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ECONOMIC AND POLITICAL INTEGRATION IN EUROPE

This month marks the second anniversary of the founding of the European Economic Community and of the European Atomic Energy Community -- more familiarly known as the Common Market and Euratom. The Coal and Steel Community, forerunner in the move toward economic and political union in Europe, is now in its eighth year of existence.

Since 1952, there has been an extraordinary resurgence of vitality and growth on the old continent of Europe. The appeal of the United Europe idea is frequently given credit for this economic renaissance. It is customary to dramatize these extraordinary developments with a catalogue of imposing facts and figures. But you as business leaders directly involved in the trade and commerce of the world are all too familiar with the statistical evidence. Therefore, I would like to approach the subject from another quarter and try to fit it into another framework.

Relations with our Western European neighbors are changing. Only recently, the distinguished Sir Oliver Franks reminded us that we will have to make up our minds whether we are interested only in modifying and improving economic relations between the United States and Europe, or whether we recognize that these relationships have entered a basically new phase -- requiring us to work out most questions on a fresh basis. He suggested that an imperative for leadership in the rapidly changing world of today becomes the ability to recognize new and broader common objectives and to work within a framework that provides the scope and flexibility for achieving these objectives.

In Paris last week, there was ample evidence of our recognition of new objectives when the United States, with Canada, joined the executive of the European Community and 18 European nations in an agreement to reorganize the entire basis of economic cooperation in the Atlantic Community. Not only did the United States play a leading role at the Paris meeting, but we agreed to participate as full members of the new organization. This commitment indicates we are now very much aware that

we have a long-range, mutual stake with our neighbors in the economic growth and stability of the free world.

It is still too early to venture a guess as to what will come out of the Paris meeting. It may, in the long run, turn out to be one of the most significant forward steps we have taken in foreign policy since the Marshall Plan.

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There are two primary factors, both inter-connected, that led to the 20-nation conference. The first is the explosive demand of old and new nations in the less-developed areas of the world for a share of the fruits of the mid-twentieth century's economic abundance. The second factor is the quiet revolution that has been going on in Europe.

It is this latter factor that we are concerned with today, although in discussing it we cannot lose sight of the broader realm of economic aspiration throughout the world.

Cooperation Vs. Integration

Within a time span of three years in the immediate postwar period, three events occurred that are responsible for Europe's resurgence today. They were the Marshall Plan, the establishment of the Organization for European Economic Cooperation (the OEEC), and the Schuman Plan, which has led to the creation of the European Community. The regeneration of Europe through American aid was profoundly successful. Marshall aid not only accomplished its task of helping restore war-ravaged nations, but it planted the seed of economic cooperation on a Continent where separate national economic and political interests had proliferated rather than diminished for centuries. The seed was the OEEC, a grouping today of 18 nations who agreed to consider each other's economic condition and need and to work together toward goals of common interest. The achievements of the OEEC were many. One of the most effective was the establishment of the European Payments Union whose effect today can be seen in the currency convertibility of its principal members.

Cooperation worked, not only because men of good will and conviction were involved, but because certain limited but definite objectives were recognized as being in the common interest.

Nonetheless, other more complex and long-range problems were arising out of Europe's rebirth and out of the new postwar shape of the world. Cooperation could not deal with issues that engaged at once political as well as economic policies. The postwar years had brought a belated realization that economics and politics cannot be kept separate in academic compartments.

The central problem was the continued political fragmentation of Europe which, in turn, perpetuated a patchwork of small, uneconomic national markets. The parts fitted together and worked in the 19th century; but in the mid-twentieth century Europe was an anachronism existing between political giants of continental scale - the United States and Russia, each with their vast single markets.

Thus the problem was not simply one of creating a stable economic climate in Europe or even of liberalizing trade. Unless Europe as an area was to become a less potent force in world affairs, it had to go much further. Conditions had to be created for much broader economic expansion. All barriers to trade and competition had to come down - including political ones. The objective, then, was a single European market.

