U.S.-German-European Community Economic Relations: The Need for Common Approaches to Common Problems

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It is a pleasure for me to be here in Kassel today. I appreciate your invitation and this opportunity to talk about some of the common problems we face. It is especially rewarding to be able to discuss these issues with a group with direct and practical experience in the day-to-day problems of international commerce and cooperation.

The focus of my remarks today is the economic relationships linking the United States, the Federal Republic of Germany, and the European Economic Community. However, it is important to note that economic matters cannot be viewed in isolation from other aspects of our total relationship. We live in an interdependent world in which all things seem to impact on one another, in which issues of economics and politics are interwoven to form the fabric of our relationship.

I would like first to say a few words about the American economy. It is—like that of the Federal Republic—at present slowing down. Forecasters expect real gross national product in the United States to rise by about 1 percent in 1974—also similar to predictions for the Federal Republic. We expect recovery from the current period of slow growth to be underway in the second half of 1974. We expect that 1975 will be a very good year in terms of real growth.

At the same time, we—again like you—are experiencing the greatest increases in the rate of inflation since the Korean war. Nevertheless, in this area we both are among the best performers in the industrialized world. We now expect price performance in the United States to improve in the second half of the year because a high portion of the recent price increases has been due to rising food prices. That should abate when this year's anticipated good crops begin to have their effect in the marketplace.

Our economies also are alike in counting on strong performance in the export field. In the United States, we are counting on further improvement in our balance of trade to help improve our overall international payments balance.

Despite the overall rise in the value of the mark relative to the dollar over the past year, the trade balance between our two countries continues to remain strongly in favor of the Federal Republic of Germany. To reduce this gap, the U.S. Government has sought in recent years to encourage exports to Germany. More recently, there has been in the Federal Republic a growing interest in assisting us to narrow this gap as a means of stabilizing the international monetary situation, helping to control inflation in Germany, and improving trade relations between our two countries.

One manifestation of this cooperation has been the efforts of the German-American Chamber of Commerce in the United States to obtain the participation of American firms in some of the major German international fairs and to group them into distinctive "U.S.

[1] Made before the Industrie- und Handelkammer at Kassel on Apr. 5.

U.S. and Federal Republic of Germany Sign New Offset Agreement

Following is the text of a joint U.S.-Federal Republic of Germany announcement issued at Washington and Bonn on April 25, together with an explanatory note issued that day by the Department of State and the U.S. Embassy at Bonn.

JOINT U.S.-GERMAN ANNOUNCEMENT

Press release 157 dated April 25

The Governments of the Federal Republic of Germany and the United States of America, represented by Ministerial Direktor Dr. Peter Hermes and Ambassador Martin Hillenbrand, today [April 25] signed an agreement which provides for offsetting the balance-of-payments costs of stationing US forces in the Federal Republic. The Agreement resulted from several months of negotiation and from informal talks held on March 19, 1974, between the Federal Minister of Finance, Herr Helmut Schmidt, and the Secretary of the Treasury of the United States of America, Mr. George Shultz. Remaining details were subsequently agreed between the negotiating delegations.

The new agreement covers the period from July 1, 1973, to June 30, 1975. It involves a total value of 5,920 million DM (about 2.2 billion dollars at a conversion rate of $1=2.669 DM). As previously, military procurement is the largest element (2,750 million DM). Similar to the 1970/71 agreement, the present agreement includes procurement of uranium separation work for civilian purposes and, for the first time, bilateral projects in the field of scientific and technological coöperation (300 million DM). The program for modernization of barracks and other facilities used by United States forces in Germany, included in the previous agreement, will be continued (600 million DM). In addition, the United States forces will be exempt from landing charges in German civilian airfields and from certain real estate taxes (20 million DM). As previously, provision has been made for the acquisition of low-interest United States Treasury securities by the Deutsche Bundesbank (2,250 million DM).

The agreement is based on the strength of the United States forces in the Federal Republic of Germany as of July 1, 1973. Both Governments are informing their NATO Allies about this agreement, which will form an integral part of the NATO burdensharing program currently under discussion.

Both sides welcome the agreement as a visible and convincing example of excellent German-American cooperation within the Alliance.

