. You cannot transform a boy into a man simply by treating him as a man, but you can hasten his maturation by expecting big things of him. We have enough sporting spirit to take up the challenge. Nevertheless, the difference should not be overlooked. Purely by way of example, I can perhaps make this point:

If future trading arrangements provide for safeguard clauses to be applied unilaterally by the U.S. then the same would, of course, have to be accorded to the European partner. So long as the

economies of the 6 Member States have not really been merged, safeguard clauses in Europe could easily transcend protection to become a cause of disintegration.

This example leads me to another issue. Conditions of competition must be equal not only at the beginning of the new arrangements for partnership. They also must not be distorted subsequently. This question arises for the simple reason that the equality of competitive conditions is not the natural situation, but the outcome of human action - and in particular of political action. In a national economy the danger of distortion is met by all competitors being subject to the same legislation. In our Community we have evolved a similar system of Community discipline (which is why many people speak of a supranational Community.) We have our own European anti-trust legislation. We have prohibited subsidies; we have laid down rules governing monopolies, and so on. How is this matter to be settled in the Atlantic partnership which, as I have already noted, has no federal character? Probably, a solution will have to be sought in the establishment of a code of good conduct, possible by sophisticating certain rules of GATT.

This question is closely connected with another of no lesser importance. It concerns the reliability of the future Atlantic understanding. It must be such that businessmen can count on its continued existence, for otherwise they cannot make their calculations. In the EEC, we were confronted with the same problem. We came to an agreement on a system that comprises a rigid schedule of staged tariff reductions - the only departure being for accelerations. In our case, these

arrangements cannot be changed by unilateral action. It is largely to this immutability of our system that we attribute the element which has proved decisive for the success of our undertaking, namely that the business community has accepted the EEC as a reality.

The system is strict. We have always appreciated the fact that it has aroused not only hopes but also worries among those who lie under it and who must take entrepreneurial decisions. We therefore decided that tariffs would be lowered gradually, and did not resort to any shock treatment (incidentally, the period we fixed was too long, as can be seen from the decisions for speedup already taken.)

Further, we have made it easier in two ways for those concerned to adjust themselves to the new situation. We cannot deny, you see, that this new situation has been caused by political decisions and that consequently there exists a sort of moral duty to do everything possible to prevent the individual having to suffer as a result. We have created a Social Fund which bears half the costs incurred when workers change their place of employment or have to be retrained for other occupations, and we have set up a European Investment Bank which provides loans and guarantees not only for aiding under-developed areas but also to help firms to modernize and make conversions and to create new employment opportunities.

Europe has noted that the American trade program contains an analogous arrangement in the form of adjustment aid. Moreover, this is not designed to protect uncompetitive firms from

competition but rather enable them to re-enter competition. This is wholly in line with the fundamental aim of the economic policy of directing the factors of production (capital and labor) to the point where the conditions of production are most favorable.

Furthermore, experience has taught us that the fears, and the demands for protection, have been very much exaggerated. We have not had hundreds of thousands of unemployed workers, but at the very worst so and so many entrepreneurs without work and the best of these have had no difficulty in successfully turning their hand to be productive and profitable activities. Be that as it may, in the interests of the successful conclusion of the overall Atlantic endeavor - in other words of the promotion of economic expansion - such an adjustment program is undoubtedly preferable to unilateral safeguard clauses.

Before concluding I should perhaps make two further comments on the effects of trade expansion. The first, which is connected with the American balance of payments, concerns the matter of the flow of investment capital to Europe. The problem is a relatively small one, and affects only 1/8 of the capital leaving America, -- or only 4/10ths of 1% of total annual U.S. capital investments. The amount of American capital being invested in Europe will probably be also directly influenced by the reduction in trade barriers, than by the equalization of the American and European rates of expansion. The fundamentally liberal policy of the Atlantic partnership suggests that the answer to this problem does not lie in artificial measures but in giving free play to natural developments.

Finally, European observers also expect liberalization of trade across the Atlantic to have a favorable influence on the novel phenomenon of cost inflation. The chief factor in keeping the trend of wages geared to the trend in productivity lies in the exercise of good sense by labor and management in their collective bargaining. If this is not sensibly handled, there can be no avoiding either price rises or, if these are held in check by monetary policy, a fall in the rate of economic expansion (and unemployment.) The members of a free society will only adopt a sensible attitude out of conviction. Competition however, is an excellent method of helping to convince them of what is right.

In the present stage of discussion, there are my views on some of the elements of Atlantic partnership. I am grateful for the exceptional opportunities offered me during this visit to the U.S. to go over, clarify and correct these views in discussions with senior members of the Administration, with Congressmen, trade unionists and the general public, as well as with representatives of American business. And I am especially grateful for the opportunity to speak which you have afforded me this evening. What I have given you has been personal opinion. We have not yet reached the point of negotiations between Europe and America. Thus the institutions of the European Economic Community have not as yet been called upon to take an official position.

To sum up, I believe that expansion of trade is good American, good European and good Atlantic policy, that it strengthens the free world and is therefore a useful contribution to preserving the most precious possessions which we wish to secure - freedom and peace.