These considerations led a small group of continental statesmen to look for a new framework especially designed to reach the objective. The principal shortcoming in international cooperation, they recognized, was that nations, in their pursuit of common objectives, were not always bound by common policies. Too often, international agreements of association had failed at critical points of stress because a short-term national interest outweighed the long-term common interest.

National economic policies had to be harmonized to prevent collision with European policies. Economic discomfort to a nation as a result of the new requirements of the single market had to be minimized. Therefore, it was necessary to bring economic union into existence gradually and to safeguard its emergence through rules administered not by committee but by federal institutions to which nations voluntarily surrendered some of their sovereignty. This then was fundamental to the new approach -- the creation of institutions, however imperfect, that could accept responsibility for the larger whole.

The results of such institutions would not only change the economic structure of Europe, but also would bring about a gradual organic change in its political structure. At that time, nearly ten years ago, only six out of the then 17 member nations of the OEEC found themselves able to make the commitments to European economic union that were necessary in the treaty creating the European Coal and Steel Community. They were: Belgium, France, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands.

The Community's Institutions

During the years since then, the European Community has evolved and changed. The first limited step -- the creation of a coal and steel common market -- provided the essential foundation and experience for the next and definitive moves toward economic fusion. These were the creation of institutions for a general common market and a more singular market for economic energy.

Let us take a look at these institutions we have been talking about.

(Slide #1)

A chart of the European Community's institutions shows a rather untidy graphic of federal aspirations. The executive branch of the Coal and Steel Community is the High Authority, a nine-member body appointed by the six governments. This executive, created in 1952, has unique supranational powers. Its achievements and limitations served to guide the creation of the two newer executives, the nine-member Commission of the Economic Community and the five-member Commission of Euratom. These new executives have somewhat less apparent authority or supranational power than was accorded by treaty to the High Authority. In reality, they were given responsibility precisely in the area where it counts the most -- in shaping common policies affecting the internal and external economic affairs of the Six. This particular power had been largely denied to the High Authority because of its goal, which was economic integration limited to specific sectors.

Even though the three executives vary in the degree of their apparent and real extranational authority, it is important to recognize that their immediate responsibility lies toward other federal institutions rather than to national governments. Thus the 142-member European Parliament which closely scrutinizes the activities of the executives and, in fact, frequently prods them, has the power to oust any of the three by a two-thirds majority vote of censure.

The Court of Justice, the seven-member European supreme court, provides the third institution -- completing the classic concept of a clear separation and balance between executive, parliamentary and judicial powers. The Court's authority supersedes that of national courts in settling disputes within the framework of the Community treaties.

I mentioned that the chart is not particularly tidy because the pragmatic, step-by-step evolution of the European union brought three executives into existence at one time. But purists among those supporting the federal idea are inclined instead to take exception to the fourth institution, the Council of Ministers, and look upon it as the alien intruder. The Council's six members each represent one of the member nations. They are not responsible to other Community institutions but to their own governments. Thus the Council does not, to the purists, belong in the federal scheme of things.

But it does belong to and is an essential part of the Community. The Council is the balance wheel between each of the member nations and the Community -- bringing the national policies of member states into gradual equilibrium with the European policies of the Community -- an essential function for the success of economic integration in a complex modern economy.

The Council's powers in relation to the general common market are relatively greater than in the coal-steel common market. In principle, the Commission of the Common Market proposes actions called for in the Treaty, and the Council makes the decisions. The unfortunate bug-a-bear of unanimous rule enters into its decisions in the first stages of the transition to a full common market. But it gives way in latter stages to majority rule. Thus the Council, although now an organ of national governments, will in a sense later become itself a quasi-federal institution.

This hasty tour of Community institutions does not do them justice. But it will serve, I hope, to provide some background for discussion of a subject of concern to Americans and Europeans alike -- the debate over the apparent differences between the Community and the "Outer Seven" of the European Free Trade Association.

There has been considerable talk, particularly in the press, about "a split" between two rival economic blocs which would endanger trade relations with the United States and cause disaffection among the western allies. A Congressman who returned not long ago from a tour of Community and EFTA countries remarked disbelievingly: "If these differences can split Europe, then Europe can be split by trivia." Nevertheless, it is in our own interests to examine the real differences and to try to avoid the polemics. One way of getting at the subject is to examine some of the principal questions that have been at issue.