TEXT OF EXPLANATORY NOTE

In conjunction with the press release issued today [April 25] by the Federal Republic of Germany and the United States following signature of our new offset agreement, the U.S. Government wishes to add the following points:

The offset to be provided during fiscal years 1974–75 is larger in dollar terms and contains more substantial economic benefits to us than was the case in previous offset agreements. Cognizant of the requirements of the Jackson-Nunn amendment, the American side views the agreement as a major component of the NATO-wide effort to share more equitably the common burden of alliance defense. We anticipate sufficient military procurement from our other European allies so that, together with the German offset, we expect to meet the requirements of this amendment and to maintain our forces in NATO Europe at present levels. We believe, therefore, that what we have accomplished in this agreement, together with foreseeable action by our other allies, responds to congressional intent and that our primary objective has been achieved.

pavilions." This will be the case at the Hannover Air Show later this month.

In addition, we have been looking very closely at the German market to see where the devaluation of the dollar has opened new export opportunities. One area that we believe offers American exporters some interesting opportunities is that of consumer goods. We hope that American firms will be able to contribute to the high German standard of living and increased leisure time by providing more of the products that have made life in America more pleasant and worthwhile.

To increase our exports of consumer goods to this market, however, it is important that something be done about price inflexibilities in this sector. Up to the present, these generally have meant that the lower prices resulting from dollar devaluation have not been passed on to the consumer. We also believe that the U.S. lead in the development of pollution-control equipment may result in expanding sales here as Germany focuses on the problems of improving the quality of its environment.

Finally, I believe that the United States can offer Germany substantial benefits by making available its technology and experience in the construction of nuclear power generating plants to help the German economy cope with the energy shortage over the long run.

In the field of investment, we are also seeing some new currents. In 1968, Servan-Schreiber's book "The American Challenge" crystallized the thinking of many Europeans who were becoming concerned at what they considered an excessive level of American investment in European business. Time has a way of correcting imbalance. As foreign investment in the United States continues to grow, some Americans are beginning to ask the same question that preoccupied Servan-Schreiber: "Are we getting too much foreign investment?"

Most Americans continue to believe the answer should come from the marketplace itself. We believe that a free and open international economy which relies on free market forces is the most efficient way to allocate the world's capital, raw materials, technology, and labor force with the greatest benefit to all. Although both the executive and legislative branches of our government are analyzing the nature and effect of foreign direct investment in the United States, we have no intention of changing the general outline of our investment policy, which has traditionally been to extend a warm welcome to foreign investment.

U.S. Dialogue With the European Community

Apart from bilateral trade and investment issues, the focus of our economic relations has gradually shifted over the years. The European Economic Community has assumed greater responsibility not only for coordinating policies among the member countries but also for the conduct of foreign economic policy with third countries. Thus, when economic policy differences do arise, they tend to be centered in our relations with the Community rather than in our bilateral economic relations. Nor will it come as any surprise to you that I say that there have been differences recently between the United States and the Community.

Some of them result from the normal give-and-take between major trading partners. One expects such problems to arise from time to time and, I suppose, it is even healthy that they do. But it is not healthy if these problems are allowed to fester and decay, with the risk they may spill over into other spheres.

The United States has been negotiating for well over a year now on issues arising out of the enlargement of the Community to include the United Kingdom, Ireland, and Denmark. In the process of expansion the three new member countries raised their duties on a number of products of special interest to the United States—duties which had been bound at lower levels as a result of previous trade concessions on our part. We believe that the United States was disadvantaged by this move, and we would welcome a rapid conclusion to our negotiations.

Another problem relating to the expansion of the Community is the new rule for determining the origin of products as far as their tariff treatment is concerned. These rules appear to discriminate unfairly against American producers. Here, too, attempts to resolve the dispute have been long and arduous.

Some of the differences transcend the level of economic disputes, however, and go to the heart of the U.S.-European relationship built over the past 25 years. A central element of it has been the partnership between us, and yet there are those who now eschew the use of this word to characterize the nature of our future relationship. Another element has been consultation. Clearly the keystone of a successful relationship is a continuous give-and-take and adjustment of views—in other words, consultation. Yet there are those who view continued consultation with the United States as undesirable.