How Political is the European Community?

One of the main points of distinction that has been made about the Community is that its ultimate aim is political as well as economic union -- unlike a Free Trade Area which aims at more limited economic objectives through commercial agreement within the framework of international cooperation.

How political is the Community today?

In the coal and steel common market, all barriers to trade within the Six have been abolished and common rules are now in force. A common market now exists for Europe's growing nuclear industry and, in the general common market, the first acts have been taken to abolish trade and tariff obstacles. With all these moves there have been concomitant steps in the direction of establishing common policy among the Six.

Eventually workers in the Community will be able to move freely across national frontiers to jobs of their choice: miners and steelworkers can do so now. Euratom controls the peaceful use of dangerous fissile materials in the Community, the Common Market operates its own overseas aid program, the High Authority builds workers' housing projects,

and the European Investment Bank makes loans to spur growth and employment in the industrially underdeveloped area of the Community. These are a few of the many acts that are of immediate and long-range political consequence.

As we mentioned earlier, economic union demands a broad harmonization of national policies: thus finance and foreign ministers of the Six hold regular meetings to insure that the timetable of the emerging market is not slowed by conflict of national policies. At the civil service level, these sessions go on daily. Strictly speaking they are not required by treaty but essential to progress in the Community.

Now the Six are studying ways and means of speeding up the Common Market's transition period -- enabling it to come into existence in from six to eight years rather than in the established 12 to 15-year period. The European Parliament is preparing for election by universal suffrage -- to replace the present system of election from and by the national parliaments. And it has been proposed among the Six that the unwieldy structure of three executives be replaced in two years' time by a single executive branch for the entire Community.

In some respects the European Community is already a political community -- each decision and commitment in the economic realm brings, in some measure, a political commitment.

"Now We Are Six"

A natural question that comes to mind in this discussion is why are there only six instead of thirteen or even eighteen nations in the European Community? It was the fervent hope when the Schuman Plan was proposed in 1950 that many more nations, and particularly among them Britain, would join. The United Kingdom and all other European nations with democratic parliamentary systems were invited to participate. But only Six were willing and able to make the necessary commitments.

Again, the invitation was renewed to Britain and other OEEC nations when the Common Market and Euratom were being planned. However, Britain did not feel it was able to go further than it had already gone when it signed, in 1954, an Agreement of Association with the Coal and Steel Community.

The reasons, generally accepted, for Britain's decision to stay out of the Community were related to questions of parliamentary sovereignty and of Commonwealth responsibility. (The Rt. Hon. Reginald Maudling will be able to shed much more light upon this subject for you.) In the case of Switzerland and Sweden, policies of traditional neutrality played a role.

Nonetheless, it was unrealistic in 1950 and in 1956 to call a halt to plans designed to make a genuine breakthrough in the constricting pattern of European economic affairs because some nations were not yet ready.

The European Community is open and remains open to membership on a full or associative basis. Meanwhile, the European Community has made it perfectly clear that, while preserving its cohesion, it will support and cooperate fully with the rest of the free world in removing barriers to world trade on a non-discriminatory basis. It has also pledged that it will deal with particular trade and commercial problems as they may arise -- with other European and non-European nations.

A High Tariff Threat?

Another issue of genuine concern especially to the United States, is whether the side-by-side existence in Europe of the European Community and of the European Free Trade Association will lead to the creation of high tariff walls against outside trade. But if we look at the objectives of the two groups, we discover they both espouse liberal trade policies through removal of quotas and tariffs, the two principal trade barriers in the world today. The Common Market has already urged the gradual elimination of all quota restrictions. To back up its aim, the Community's Council of Ministers has given to non-member nations the same quota enlargements effective inside the Community.

On the matter of tariffs, the Community has pursued a liberal policy. It has proposed that the second round of tariff cuts on the way to a full common market be extended in large measure to non-members. Last year, the first ten per cent intra-Community cut was extended to GATT members on a unilateral basis.