While we have differences with the European Community, I would emphasize that this in no way detracts from our longstanding commitment to European economic and political integration. Nor should these differences obscure the central importance which we attach to the Atlantic relationship. It remains the pivot of our foreign policy. Our efforts over the past year have been directed to revitalizing that relationship. We welcome the continuing dialogue with the Community. We trust that through frank and open discussion of our differences—rather than papering them over—our relations may be strengthened, to our mutual benefit.

We recognize that these are troubled times for the Community—that it faces many difficulties in moving toward the unity which its members have established as their goal. We are confident that the Community will be successful in surmounting the difficulties of this transitory phase in its development. And we are confident that the cooperation between us will continue.

Indeed, the alternative to a continuing cooperative relationship would be very grave. Secretary Kissinger said recently that for the Community and the United States to split apart would be a disaster for all of the nations of the West and for free peoples everywhere. Such a development would have the gravest consequences for our security efforts and for the stability of the world's economic system.

I should like to address this latter point in the balance of my remarks today, for in the economic area we face serious and growing problems.

Problems of Inflation, Food, and Energy

One is inflation. In 1973 we saw the most severe international inflation in over 20 years. Some of the price increases were the result of worldwide economic booms in which demand often outpaced supply. Shortfalls in farm output and increasingly expensive raw materials—particularly oil—added fuel to the increased pressure on prices. Consumer prices in the United States increased by about 9 percent. Those in Japan went up over 19 percent.

We have learned some lessons from our experience in combating inflation.

One is the importance of patience. An overhasty reaction to long-term inflationary pressures could lead to a serious counterreaction. A sharp squeeze on the economy, for example, would lead to sudden increases in unemployment and give rise to pressures for countervailing policies. Steering an economy among the rocks of inflation and unemployment requires steady policies with no sharp, sudden movements.

Another lesson is the importance of production. A great deal of inflationary pressure is the result of supply shortages in the food sector, in the raw material sector, and in the industrial sector. The best way to deal with them is by increasing production.

A third lesson is the importance of free markets. No matter how we experiment, either because of ideology or under pressure of emergency, our experiences confirm the view that the free market is, in general, our most efficient form of economic organization. Departures from the guidance of the free market for any length of time will not solve our inflation problems.

And, finally, we have been provided with dramatic evidence of the economic interdependence of the world. Today it is a pipedream to assume that one country can achieve economic stability in an unstable world.

A second area of common concern to us is that of the world food supply. In 1973 there were startling changes in the international agricultural situation. Major weather problems and crop reversals in several important producing areas occurred in unusual coincidence. Rapid economic growth led to increased demand for grain-fed livestock products. The result was a dramatic increase in world grain imports of over 20 percent in one year. Because 1972/1973 crop-year production in major exporting countries was below normal, it was only by a sharp stock drawdown, mainly by the United States, that this import demand could be met.

Achieving world food security will require large-scale cooperation between food exporting and importing countries. Broad exchange of information as well as technical assistance will be essential elements. In order to support the creation and maintenance of adequate food supplies internationally, the United States in September proposed the convening of a World Food Conference under U.N. auspices. This proposal closely paralleled that of Chancellor Brandt in his speech before the United Nations. He said, and I quote:

> The depressing food situation in many parts of the world requires us to draft a world food plan so that, if in any way possible, catastrophes can be prevented by means of our integrating strategy for the production of food and its distribution.

These proposals were accepted, and the conference is scheduled for November of this year.

A third area in which international cooperation is essential is that of energy, as the experience of the past six months has made clear.

During the past decade oil has become the principal source of energy for the industrial countries of the world. In 1960 oil supplied approximately one-third of Western Europe's energy requirements; present needs are almost 80 percent. Japan currently depends on oil for more than 75 percent of its energy. In the United States, we are almost 85 percent self-sufficient in energy. But we rely on oil for about 45 percent of our total energy needs, and about 40 percent of that oil is imported.

Our present emergency, as Secretary Kissinger said in his address to the Pilgrims Society of London, "is not simply a product of the Arab-Israeli war; it is the inevitable consequence of the explosive growth of worldwide demand outrunning the incentives for supply."

Impact of Drastic Increases in Oil Prices

While the supply situation is serious, the implications of price increases may well be a greater danger to the world economy. Export prices have now been divorced from factors such as costs and returns on capital and are largely determined by the producer governments, working through the Organization of Petroleum Exporting Countries.

The drastic increases in oil prices will have a significant short-term impact on both the domestic economies of all nations and on international economic relationships. However, because a price change of this magnitude for a basic industrial product has no modern precedent, the extent of the impact is uncertain.

Even before the recent price hikes, many of the world's economies were already decelerating. The higher oil prices will accentuate this slowdown by reducing consumer purchasing power, slowing demand for petroleum-based products, and causing deferral of some business investment as well as consumer purchases. The result will be a reduction in economic growth, somewhat higher unemployment than expected, and of course a continuing high rate of inflation with increased oil costs adding to other price pressures.

The price increases will also affect balance of payments accounts and international financial markets. The oil import bills of consumer countries will increase dramatically this year. At present consumption and price levels, they will go up to about $115 billion in 1974, an increase of about $70 billion over 1973. Exporting countries' revenues will increase in 1974 to nearly $100 billion, 3½ times the 1973 level.

As these figures demonstrate, the energy situation poses severe economic and political problems for all nations. Isolated solutions are impossible. Even those countries such as the United States and Canada which may be able to meet their energy needs by largely national means would suffer because of the impact on them of a world economic crisis. Consumers, producers, industrial giants, poor developing countries—all have a stake in the prosperity and stability of the international economic system.

Cooperative Approach to Energy Crisis

The United States recognizes its own national responsibility to contribute significantly to a collective solution. We have undertaken a program which would, by 1980, take us to a point where we would no longer be dependent to any significant extent upon potentially insecure foreign supplies of energy.

President Nixon has named this program "Project Independence." Some have misinterpreted it as a return to isolationism or as a sign of a "fortress America" mentality. Actually, it is exactly the opposite. Should the United States be able to reduce its dependence on imported oil through development of internal resources and by decreasing the rate of energy growth, competition among Western European consumers, Japan, and the United States for Middle Eastern oil could be reduced. The success of "Project Independence" in reducing U.S. demand for imported oil will serve the interests of other oil-consuming industrial countries.

We have also taken an initiative to get underway a worldwide cooperative effort to deal with the energy crisis in the long run—the Washington Energy Conference, which was held in February. The conference communique stated the proposition clearly:

> Concerted international cooperation between all the countries concerned including oil producing countries could help to accelerate an improvement in the supply and demand situation, ameliorate the adverse economic consequences of the existing situation and lay the groundwork for a more equitable and stable international energy relationship.

The conference also recognized that global problems cannot be resolved through exclusively bilateral arrangements. No one disputes the right of sovereign nations to make individual arrangements. But in the absence of agreed rules of conduct over such arrangements, unreasonable bilateralism can produce disastrous political and economic consequences.

The Washington Energy Conference established an Energy Coordinating Group which was charged with detailed implementation of the principles of international cooperation agreed to during the conference. This coordinating group, which just completed its third session earlier this week, is laying the groundwork for a coordinated approach to our common energy problems.

These food and petroleum problems are symptomatic of the changing relationships between consumers and suppliers of raw materials. The developed nations' needs for imported raw materials have grown rapidly during the past decade, both because of economic expansion and because their remaining domestic mineral resources cannot be profitably exploited at current prices.

As the industrial nations have increasingly competed for raw material supplies, the producing nations have found that they can utilize their resources to achieve economic and sometimes political gains. Some producers have sought higher prices for their products, some have demanded increased or full domestic ownership of production facilities, and some have pressed for having the raw product processed further at home rather than abroad.

Restriction of commodity supply has, however, many repercussions. In the longer run, major restrictions imposed by producer nations on the supply of any commodity—or large price increases—will tend to prove counterproductive. Consumers will undoubtedly find it in their best interest, for both economic and national security reasons, to further exploit their own domestic sources of raw materials, develop synthetics, or find substitute products.

International Trade and Monetary Reform

As 1974 opened, it was becoming increasingly clear that confrontations between producer and consumer nations over the supply of commodities can eventually be costly to all economies. The efforts which are underway to reform the international trade and monetary system may provide also an institutional framework for dealing with these problems.

The energy crisis came on us as we were in the midst of efforts to reorder the world's trading and monetary systems. The continued expansion of trade in a more open and equitable world economic system continues to be a basic goal of American international economic policy. Similarly, we remain committed to achieving a new and more effective international monetary system to replace that of the Bretton Woods era.