In the immediate postwar years, we focused our attention primarily upon quotas, currency restrictions, and material shortages as barriers to freer trade. These are no longer of great concern. Tariffs remain the central problem. Thus, world attention is going to be focused upon the tariff levels principally of the United States, the United Kingdom and the Community.

The Community common external tariff, which will start coming into force in two years' time, is itself an arithmetical average of existing tariffs. (I wish to avoid discussion of the technical shortcomings of the arithmetical average tariff.) It is sufficient to stress that even this average, which will mean much lower tariffs for France and Italy, is to be further reduced by the negotiations in GATT proposed by Under Secretary Dillon. Moreover, after conclusion of the Dillon cuts, the Community itself will propose another round of tariff reductions in GATT -- bringing the common tariff down still further.

The Community is going to act under common policies and as an entity in many areas -- just as the United States does. To this extent there will be a difference between it and its European partners. To be sure, some protectionist elements still exist in the Community as they do in the United States. Nonetheless, the Common Market represents a victory over high tariff philosophy and provides the means for cooperating in the general downward trend.

"The Bridge of Sighs"

The Six and Seven issues were carefully chronicled in a series of articles sent recently from Europe by the economic correspondent of a New York newspaper. When he returned home, his editor complained that he, for one, didn't know what the fuss was all about. Furthermore, he added: "There's no real conflict -- there are no 'bad guys' against whom we can take sides."

There aren't any "bad guys" but there are still issues to be resolved. Both sides have agreed that they "must get together". So differences begin with the questions how and within what framework?

For a while, there was some vague talk in Europe about building a "bridge" between the Six and the Seven which the French newspaper Le Monde promptly described as "a bridge of sighs". Common Market President Walter Hallstein admitted it sounded like a pronouncement of the Delphic Oracle -- enabling anyone to interpret it the way he desired without anyone agreeing as to what it means.

The question is one of finding a workable relationship between the two groups that will enable them to settle matters of mutual interest in European trade without detriment to world trade. But the question of resolving differences between the Six and the Seven cannot be met and dealt with in a European context only. The problems involved are of concern to the entire free world, including the United States. Therefore, there is particular significance attached to the meeting in Paris last week. It indicates a general recognition that European economic problems can no longer be treated in isolation.

The Responsibilities of the European Community

The establishment of the European Community represents a tremendous step forward. It is a break with Europe's economic nationalism of the past, it is reconciling traditional enemies, France and Germany, it is marshaling Europe's resources, and it is spurring the economic progress Europe needs to make. Without the Community there would have been no proposal for a wider free trade area in Europe, let alone the formation of the "Outer Seven". The proposals of Under Secretary Dillon for substantial tariff cuts in GATT (the General Agreement on Tariffs and Trade) were prompted in large measure by the development of the Common Market which helped break the log jam of restrictions in world trade.

Above all, the Community is applying a new form of political organization in international affairs. Because it is revolutionary in concept and a catalyst to other nations in the field of trade policy, it has to regard its responsibilities in world terms.

Recent developments in the international balance-of-payments situation make this stand clear. The Community's problem is not only to settle trade questions between it and the "Outer Seven" but also to help

tackle the economic problems facing all of us in the West. Even the United States can no longer solve her problems by herself, let alone tackle the problems that are common to all industrialized Western nations -- market and price stability, especially for raw materials, monetary stability, economic expansion, and aid to less-developed countries.

Therefore, it seems clear that although the Community and the Seven must get together, they must heed the advice of Sir Oliver Franks and do so in a framework large enough to encompass the common objectives of other Atlantic Community nations -- Britain, Canada, the United States, and other countries of Europe. Anything short of this would be a makeshift and short-term expedient likely to lead to more trouble and complications than it would cure.

I would like to conclude by returning to the European Community. It still faces many real problems, even though the goal of European economic union may be much closer than we could have imagined two years ago. What the European Community has been able to demonstrate in the larger community of free nations has been summarized in an epigram of Etienne Hirsch, President of the Euratom Commission: "Unity in international affairs is contagious."

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