The price increases for oil have lent urgency to our need for cooperating in this field. Treasury Secretary Shultz recently pointed out three basic implications of the present problems for our efforts on monetary reform:

—First, we must demonstrate that we can achieve international economic cooperative agreements in a timely fashion.

—Second, in doing so, we must reorder our thinking to take fully into account the new conditions and the new uncertainties in international affairs. Our monetary reform agreements must not attempt to impose upon the system a rigidity which hampers response to future developments, including, for example, the possibility of a surfeit of energy supplies in a few years' time. Rather, we must agree on rules and procedures to insure there will be prompt adjustment in response to developing international monetary imbalances.

—Third, we must design financial mechanisms and arrangements to deal with the present problem. But we must be realistic and recognize that the present problem is literally unmanageable for many countries. The oil-producing countries have to recognize this simple fact and cooperate in scaling down the financial problem to manageable proportions. Once that is accomplished, we must still bring together the countries that have investment opportunities with oil-producing countries that have investable funds, so that major destabilizing forces in the world economy are avoided.

In the area of multilateral trade negotiations, a timetable was established at the Tokyo ministerial meeting last September. It called for the preparatory work to be completed in Geneva this spring. The hard process of negotiation would then begin in September and continue through 1975. We think this timetable can still be met. We continue to be optimistic that the Congress will pass the legislation providing our side with the necessary trade-negotiating authority before the end of the summer.

Our recent problems in the agricultural and energy fields also have implications for our effort to reform the international trading system. The oil situation has given us cause to consider the larger problem of assuring adequate access to the world's supply of primary raw materials. We think it would be appropriate to reflect this new focus in the trade negotiations.

The agricultural problems of last year were aggravated by the misallocation of agricultural resources which has developed over the past decades. For too long some of the special problems associated with agriculture have been used as an excuse to exempt agricultural trade from trade rules. As a result, trade in agriculture has not followed a pattern that would have been dictated by comparative advantage in agricultural production. We believe that a primary objective of the planned multilateral trade negotiations should be to reduce barriers to agricultural trade.

Some voices have argued that the trade talks have become irrelevant because of the energy situation. We believe that the opposite is true. Individual nations may feel impelled, for example, to take unilateral actions to deal with the short-term effects of crisis. To the extent that other countries are affected by these actions they may take countermeasures out of self-protection. This process could lead to a vicious circle of action and reaction which could stifle world trade and threaten a worldwide recession. The trade negotiations provide a negotiating process which can act as a control and a moderating influence on national actions.

Indeed, the problems we have been discussing pose for us in America and for you in the Community basic questions as to how we are to proceed in dealing with them. The question is whether we can develop common approaches to common problems, whether we will recognize the growing reality of interdependence and work for a cooperative relationship among the industrialized democracies. Failure to face the reality of our interdependence would have as a likely consequence the eventual breakdown of the political and economic systems which we have developed over the past 25 years. Such a breakdown could scarcely be in the interest of the Community or of the United States.

Ladies and gentlemen, whether we speak of food or fuel, of trade, or of monetary policy and inflation, we are metaphorically in the same boat. None of us is in a position to say to the others: *Your* end is sinking. That is the meaning of interdependence, and that is the reason we had better man the pumps together.

Senate Confirms Members of Board of the Inter-American Foundation

The Senate on April 25 confirmed the following-named persons to be members of the Board of Directors of the Inter-American Foundation: Jack B. Kubisch, for the remainder of the term expiring September 20, 1976; John Michael Hennessey, for a term expiring September 20, 1978; Charles A. Meyer, for a term expiring October 6, 1978.

The Board consists of seven members, four from private life and three from among officers or employees of agencies of the United States concerned with inter-American affairs. Augustin S. Hart, Jr., is Chairman and George Cabot Lodge is Vice Chairman of the Board.

The Inter-American Foundation was established by Public Law 91–175 of December 30, 1969, as the Inter-American Social Development Institute, and the name was changed by a 1972 amendment to this law. It was formed to cooperate with private, regional, and international organizations to strengthen bonds of friendship among the peoples of this hemisphere. Its objective is to encourage the growth of democratic institutions by supporting self-help efforts and focusing on wider participation of the people in the development process.